ANNUAL REPORT 2018

Československá obchodní banka, a. s.

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 Municipal Court in Prague, Section B XXXVI, Entry 46
Date of registration	21 December 1964
Business activities	Bank
ID No.	00001350
Tax registr. No.	CZ699000761 (for VAT) CZ00001350 (for other taxes)
Bank code	0300
SWIFT	CEKOCZPP
Data box	8qvdk3s
Telephone	+420 224 111 111
Internet address	https://www.csob.cz
E-mail	info@csob.cz
Supervisory body	Czech National Bank (CNB) Na Příkopě 28, Praha 1, Postal Code 115 03, Czech Republic

Year-on-year percentage changes are computed on a mathematical basis from non-rounded figures.

KEY FIGURES

Consolidated, EU IFRS [1]	2018	2017	2016
Financial Statements Figures			
Balance sheet at the year end *(CZKm)*			
Total assets	1,378,038	1,315,590	1,085,527
Financial assets at amortised cost/Loans and receivables [2]	1,223,433	1,062,201	782,099
Deposits received from other than credit institutions	792,625	744,448	676,162
Debt securities in issue	365,311	350,136	222,997
Shareholders' equity [3]	92,016	93,703	88,549
Statement of income *(CZKm)*			
Operating income	37,102	37,199	34,043
– of which Net interest income	26,016	22,692	22,235
– of which Net fee and commission income [4]	8,022	7,412	6,218
Operating expenses	17,769	16,252	15,651
Impairment on financial assets at amortised cost/loans and receivables	214	131	617
Profit before tax	18,931	20,969	18,380
Profit for the year [3]	15,757	17,517	15,141
Ratios *(%)*			
Return on average equity (ROAE) [5]	17.5	19.3	17.3
Return on average assets (ROAA) [5]	1.07	1.26	1.42
Cost / income ratio [5]	47.9	43.7	46.0
Capital adequacy ratio [6]	18.0	17.2	18.5
Leverage ratio [7]	4.26	4.48	5.18
Net stable funding ratio [7]	161.4	146.0	150.9
Loan-to-deposit ratio [5]	76.3	77.7	79.4
Return on assets	1.14	1.33	1.39
General Information (as at 31 December 2018)			
Number of employees – the ČSOB group	8,318	8,299	8,232
Number of clients – the ČSOB group (in millions)	3.635	3.668	3.672
Number of branches – the Bank [8]	235	270	287
Number of ATMs [9]	1,063	1,070	1,066

ČSOB's Credit Rating [10] (as at 31 December 2018)

Rating Agency	Long-term Rating	Outlook	Short-term Rating	Long-term Rating valid since
Moody's	A1	stable	P-1	21 November 2018
Standard & Poor's	A+	stable	A-1	30 July 2018

1) In the context of IFRS 9 implementation, methodology for classification and measurement of financial instruments has been changed. Figures for 2018 are according to IFRS 9, figures for 2016 and 2017 are according to IAS 39. More information about IFRS 9 implementation can be found in financial part of this Annual Report.
2) For 2018 item Financial assets at amortised cost reported in line with IFRS 9, for 2016 and 2017 item Loans and Receivables reported in line with IAS 39. More information in financial part of this Annual Report.
3) Attributable to equity holders of the Bank.
4) Net fee and commission income for 2018 has been influenced the shift of network income. More information in the financial part. Net fee and commission income for the year 2017 has been restated retrospectively, for 2016 original figure is reported.
5) As at the year end; values for 2018 influenced by IFRS 9. As of 1Q 2017, calculation of ratio has been changed, for new definition please refer to page 27. In order to provide fully comparable figures, year 2016 has been restated.
6) According to CRR rules as at the year end. End of period regulatory capital (ratios) does reflect retained earnings.
7) According to CRR rules; for definition please refer to page 27.
8) Includes ČSOB branches and PSB financial centers, i.e. without approximately 2,600 post offices.
9) Including ATMs of cooperating banks.
10) Credit ratings as of the date of this Annual Report are part of the Report of the Board of Directors.

OPENING STATEMENT

Ladies and gentlemen, dear colleagues,

last year, we set a number of challenging targets for our bank and insurance group, which we successfully accomplished. Although 2018 was full of regulatory challenges and dramatic changes in global markets, we continued in our successful transformation. We made significant investments in technologies, which became even more integrated in the day-to-day routines of our employees and almost 4 million of our clients. Overall, we made a total investment of CZK 4 bn in the progress of the ČSOB Group and its employees. It is evident from our clients' behaviour that they are eager to follow all recent advances in the area of digitization. This is for instance evident from the growing number of mobile banking users or the increasing volumes of mobile transactions. Also, the number of clients using their smartphone as a wallet is growing. The results of ČSOB show that our current bank and insurance model is the right one. At the centre of our interest is a client engaged with the whole group. What we want to achieve is for all clients of ČSOB Group to have the opportunity to use our comprehensive services offer, regardless whether they are the clients of ČSOB – the bank or another member of the group. Last year the number of such clients grew by 57 thousand.

As part of our innovative goals, clients are able to take advantage of open banking and manage their accounts via the Internet and other banks' apps. We also launched a multi-banking service with the ability to manage the accounts of other financial institutions from our Internet Banking. However, we always pay maximum attention to safety because we do not store just our clients' money, but also their sensitive data.

At the same time, our priority remains to be the best available bank on the Czech market, both physically and online. Still, personal contact will continue to be very important. We see it at our branches where more and more people seek advice and help regarding important investment decisions and savings plans, and where we successfully fulfil our clients' dreams in the area of housing and family planning. In total, we leant over CZK 689 bn to retail consumers and businesses, helping them to grow and develop.

I am glad that our achievements are also appreciated by the professional public. Last year, we came second in Nej banka 2018 (Best Bank 2018), as well as in the category of Banking Innovators. We were also awarded the Bank of Year 2018 by The Banker magazine, and we were granted the same title by EMEA Finance, CFI.co and Global Finance. Furthermore, ČSOB received the Randstad Award as the most attractive Czech employer in the field of banking and financial services.

It was evident in 2018 that our innovations help everyone, including those who do not use any of our products. These are, for example, the smart transport solutions running in Ostrava and Liberec, with more towns and cities to follow. Also, our involvement in e-commerce has brought improvements to the quality of our services for all e-shoppers who want to make sure their transactions run safely and money arrives where it is expected. We also contribute to the Czech economy with significant taxes, which came up to over CZK 8 bn, in 2018, making ČSOB Group the second biggest tax payer in the CR.

In addition, we saw the positive impact of our last year's activities in the area of financial education. ČSOB wants its clients to be informed, know their goals and understand the need for savings. We therefore work with children at lower primary schools where we have been presenting our ČSOB Financial Education programme already for almost three years. We have also extended our cooperation with partners from the non-profit sector. Together with Sue Ryder, we continued to address topics related to age and the sandwich generation. Last but not least, our ČSOB Helps in Regions programme allows for the implementation of positive changes at the local level and supports projects that may seem small but still have a great local impact.

Of course, none of this would be possible without the contribution from our people. They are the main asset of ČSOB and I am extremely happy to see how they are ready to help with all our charity and social responsibility activities. To give an example, last year, they spent more than 13 thousand hours working on CSR projects. Without these almost 10 thousand people working for ČSOB in the Czech Republic, we could hardly become the best available bank and insurance company in the market, and at the same time an innovations leader. That is why I am happy to see that we were able to significantly increase the compensations and benefits last year, too. Base salary at ČSOB grew by an average of 8 %, and together with other benefits, the overall investments in staff increased by an 9.3 %. We also do our best to make our people benefit from the flexibility materialized in our headquarters – the ČSOB Campus.

I wish you a happy 2019.

John Arthur Hollows
Chairman of the Board of Directors

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CZECH ECONOMY

General Economic and Market Indicators

The ČSOB group's business is conducted in the Czech Republic and is, therefore, influenced by prevailing macroeconomic trends in the country.

2018 was another successful year for the Czech economy, although the growth rate fell to 3 % compared to the preceding period. On the demand side, the driving force was mostly corporate investment in machinery and ICT and public sector investment in infrastructure construction and reconstruction. On top of investments, economic growth was also fuelled by household consumption supported by further employment growth, or decreasing unemployment levels in other words, and a substantial wage increase across the economy. This was the result of a steady build-up of labour market tension which stemmed from all–time low unemployment level as well as from historic highs in vacancy numbers.

The population's increasing purchasing power was then reflected not only in consumption but also in higher investments in the real estate market which, identically to 2017, still suffers from non-flexible supply of new apartments and family homes. Real estate prices have therefore reached a new historic high, although the growth rate was no longer in double digits.

On the supply side, economic growth was based on the export-oriented manufacturing industry as well as the construction industry and most service industries. However, there was an increasingly noticeable lack of new labour force to fuel further expansion and this became the main obstacle to growth in both manufacturing and construction industries. On the other hand, the waning foreign demand, including the freezing of the European automotive market, have not had a fundamental impact on the development of Czech economy in the second half of the year. For the time being, the only indications of a loss of the current rate have appeared in the form of deteriorating confidence indicators or lower dynamics of new orders.

Despite the continuing boom, accompanied by rising tensions in both the labour and real estate markets, there was no significant inflation acceleration in 2018. Therefore, the CNB had no problem meeting the inflation target and, at the same time, was able to continue its interest rate normalisation. The bank raised its main interest rate (two-week repo rate) five times over the year to the final 1.75 %. Even the Czech Koruna generated some potential for tightening of the monetary policy when it, instead of a strengthening expected by the central bank in the first half of the year, weakened to CZK 26 per euro and remained weaker in the second half of the year.

In order to ensure future financial stability, the CNB undertook to tighten the regulations further in the field of mortgage loan provision; however, this has not had enough time to affect the results of the year concerned. Therefore, the growth rate of mortgage volumes did not change too much in the course of the year and remained above the 8 percent threshold. However, the quality of credit portfolios of the banking sector was improving at the same time, so the share of delinquent mortgage loans fell to 1.5 %. There was a noticeable risk decrease in consumer loans, too, which were very popular with bank clients in the past year. The second most important client segment – non-financial corporations demonstrated increasing demand for loans while the proportion of delinquent loans was falling; the preferred loans were medium and long-term.

The Czech Republic remained one of the least indebted EU countries in 2018 as well. Higher tax revenues made public budgets finish with a moderate surplus which contributed to a further reduction in gross public debt. Although the state debt yields increased in this year, they did not respond to a change of the country's credibility but rather to the central bank's rapid raising of short-term interest rates (and widening of the interest rate differential).

The following table sets out key Czech macroeconomic indicators for the periods indicated.

Indicator [1]	Measurement Unit	2018	2017	2016	2015	2014
Nominal GDP	CZKbn	5,319	5,047	4,768	4,596	4,314
Real GDP growth	% change, Y / Y	3.0	4.4	2.5	5.3	2.7
Real GDP per capita	CZKths	446.5	434.8	417.6	408.5	388.5
Real GDP growth per capita	% change, Y / Y	2.7	4.1	2.2	5.1	2.6
Inflation rate (CPI)	%, year end	2.0	2.4	2.0	0.1	0.1
Unemployment rate	%, average	2.2	2.9	4.0	5.1	6.2
General government budget balance / Nominal GDP	%	0.9	1.5	0.7	(0.6)	(2.1)
General government debt	CZKbn	1,735	1,750	1,755	1,836	1,819
General government debt / Nominal GDP	%	32.7	34.7	36.8	40.0	42.2
Exports of goods and services [2]	% change, Y / Y	3.9	5.9	1.8	4.3	13.0
Imports of goods and services [2]	% change, Y / Y	4.4	6.2	(0.5)	5.0	12.8
Trade balance / Nominal GDP [2]	%	4.5	4.8	5.2	4.1	5.1
Interest rate (three month PRIBOR) [2]	%, average	1.3	0.4	0.3	0.3	0.4
CZK / EUR exchange rate [2]	average	25.6	26.3	27.0	27.3	27.5

Source:
1) CZSO, unless stated otherwise.
2) CNB.

REPORT OF THE BOARD OF DIRECTORS

Highlights and Main Events

The terms used in this section are defined and further discussed below.

Key Figures of the ČSOB Group in 2018

- **The ČSOB Group's net profit was CZK 15.8 billion.**
- **The volume of loans** (including ČMSS) **increased to CZK 689 billion** (up +5% on a year-on-year basis).
- **Group deposits** (including ČMSS) **increased to CZK 868 billion** (+6% year-on-year).
- **The total volume of assets under management increased to CZK 204 billion** (+1% year-on-year).
- **Operating income totalled CZK 37.1 billion** (flat year-on-year).
- **Operating expenses increased to CZK 17.8 billion** (+9% year-on-year).

The ČSOB group closely manages credit risk and maintains strong capital and liquidity positions as reflected in the following 2018 year-end figures:

- **Credit cost ratio** for the full year 2018 stood at 0.03% and **NPL ratio slightly** decreased to 2.43% thanks to excellent loan quality.
- The **loan-to-deposit ratio** decreased year on year to **76.3%** and **net stable funding ratio** (NSFR) increased to **161.4%**.
- **Common Equity Tier 1 ratio** improved to **18.0%**.

Partnership agreement with Czech Post

In 2018, a new 10-year partnership agreement between ČSOB and Česká Pošta (Czech Post) became effective. The new partnership is extending a quarter of a century of mutually beneficial collaboration and opened the doors for a more addressed and more efficient sales process. The partnership allowed ČSOB to significantly expand the offer of banking and insurance products, achieve important synergies and jointly develop the network of specialized financial counters that have already proven their worth as they enable clients to enjoy greater convenience when managing their postal and financial needs at a single point of contact.

New conditions of the contract changed classification of expenses paid for the services of Czech Post, whereby its part shifted from Net fee and commission income to General administrative expenses.

IFRS 9

The Group complies with the IFRS 9 accounting standard. Until 31 December 2017, the Group measured its financial assets and liabilities according to accounting standard IAS 39. The accounting policies have been updated and as of 2018, the financial information is prepared in accordance with IFRS 9. Impairment calculation methodology moved from incurred loss model to expected credit loss model and the portfolio categorisation changed compared to previous years.

For more details please refer to the Separate Financial Statements for the year 2018 (Note 2) and to the Consolidated Financial Statements for the year 2018 (Note 2).

Reclassification of Network income

In the consolidated statement of income, 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 2017, network income was shifted from Net gains from financial instruments at fair value through profit or loss to Net fee and commission income since the new presentation better reflects the business reality.

Dividends paid

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. The decision of a profit allocation for 2018 has not been taken before the date of issue of the financial statements.

For more details please refer to the Separate Financial Statements for the year 2018 (Note 13) and to the Consolidated Financial Statements for the year 2018 (Note 15).

Changes to scope of consolidation and business combinations

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 have been fully consolidated since 1 April 2018.

For more details please refer to the Consolidated Financial Statements for the year 2018 (Note 3).

Changes in ČSOB's Managing and Supervisory Bodies

- Tomáš Kořínek was removed from ČSOB's Board of Directors with effect from 28 February 2018.
- Hélène Goessaert was elected a member of ČSOB's Board of Directors with effect from 1 March 2018.
- Marc Wittemans was removed from ČSOB's Supervisory Board with effect from 31 August 2018.
- Willy Kiekens was elected a member of ČSOB's Supervisory Board with effect from 1 September 2018.
- Marek Ditz was removed from ČSOB's Board of Directors with effect from 31 October 2018.
- Willem Hueting and Petr Šobotník were removed from ČSOB's Supervisory Board with effect from 31 December 2018.
- Ladislava Spielbergerová and Štěpán Stránský were elected members of ČSOB's Supervisory Board representing the employees with effect from 1 January 2019.

For personnel changes in detail of ČSOB's Managing and Supervisory Bodies please refer to the Corporate Governance section of this Annual Report.

ČSOB Innovation leadership

In transforming the business model to better serve the needs of clients, ČSOB goes for "Digital with a human touch".

As of 31 December 2018, the number of **mobile banking** active users increased +25% Y/Y. Number of transactions entered via **mobile banking** increased +39% Y/Y and via **internet banking** +2% Y/Y.

Active users (ths)	2018	2017	Y/Y change (%)
Internet banking	1,037	1,035	0.2
Mobile banking	293	234	25.0

Transactions (ths)	2018	2017	Y/Y change (%)
Internet banking	72,434	70,923	2.1
Mobile banking	10,897	7,846	38.9

In 2018 more than 15 thousand **consumer loans** were initiated online, up +43.8% year on year. Online sales of **travel insurance** increased +16.5% Y/Y.

Online initiated new sales (ths)	2018	2017	Y/Y change (%)
Consumer finance	15,133	10,525	43.8
Travel insurance	52,048	44,663	16.5

From 2016, ČSOB offers paperless operations at all branches. The share of **digitally-signed documents** at the branches reached 60.8% in 2018, up +18pp compared to 2017.

	2018	2017	Y/Y change (pp)
Share of digitally-signed documents at the branches (ths)	60.8	42.8	18.0

ČSOB goes beyond purely banking or insurance related applications and acquired the services comparator website "Ušetřeno.cz", a comparator website with which customers can compare (the costs of) services in areas such as energy, telecommunications, and financial services. In 2018 the services of "Ušetřeno.cz" and "Top-Pojištění.cz" (acquired in 2016) were purchased by 192ths clients.

	2018	2017	Y/Y change (%)
Clients of Ušetřeno.cz and Top-Pojištění.cz (ths)	192	177	8.5

Innovation achievements in 2018

- ČSOB launched new version of Smartbanking with complete graphical redesign for both Android and iOS. Users can use finger print or face recognition to sign in and to authorize payments.
- ČSOB acquired the services comparator website "Ušetřeno.cz".
- ČSOB successfully migrated clients (36ths) of Business Banking to new Corporate Electronic Banking (CEB). CEB enables clients to manage payment cards, savings and term accounts. Implementation of Business Connector allows direct link to clients' accounting system and fully automated import of payments to bank.
- Almost 60ths clients signed in the investment portal ČSOB Investice since its launch. Clients use the portal to review, purchase and sell their investment products.
- ČSOB is one of the main partners of the Czech retail businesses when it comes to both online shopping as well as brick and mortar shopping. Together, we develop brand new financial services, including price comparison sites.

- Unique application recently launched by ČSOB lets people with hearing impairments communicate with the ČSOB info line. These customers are supported by a simultaneous online transcription service, which breaks down the barrier between them and the person manning the phone. The service is also open to foreigners who have only a partial knowledge of the Czech language and find it easier to understand the written text.
- ČSOB added various user-friendly applications to the digital offering, including multi-banking capabilities for our internet banking.
- Thanks to smart solutions in public transport, ČSOB helps people to save a lot of time and increase the comfort of everyday commuting. We can offer to the public sector card payment solutions which improve the everyday life of the citizen.
- Mobile application "ČSOB NaDoma" connects the banking world with other technologies. Simple and intuitive solution to allow clients remotely control their households, e.g. to immediately identify some water leakages or to monitor appliances based on their power consumption.

Awards

On the competitive Czech banking market, the quality of ČSOB's products and services was acknowledged by various international and local awards.

- ČSOB received awards for the **Best Bank in the Czech Republic in 2018** from the international magazines **The Banker**, **Euromoney**, **Global Finance and EMEA Finance**.
- ČSOB was also named the **Best Online Bank** in the Czech Republic by **CFI.co**
- ČSOB Private Banking was awarded as the **Best Private Bank** in the Czech Republic for the year 2018 by **Euromoney**.
- ČSOB received **four awards in Hospodářské noviny competition** for the best bank and the best insurance company 2018.
- ČSOB won the **Randstad Award** for the **Most Attractive Employer** in Banking and Financial Services in the Czech Republic.
- **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.

For a full list of awards won by the ČSOB group, please go to www.csob.cz.

The Board of Directors' Assessment of 2018 and Expectations for 2019

The ČSOB group delivered a solid performance on the stable Czech banking market.

The banking sector remained generally stable, well-capitalized, liquid and profitable in 2018. Its resilience was confirmed by results of stress tests conducted by the Czech National Bank.

Following the previous year's strong performance, the Czech economy grew at a slower, nevertheless robust rate in 2018. The labour market continued to tighten, as reflected in the low unemployment rate and increased pressure on wage growth.

The year saw a strong, but balanced growth of credit and deposits. Benign economic conditions benefited loan performance and kept the cost of risk low.

Residential property prices have continued to rise. This, combined with ongoing credit expansion, prompted the Czech National Bank to take measures to contain the perceived risks, including the introduction of stricter mortgage loan-to-value ratios and minimum income requirements for new borrowers. Furthermore, the Czech National Bank sets and gradually increases the countercyclical capital buffer that applies to domestic exposures and is designed to increase the resilience of the financial system.

Amid robust macroeconomic performance, inflation above the target set by the central bank and weaker-than-expected Koruna appreciation, the central bank continued to normalise monetary policy. As a result, its two-week repo rate rose to 1.75% at year-end 2018, compared to the year-earlier figure of 0.50%.

On the global front, the increased volatility on financial markets affected the performance of assets under management and the related fee and commission income.

In 2018 ČSOB continued developing the bank-insurance model. ČSOB posted year-on-year lower yet still excellent net profit for 2018. This was due to lower other operating income affected by extraordinary revenues in the previous year, higher operating expenses and impairment losses, while net interest income and net fee and commission income grew year-on-year. The low credit cost ratio and non-performing loans ratio reflect the consistently excellent quality of the loan portfolio.

For 2019 and beyond, banks must adapt to the fast-changing competitive environment and deal with regulatory changes, challenges and risk tied to the operating environment. The pressure on wage growth in Czech economy means that personnel expenses will continue to affect ČSOB cost dynamics in 2019. The general macro-economic situation throughout Europe in 2019 and beyond will be affected by the United Kingdom exit from the European Union.

ČSOB is investing in digital solutions that make financial services available to all its clients and that enable clients to interact with the bank through seamlessly integrated omnichannel. ČSOB wants to be available online as well as at branches and Czech Post Offices. At the same time, ČSOB aims for clients of ČSOB Group to have the opportunity to use the comprehensive services offer, regardless whether they are the clients of ČSOB – the bank or another member of the group. To achieve this, ČSOB will continue working in the background on more effective and simple operations and manage costs carefully.

Strategy of the ČSOB Group and its Business Model

The ČSOB group aims to become the reference in banking and insurance through putting client in the centre and achieving sustainable growth, driven by the PEARL culture.

The ČSOB group is one of the three largest financial services groups in the Czech Republic and the market leader in mortgages, building savings and private banking. ČSOB group serves its clients through multiple brands and distribution channels. The ČSOB group operates a portfolio of businesses that have a different stage of maturity and market position.

The ČSOB group has the ambition to deliver strong and sustainable performance. To reach this goal, the management continuously evaluates strategic choices and manages the ČSOB group's business portfolio. Key resources (human capital, equity, liquidity and IT create capacity) are allocated to areas of the best fit with this ambition. The ČSOB group: (i) cultivates its market positions, driven by value creation and through-the-cycle portfolio view; (ii) makes structural changes in its business in terms of simplification, innovation, group integration and with respect to community and nature; (iii) builds capabilities which are critical for future success; and (iv) invests into fintechs and beyond banking services as value creators (recently e.g. Ušetřeno.cz and Top-Pojištění.cz).

As a response to both external and internal challenges, and particularly trend of digitalization and commoditization of traditional banking and insurance products and services, the ČSOB group is transforming the business model to better serve the needs of clients and at the same time lift the core capabilities to sustain the position over long term. The goal is to build an environment integrating banking and insurance products and services that will delight clients with an extraordinary experience:

- Clients will be constantly in the centre of everything the ČSOB group does. They will be empowered to choose the services they need and like and ČSOB will be able to help to solve their life situations;
- Clients will be enabled to interact with the bank through seamlessly integrated omnichannel;
- In its environment, the ČSOB group will gradually integrate also services beyond the traditional banking and insurance services and products.

The ČSOB group operate according to high ethical standards. Our corporate sustainability and responsibility focuses on expected needs of the present without compromising expectations of future generations. Responsible behavior is included in our sustainability concept that is composed of four areas: longevity, environmental responsibility, entrepreneurship and financial literacy.

The PEARL culture is the foundation of the ČSOB group's business strategy. It is guided by five imperatives: Performance, Empowerment, Accountability, Responsiveness and Local embeddedness. Our HR policy is focused on fair reward, inspiring leaders, and creation of flexible and inspiring work environment. The ČSOB group also encourage employees to develop ideas as a team. Although our group is made up of different businesses, all our employees belong to one big family called Team Blue. Team Blue symbolizes the way we cooperate across KBC group, encouraging the 'smart copying' which, in today's fast-changing digital world, is an exceptional advantage.

Financial Results

All financial figures hereinafter were drawn from ČSOB's 2018 audited, consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU IFRS), unless otherwise stated.

Financial Ratios

	2018 (%)	2017 (%)	Y/Y change (pp)
Return on average equity (ROAE)	17.5	19.3	(1.8)
Return on average assets (ROAA)	1.07	1.26	(0.19)
Net interest margin	3.07	2.90	0.17
Cost / income ratio	47.9	43.7	4.2
Credit cost ratio	0.03	0.02	0.01

	31. 12. 2018 (%)	31. 12. 2017 (%)	Y/Y change (pp)
Loan-to-deposit ratio	76.3	77.7	(1.4)
Capital adequacy ratio*	18.0	17.2	0.8
Leverage ratio*	4.26	4.48	(0.22)
Net stable funding ratio*	161.4	146.0	15.4

** Calculation is based on CRR rules* *Note: pp = percentage point.*

From 2018, calculation of Net interest margin has been changed. New definition excludes volatile short-term assets. Year 2017 has been restated.

For definitions and glossary of financial ratios please refer to the end of the Report of the Board of Directors.

Consolidated Statement of Income

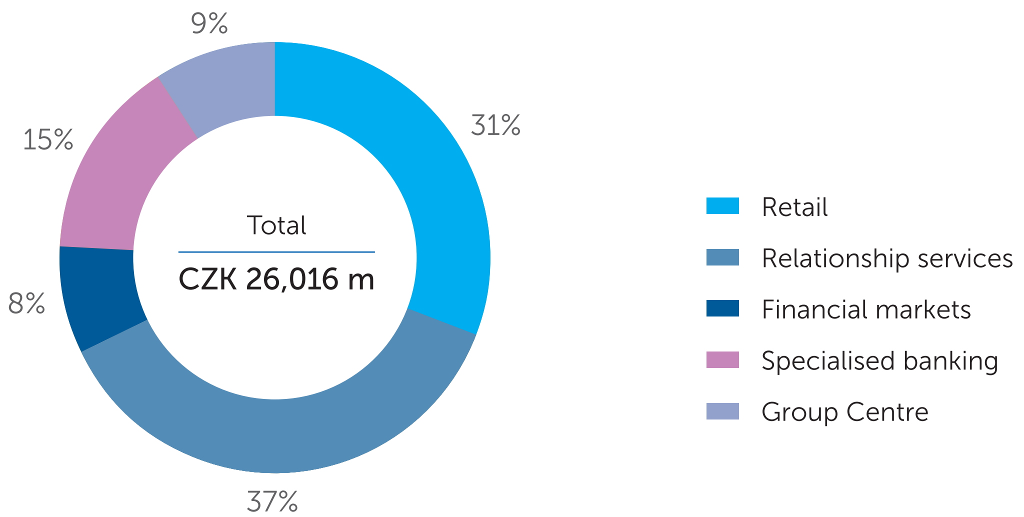
(CZKm)	2018 IFRS 9	2017 IAS 39	Y/Y change (%)
Interest income calculated using the effective interest rate method	33,069	25,539	29.5
Other similar income	695	440	58.0
Interest expense calculated using the effective interest rate method	(6,620)	(2,650)	149.8
Other similar expense	(1,128)	(637)	77.1
Net interest income	**26,016**	**22,692**	**14.6**
Fee and commission income	11,427	11,142	2.6
Fee and commission expense	(3,405)	(3,730)	(8.7)
Net fee and commission income	**8,022**	**7,412**	**8.2**
Dividend income	10	11	(9.1)
Net gains from financial instruments at fair value through profit or loss and foreign exchange	1,850	4,809	(61.5)
Net realised gains on available-for-sale financial assets	-	455	n/a
Income from operating lease	2,708	2,063	31.3
Expense from operating lease	(2,624)	(1,709)	53.5
Other net income	1,120	1,466	(23.6)
Operating income	**37,102**	**37,199**	**(0.3)**
Staff expenses	(8,709)	(7,920)	10.0
General administrative expenses	(7,605)	(6,952)	9.4
Depreciation and amortisation	(1,455)	(1,380)	5.4
Operating expenses	**(17,769)**	**(16,252)**	**9.3**
Impairment losses	(983)	(615)	59.8
Share of profit of associates and joint ventures	581	637	(8.8)
Profit before tax	**18,931**	**20,969**	**(9.7)**
Income tax expense	(3,174)	(3,453)	(8.1)
Profit for the year	**15,757**	**17,516**	**(10.0)**
Attributable to:			
Owners of the parent	15,757	17,517	(10.0)
Non-controlling interests	-	(1)	n/a

Discussion of the Statement of Income Main Items

With a 70% share, the **net interest income** (NII) is the largest part of the operating income. The ČSOB group's NII increased year on year (+14.6%) driven by NII from deposits and other NII. The increase in NII was partially influenced by short-term operations at financial markets, which had corresponding negative effect in net gains from financial instruments at fair value through profit or loss. NII from loans decreased driven by mortgages and corporate loans. The **net interest**

margin (NIM) increased to 3.07% in 2018 from 2.90% in 2017, thanks to higher reinvestment yields, partly offset by ongoing pressure on lending margins.

Net interest income by reported segments



Out of the reporting segments, the highest contribution came from Relationship services which represents 37% of consolidated NII; the NII in this segment increased +9.5% year on year. The Retail segment, making up 31% of the consolidated NII, increased +12.6% year on year. The NII of the Specialised banking segment, which represents 15% of consolidated NII, decreased by -9.4% year on year. The Group Centre represents 9% of the consolidated NII and increased +12.3% year on year. The Financial markets segment makes 8% of the consolidated NII and increased by more than +100% year on year.

The **net fee and commission income** (NFCI) represented 22% of operating income. In 2018, NFCI increased +8.2% year on year driven by changed classification of expenses paid for the services of Czech Post, first time consolidation of "Ušetřeno.cz", increased revenue from investment and bank-insurance products, while account fees, loan fees, fees on payment cards and payments decreased.

Net gains from financial instruments at fair value through profit or loss represented 5% of operating income and decreased -61.5% year on year driven by higher base in 2017 and short-term operations at financial markets, which had corresponding positive effect on NII. Net gains from financial instruments at fair value through profit or loss, 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.

Other net income and income and expenses from operating leases combined represented 3% of operating income and decreased -33.8% year on year partly due to a gain from a historical legal realized in 2017.

Staff expenses represented 49% of the ČSOB group's operating expenses in 2018. Staff expenses increased by 10.0% year on year as a result of wage adjustments, booking of restructuring reserve, higher average number of FTEs (including acquisitions).

General administrative expenses (GAE) contributed 43% to the ČSOB group's operating expenses in 2018.

ICT related expenses increased +6.8% year on year and remained the largest part of GAE (33%). Building-related expenses increased (14% of GAE; +1.0% year on year). Banking taxes, including deposit insurance premium, Securities Traders Guarantee Fund and contribution to the Crisis Resolution Fund (or the Single Resolution Mechanism) increased (10% of GAE; +6.1% year on year). Marketing expenses increased (9% of GAE; +6.2% year on year).

Impairment losses increased +59.8% year on year as impairments on other increased +69.1% due to revaluation of leased cars (operating leasing). Impairments on financial assets at amortised cost and at fair value through OCI reached -212m CZK in 2018, while impairments on loans and receivables in 2017 reached -131m CZK.

As a result of the trends described above, the **net profit for 2018 attributable to owners of the parent equaled CZK 15,757 m**, which is 10.0% lower than the figure for 2017.

More details are available in the Consolidated Financial Statements for the year 2018: Net interest income (Notes 5 and 6), Net fee and commission income (Note 7), Net gains from financial instruments at fair value through profit or loss and foreign exchange (Note 8), Net result from operating lease (Note 9), Other net income (Note 10), Staff expenses (Note 11), General administrative expenses (Note 12) and Impairment losses (Note 13).

Consolidated Statement of Financial Position

(Excerpt)

(CZKm)	2018 IFRS 9	2017 IAS 39	Y/Y change (%)
Financial assets held for trading (including pledged as collateral)	21,545	18,342	17.5
Available-for-sale financial assets (including pledged as collateral)	-	35,329	n/a
Financial assets at fair value through other comprehensive income (including pledged as collateral)	18,653	-	n/a
Financial assets at amortised cost (including pledged as collateral)	1,268,714	1,177,822	7.7
of which Loans and advances	1,132,923	1,053,641	7.5
of which Debt securities (including pledged as collateral)	135,791	124,181	9.3
Total assets	**1,378,038**	**1,315,590**	**4.7**
Financial liabilities held for trading	33,177	34,606	(4.1)
Financial liabilities at amortised cost	1,212,589	1,163,087	4.3
Total liabilities	**1,286,022**	**1,221,887**	**5.2**
Total equity	92,016	93,703	(1.8)
Total liabilities and equity	**1,378,038**	**1,315,590**	**4.7**

Discussion of the Statement of Financial Position Items

Total consolidated assets of ČSOB group increased +4.7% year on year. Loans and advances, the largest item thereof with 82% share, increased +7.5% year on year (driven by reverse repo operations with Czech National Bank, loans to private individuals and loans to Other legal entities). Debt securities measured at amortised cost (including pledged as collateral) increased +9.3% year on year.

As part of the IFRS 9 transition procedure, a number of debt securities were transferred from the Available-for-sale financial assets to the category of Financial assets at amortised cost.

No treasury shares were held by the ČSOB group at 31 December 2018 and 2017.

Further discussion of the portfolios can found in the Consolidated Financial Statements for the year 2018, including the breakdown of exposure per type of borrower (Notes 17, 18, 19) or per country (Note 40).

Regulatory Capital Adequacy

The primary objectives of ČSOB's capital management are to ensure that it complies with externally and internally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholder value.

The ČSOB group manages its capital structure in the light of changes in economic conditions, regulatory requirements and the risk characteristics of its activities.

Consolidated Capitalization and Risk Weighted Assets of the ČSOB Group

Consolidated, CZKm unless indicated otherwise	2018	2017	Y/Y change (%)
Total regulatory capital	**69,148**	**69,098**	0.1
- (Common Equity) Tier 1 Capital	69,148	69,098	0.1
- Tier 2 Capital	0	0	n/a
Total risk weighted assets	**383,254**	**402,278**	(4.7)
- Credit risk	312,054	313,037	(0.3)
- Market risk	10,620	32,369	(67.2)
- Operational risk	60,580	56,872	6.5
(Common Equity) Tier 1 ratio	**18.0%**	**17.2%**	0.8pp
Total capital ratio	**18.0%**	**17.2%**	0.8pp

Calculation is based on CRR rules.

End of period regulatory capital (and the respective ratios) reflects retained earnings. More details are available in the Consolidated Financial Statements for the year 2018 (Note 41).

Note: pp = percentage point.

Credit Rating

Events related to ČSOB's credit ratings between 1 January 2018 and the date of this Annual Report.

In 2018, ČSOB was using the service of the following rating agencies:

- **Moody's Investors Service** ("Moody's") and
- **S&P Global Rating** ("S&P").

Both rating agencies were registered according to the Regulation (EC) No. 1060/2009 on credit rating agencies. While choosing rating agencies, ČSOB proceeded according to the obligations laid down by the article 8d of the described regulation. The market share of each of the aforementioned rating agencies exceeds 10% on the European Union market.

In accordance with obligation set in the article 8d of the Regulation on credit rating agencies, ČSOB has considered appointing a rating agency with a market share below 10%. In the final decision, with regards to the position of ČSOB on the Czech market and the market know-how of the considered rating agencies, ČSOB has decided to use the services of the aforementioned rating agencies.

No debt securities issued by ČSOB had a credit rating assigned.

Rating of ČSOB

On 30 July 2018, **S&P upgraded long-term issuer credit rating of ČSOB to A+** from A with change of outlook to stable from positive.

On 21 November 2018, **Moody's agency upgraded the long-term deposit rating of ČSOB to A1** from A2 with change of outlook to stable from positive.

Business Results

Main Factors Influencing the Financial and Business Results and the Market Position of the ČSOB Group

The ČSOB group's business results are affected by a range of economic, political and other external factors that affect business in the banking and financial sector in general and the ČSOB group's operations in particular. In addition, its business is subject to general global economic conditions, the development of the international financial markets, international political events, interest rate levels and volatility, currency exchange rates and general competitive factors in the banking industry. These factors also include the impact of the regulatory environment.

The Board of Directors believes that the following several factors represent principal drivers for the development of the ČSOB group's business and thus its results of operations and financial condition. These factors include the development of the Czech economy, interest rate environment, changes in credit risk and in competitive environment.

The growth of the Czech economy is expanding the short term opportunities of the banking sector and at the same time contributing to improving its quantitative as well as qualitative characteristics:

- The continued solid growth of the economy may again have a positive impact on the ČSOB group.
- Decreasing unemployment can contribute to reducing credit risks, thus positively affecting the ČSOB group.
- The growth of exports and imports could also have a positive impact on the ČSOB group.

ČSOB Group Market Position

1st

Building savings loans [1]	41.7%	↓
Building savings deposits [1]	39.7%	↑
Mortgages [1]	28.1%	↓

2nd

Total Loans [1]	**19.4%**	↓
Total Deposits [1]	**20.0%**	→
Mutuals funds [1]	22.3%	↑
Factoring [2]	23.1%	↓
Leasing [1]	17.0%	↓

3rd

Pension funds [3]	14.4%	↑
SME/corporate loans[1]	14.4%	↓
Consumer lending[1, 4]	12.1%	↑

4th

Insurance [5] – combined	**7.8%**	↑
Non-life insurance [5]	7.7%	↑
Life insurance [5]	8.1%	↑

Market shares as of 31 December 2018.

Arrows show Y/Y change.
The ranking is ČSOB's estimate. Market position in the insurance reflects combined position of the insurers belonging to the same business group.

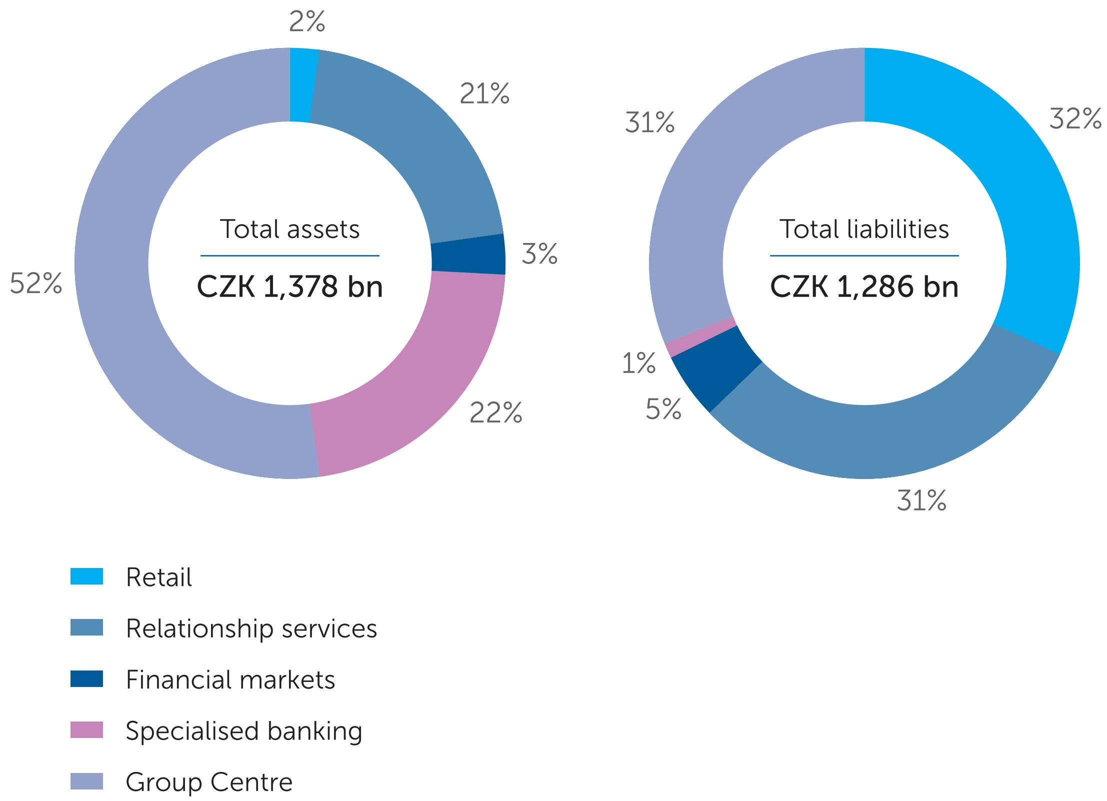
1) Outstanding at the given date (including ČMSS).
2) New business in the year to the given date.
3) Number of total clients at the given date.
4) Retail loans excluding mortgages and building savings loans.
5) New business in the year according to gross written premium.

Segment View

ČSOB group has **five segments**, which are the group's strategic business units: **Retail, Relationship services, Financial markets, Specialised banking** and **Group Centre**. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting (controlling) structure.

In 2018, the Group's segment reporting was modified following the change of organisational structure of the Group. Thus, Asset Management and Penzijní společnost were moved from Retail to Financial markets and Specialised banking, respectively. ČMSS was moved to the Group Centre. Comparative figures in the Consolidated statement of income for 2017 have been reclassified.

Total assets and liabilities by reported segments



Retail

The ČSOB Retail segment represented 2% of ČSOB's assets and 32% of ČSOB's liabilities as at the 31 December 2018.

Retail clients comprise 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 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. Net fee and commission income of this segment contains payment services, administration of credits, network income, distribution and other fees.

As at 31 December 2018, the ČSOB group had approximately 3.5 million group retail clients in the Czech Republic.

Retail clients benefit from ČSOB's **wide sales network** of 202 retail or shared retail / SME branches, 10 PSB Financial Centers / PSB branches, approximately 2,600 outlets of the Czech Post network with 195 specialized banking counters (44 new compared to 2017) and 80 specialized insurance counters and additional 600 Czech Post franchise outlets. Clients can also use a wide network of 1,063 ATMs, including 405 contactless and 210 deposit ATMs.

Most Notable Events and Trends

- In 2018, a new **10-year partnership agreement between ČSOB and Česká Pošta (Czech Post)** became effective. The partnership allows ČSOB to significantly expand the offer of banking and insurance products, achieve important synergies and jointly develop the network of specialized financial counters that have already proven their worth as they enable clients to enjoy greater convenience when managing their postal and financial needs at a single point of contact.

- Number of **Group Primary Clients increased +57ths** year on year.
- Outstanding volumes of **consumer finance increased** +11.8% year on year. The growth was also supported by online initiated loans, which are gradually increasing and exceeded 15% share in the number of loans.
- The **market share in consumer lending increased** year on year to 12.1% (including consumer loans reported in other segments) and ČSOB maintained the third position on the market of consumer lending.
- **Client deposits increased** driven by current accounts.

Key Volumes (CZKm)	2018	2017	Y/Y change (%)
Credit portfolio – consumer loans, credit cards, overdrafts and other retail loans	31,369	28,061	11.8
– of which credit cards and overdrafts	2,902	2,886	0.5
– of which consumer loans	26,571	23,139	14.8

Relationship Services

The ČSOB Relationship services segment comprised 21% of assets and 31% of liabilities of the ČSOB group as at the 31 December 2018.

The Relationship services segment includes 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. Net fee and commission income of this segment contains payment services, administration of credits, network income, securities, custody, retail service fees, distribution and other fees.

As at 31 December 2018, the ČSOB group had approximately 4,700 corporate, 135,000 SME and 7,900 private banking clients in the Czech Republic.

The ČSOB group has a network of 35 SME branches, **11 regional branches** devoted to serving corporate clients and **11 branches** for private banking clients. Next to these, there are also 2 specialized branches for the Financial and Public Sector and for Bank Relations located centrally in Prague. Relationship Services clients also benefit from wide coverage Retail branches.

The ČSOB group provides SME and corporate clients with a **wide range of financial services**, from traditional account and payment management services and classic forms of investment and working capital financing, to solutions for managing clients' foreign currency and interest rate risks, specialized financing, financing with EU support, acquisition and project financing, cash pooling and internet-based transactional systems. The range of its products combined with its distribution network has enabled the ČSOB group to become an important service provider in key product areas, including cash management, acquisition, export and online trade finance services.

ČSOB offers to its business customers Corporate electronic banking (CEB) e-channel and provides biometry-based solutions in order to enable business mobility.

ČSOB also offers a range of **products for institutional clients**. This range comprises both regular banking products tailored to meet the requirements of institutional clients, and specialized services in the areas of cash management, custody of securities, and fund depository services.

Most Notable Events and Trends

- **The volume of the corporate credit portfolio reached CZK 157.2 bn** as of end of 2018 (up +4.4% year on year).
- **SME volumes increased** +2.2% year on year thanks to an expansion in core SME lending (micro, small and mid-sized companies).
- ČSOB group's **market share** of SME / corporate loans **stood at 14.4%** at the end of the year 2018

Key Volumes (CZKm)	2018	2017	Y/Y change (%)
Credit portfolio – corporate	157,167	150,587	4.4
Credit portfolio – SME	88,133	86,224	2.2
Credit portfolio – factoring	6,688	6,661	0.4
Credit portfolio – leasing	40,094	40,161	(0.2)

Financial Markets

The ČSOB Financial markets segment represented 3% of ČSOB group's assets and 5% of its liabilities as at the 31 December 2018.

This segment contains investment products and services to institutional investors and intermediaries and fund management activities and trading included in dealing services, mutual funds and asset management. Net fee and commission income of this segment contains securities and custody fees and asset management income fees and commissions to agents.

Mutual funds and other AM decreased by -1.0% year on year.

	2018	2017	Y/Y change (%)
Mutual funds and other AM (Outstanding volume, CZKm)	150,919	152,498	(1.0)
– of which structured/capital protected funds	18,690	21,702	(13.9)
– of which other mutual funds	67,420	67,481	(0.1)
– of which other management assets	57,257	55,928	2.4

Specialised Banking

The ČSOB Specialised banking segment represented 22% of ČSOB group's assets and 1% of its liabilities as at 31 December 2018.

The Specialised Banking segment contains mortgages and pension funds. Net fee and commission income of this segment contains administration of credits, collective investment and distribution fees.

Most Notable Events and Trends

- In 2018, **outstanding mortgage volumes** increased +6.6% year on year as the demand was influenced by rising interest rates and real estate prices. ČSOB provided over **25 thousand new mortgages** in the total amount of **CZK 57 bn**.
- Outstanding **building savings loan portfolio increased** +1.1% year on year and new sales increased +28.4%. ČMSS maintained its market leading position in 2018.
- The volume of **pension funds increased** +8.4% year on year.

Key Volumes (CZKm)	2018	2017	Y/Y change (%)
Credit portfolio – mortgages	301,104	282,380	6.6
Credit portfolio – building savings loans (55%)	64,137	63,420	1.1

Group Centre

The Group Centre comprised 52% of ČSOB group's assets and 31% of its liabilities as at 31 December 2018.

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, building savings and building savings loans, the results of the reinvestment of free equity of ČSOB and items not directly attributable to other segments. Net fee and commission income of this segment contains payment services and other fees.

Insurance

As at 31 December 2018, ČSOB Pojišťovna reached a 8.1% market share in life gross written premium and a 7.7% market share in non-life gross written premium (according to the Czech Insurance Association's methodology).

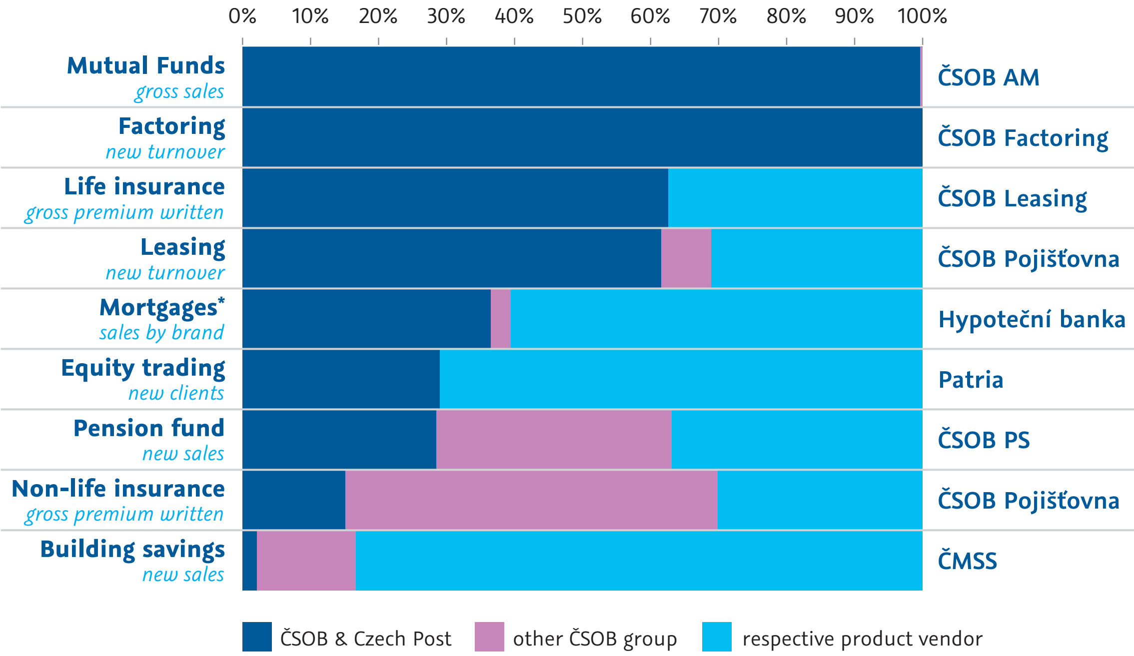
ČSOB Pojišťovna provides its clients with a wide range of insurance products, including single and regular premium life insurance as well as car (for individuals and corporate clients), house, accident, travel and industrial insurance. As at 31 December 2018, ČSOB Pojišťovna had over 1.232 million clients, comprising of individuals and business entities (including SME's as well as corporates). Insurance products are mainly distributed through the internal agent network, ČSOB group's branches and external brokers.

Key Volumes (CZKm)	2018	2017	Y/Y change (%)
Single life insurance	3,445	3,829	(10.0)
Regular life insurance	3,227	3,023	6.7
Life insurance total	**6,672**	**6,852**	**(2.6)**
Non-life insurance total	**6,685**	**5,922**	**12.9**
Total	**13,357**	**12,774**	**4.6**
Number of cases settled	222,364	215,341	3.3

ČSOB Group Synergies

The concept of multichannel distribution gives ČSOB group an opportunity to better serve its target client groups. The following chart documents the cross-selling activities within the ČSOB group.

New Production in 2018 – Shares of Distribution Channels per Product Type



The chart shows the volumes distributed in 2018 by the companies of the ČSOB group.

Distribution by third parties is included in the figures for the respective product vendors.

** The mortgage volumes originated by third parties are included under the specific brands under which they are sold by third parties.*

Definitions and Glossary of Financial Ratios

Assets under management *include pension funds, mutual funds (assets under management in structured/capital protected funds and other mutual funds), other asset management and assets under management products and assets under management of Slovak local funds managed in the Czech Republic.*

Group deposits *is item Deposits received from other than credit institutions from the consolidated balance sheet, including ČMSS, building savings deposits.*

Capital adequacy ratio *is total regulatory capital / total RWA (according to CRR).*

Cost / income ratio *represents Operating expenses / operating income.*

Credit cost ratio *is Total credit costs / average credit risk loan portfolio in the year (simple average of previous year end and reported period end balances).*

Credit risk loan portfolio *includes all payment credit, guarantee credit, standby credit and credit derivatives, granted by ČSOB to private persons, companies, governments and banks. Bonds held in the investment portfolio are included if they are corporate- or bank-issued, hence government bonds and trading book exposure are not included.*

Group Primary Clients *are bank clients with regular income on current account (or clients with Premium account or Premium candidates) with at least one product of ČSOB subsidiary.*

Leverage ratio *is Tier 1 capital / On-balance + Off-balance sheet items + Counterparty exposure for Derivatives and SFT + Add-ons (according to CRR).*

Loan portfolio *includes outstanding volumes of consumer loans and other retail loans + mortgages for private individuals + 55% of building savings loans (ČMSS) + SME/corporate loans (gross).*

Loan-to-deposit ratio *under IAS 39 means Loans and receivables to other than credit institutions (net) / Deposits received from other than credit institutions at amortised cost minus repo operations with non-banking financial institutions. Under IFRS 9: Financial assets at amortised cost to other than credit institutions minus bonds (net) / Deposits received from other than credit institutions at amortised cost minus repo operations with non-banking financial institutions.*

Net interest margin *is Net interest income excl. volatile short-term assets used for liquidity management / average interest earnings assets excl. volatile short-term assets used for liquidity management.*

Net stable funding ratio *is available amount of stable funding / required amount of stable funding (according to CRR).*

NPL (non-performing loans) *ratio is outstanding amount of non-performing loans (incl. off-balance sheet items) / credit risk loan portfolio.*

ROAA (return on average assets) *is net profit for the year / average of total assets.*

ROAE (return on average equity) *is net profit for the year / average of total shareholders' equity.*

Tier 1 ratio *is Tier 1 capital (CET1) / Total RWA (according to CRR).*

ABOUT US

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 (branches) and Poštovní spořitelna (Postal Savings Bank – PSB; Financial centers and 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.

With total assets of CZK 1,378 bn as at 31 December 2018 and a total net profit of CZK 15.8 bn in 2018 **the ČSOB group is one of the top three banking groups in the Czech Republic**. As at 31 December 2018, the ČSOB group had CZK 868 bn of group deposits (including ČMSS) and a loan portfolio of CZK 689 bn (including ČMSS).

ČSOB Group in Figures

	31. 12. 2018	31. 12. 2017
ČSOB Group's clients (mil.)	**3,635**	**3,668**
Clients of Ušetřeno.cz and Top-Pojištění.cz (ths.)	**192**	**177**
ČSOB branches (bank only)	**235**	**270**
ČSOB Retail/SME branches incl. dual branded (ČSOB + PSB)	203	217
PSB Financial Centers	10	31
ČSOB Private Banking branches	11	11
ČSOB Corporate branches	11	11
ČSOB Pojišťovna branches	**98**	**97**
Hypoteční banka centers	**30**	**30**
ČMSS advisory centers	**297**	**302**
Leasing branches	**7**	**7**
PSB outlets of the Czech Post network	**ca 2,600**	**ca 2,800**
– of which specialized banking counters	195	152
Czech Post franchise outlets	**ca 600**	**ca 400**
ATMs [1]	**1,063**	**1,070**
– of which contactless	405	302

1) Including ATMs of cooperating banks.

Employees (*FTEs*)	31. 12. 2018	31. 12. 2017
Employees of the ČSOB group (FTEs)[2]	8,318	8,299
of which the Bank	7,091	7,150

2) Excluding employees of the joint venture and associated companies.

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

KBC Group Profile

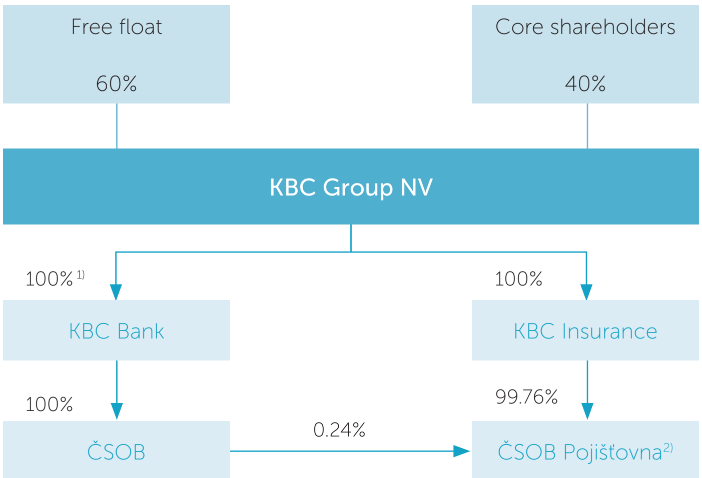
ČSOB is a wholly-owned subsidiary of KBC Bank NV, whose shares are held (directly or indirectly) by KBC Group NV. KBC Bank and KBC Group are both based in Brussels, Belgium.

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 the end of 2018, the KBC Group served 11 million clients in its home markets, and employed approximately 42,000 employees, more than half of which in Central and Eastern Europe.

The majority of KBC Group's shares is traded publicly on the Euronext Exchange in Brussels. 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 31 December 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. 2018	31. 12. 2017
Total assets	EURbn	283.8	292.3
Loans and advances to customers (excl. rev. repo's)	EURbn	147.1	141.0
Deposits from customers and debt securities (excl. repo's)	EURbn	194.3	193.7
Net profit, group share	EURm	2,570	2,575
Common equity ratio, group level (Basel III, fully loaded)	%	16.0	16.3
Cost / income ratio, banking part	%	57.5	54

Long-term ratings (as at 14 February 2019)

	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 31 December 2018.

ČSOB is also a **controlling entity**. For information on companies controlled by ČSOB as at 31 December 2018 please refer to the chapter Companies of the ČSOB group.

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

Corporate Social Responsibility & Sustainability

Today's world, as well as our clients' behaviour, are developing very dynamically. The time when clients were making decisions only based on the product and its price is gone. Many new factors come into play. Clients are much more focused on the added value of products and services - whether for themselves or for society, and even more: they want to engage themselves in shared values creation.

ČSOB is open to a new approach to business opportunities, honestly and thoroughly considering whether potential profit is not generated at the expense of or damage to the interests of its partners, the society. In this respect, ČSOB wants to go far beyond the legal obligations and pays increasing attention to how its today's behaviour will be judged by future generations.

Strategic social responsibility pillars of ČSOB and main initiatives therein

For education

We declare our support for the mission of today's society education and we want to help effectively in areas that we know well. Through the ambassadors from our employees we provide financial education and online security for primary and secondary schools children. Involved colleagues from the bank have completed more than 716 lessons in the form of interactive discussions for 13,861 pupils and students from 141 schools.

Through grants we also support other organizations which, just like us, consider this issue to be key to the prosperity of our country and its inhabitants. Every year we announce ČSOB Education programme focused on increasing financial literacy and security on the internet. In this programme the Bank distributes one million Czech Crowns twice a year among thematic projects of non-profit organizations.

In cooperation with the Association of Citizens Counselling Centres and the People in Need organisation we co-finance free debt advisory and responsible debt relief through the Debt Advisory Centre.

We offer easy-to-access high quality financial advisory in the form preferred by the client (information at the bank's website, on-line telephone counselling, personal visit to a branch).

For nature

It is never too late to start behaving gently towards our planet. We started with ourselves. Headquarters of ČSOB are built in accordance with the principles of sustainable development. We save natural resources and encourage also our employees to do so.

ČSOB has its own environmental and energy policies, which list the company's obligations of environmental protection and pollution prevention. We buy electricity from renewable sources and continue to reduce energy intensity of our branches and headquarters thanks to modern heating and cooling systems using geothermal energy. We use LED sources for lighting and gradually switch to autonomous lighting control. We systematically reduce the amount of office waste, which is further sorted consistently. Big savings have been achieved by switching to biometric signatures, now we record bulky client documentation only electronically. The frequency of journeys by company cars has been reduced thanks to preferring modern technologies that allow our colleagues to collaborate remotely.

In accordance with the KBC policy, we have recently undertaken to dramatically reduce the financing of coal burning in our power plants. It should finally be terminated in 2023 from when we are solely going to support investments in heating plants that will facilitate a reduction in the environmental impact in compliance with the applicable laws.

ČSOB regularly monitors rational use of available resources, as evidenced by the following data:

Year	Water consumption (m^3)	Power consumption (Gj)	Paper consumption (t)	Waste generated (t)	Direct CO_2 emissions (t)	Indirect CO_2 emissions (t)
2015	125,906	133,010	1,025	1,965	5,960	19,696
2016	124,231	125,226	1,115	1,944	2,246	25,099
2017	118,679	101,125	1,029	1,022	2,867	17,997
2018	110,590	89,482	901	845	2,181	15,862

For business

We respond to a changing business environment because we know that no innovative products and services that are the backbone of our country's economy can be created without the active support of strong partners.

ČSOB supports starting entrepreneurs and small businesses, helping them to obtain working background and to establish new business contacts through the advisory portal. Our offer for start-ups includes assistance with obtaining a loan with COSME guarantee of the European Investment Fund up to CZK 250,000 for entrepreneurs without history, access to the information and advisory portal www.pruvodcepodnikanim.cz and the participation in Business Academy for Starting Entrepreneurs.

We actively engage in public debates, forums and expert meetings, where ČSOB representatives defend the interests of entrepreneurs and work to eliminate legislative barriers that small and middle enterprises face.

We have adopted a number of rigorous measures and policies, aiming to meet moral commitments of global nature (UN Global Compact, SDG, Equator principles, etc.). In accordance with the Code of Conduct, Integrity Policy, Anti-Corruption Programme and a number of other regulations, we do not support actions that violate human rights, threaten peaceful coexistence or devastate the environment.

For longevity

Time will not wait for anyone and age-related problems will catch up with everyone. We help to deal with them together with experienced specialists from the non-profit sector. Knowledge from fields beyond finance is shared with people interested in the information also by our employees. We find inspiration also in seniors' clubs, with which we cooperate and exchange views. We are in this all together.

One of the priorities of the pillar For longevity is the cooperation with Sue Ryder Home in a project of advisory centre where professional consultants provide valuable information and practical advice to seniors and their relatives in the areas of legislation, health care and palliative care, obtaining care contributions, as well as in housing and finance areas. For the second year in a row the portal "Neztratitsevestari.cz" has been providing an extensive amount of comprehensive and verified information, which can also be found in multiple other sources that might not be completely reliable. In 2018, telephone advisory service was added to the web portal, personal consultations are possible as well.

We also pay attention to the needs of people with physical disabilities, impaired vision and hearing. We work to ensure that all branches and advisory centres are fully barrier-free. For example we operate the eScribe transcription service for the deaf, navigational beacons and ATMs tailored for the blind. The needs of people with disabilities are consulted with renowned non-profit organisations and their clients who know the difficulties they encounter in everyday life and willingly contribute to us with practical advice. In 2018, we started to work on a new service for the blind and seriously disabled, which will allow to control Internet banking by mere voice - so-called VoiceBanking.

Philanthropy in ČSOB in 2018

Supporting philanthropy, developing individual donations of our clients and employees, and linking the business world to the non-profit sector is an integral part of the Bank's corporate social responsibility. We have been cooperating with renowned non-profit organisations for a long time and together we bring solutions that respond to the current needs of disabled people.

Our major partners from the non-profit sector include: The Committee of Good Will - Olga Havlová Foundation (VDV), Mathilda Endowment Fund, Sue Ryder Home, Safety Line, Charta 77 Foundation - Barriers Account. We have also partnership with: People in Need, Debt Advisory Centre, Neratov Association, Czech Paraplegics Association, Endowment Fund Rozum a cit. Moreover, we also work with organisations that focus on the general development of CSR and philanthropy in the Czech Republic: Donors Forum and Business for Society.

ČSOB Helps Regions

ČSOB Helps Regions is a grant programme supporting the projects that contribute to the community development and improve the quality of people life throughout the Czech Republic. In 2018, 112 non-profit organisations received grant support of CZK 7.8 million. This amount consists of financial contributions from the public, which amounted to CZK 3.6 million, and the Bank's donation of CZK 4.2 million, which the non-profit organisations obtained according to their fundraising capabilities at website www.csobpomaharegionum.cz.

Education Fund

The Education Fund is our oldest common philanthropic project. It was created in 1995 in cooperation with the Committee of Good Will - Olga Havlová Foundation to support talented students of secondary schools and universities who would otherwise not be able to study because of health disabilities or social barriers.

From the beginning of the programme to the end of 2018, we provided scholarships to 585 students. Another 572 students received a contribution to education or study aids. Overall, we have already spent more than CZK 32.4 million on education support.

Social Enterprise Stabilisation grant programme

In the sixth year of this grant programme aimed at stabilisation and development of the existing social enterprises, four winning projects succeeded and received financial incentives and expert advisory according to their choice. 35 social enterprises, which provide job opportunities for people with combined disabilities, have been successful so far and have shared more than CZK 5.6 million.

ČSOB Education Programme

In the 9th year of the grant programme, we distributed CZK 2 million among 14 projects focused on financial literacy and online security. Support was given to 7 projects aimed at increasing financial literacy of children and young people from children's homes and socially disadvantaged backgrounds, people with autism and hearing impairment, people after imprisonment. Another 7 projects were focused on safe behaviour and information sharing in online environment, risks of social networks and chat rooms and prevention of cyberbullying among elementary and secondary school pupils and children and young people with hearing impairment. In total, during the running of the grant programme, we have recorded 138 projects supported by an amount exceeding CZK 14 million.

Volunteering

Traditional activities repeatedly demanded by employees include so-called volunteering day. Our colleagues can spend one business day by doing manual work or professional counselling in a non-profit organisation of their choice. In 2018, we registered 1,680 volunteers.

Good Will Card

From May 2014, ČSOB Private Bank clients can use the special debit payment Good Will Card. Its uniqueness lies in the fact that when they make payments, they contribute to a good thing at the same time. The clients choose the amount of a voluntary contribution which will be donated from each business transaction to support handicapped people. Together with our clients, we help children and adults in a difficult health situation. During the time of running of the Good Will Card we have been able to contribute together with almost CZK 10 million, which helped in total more than 245 people in need.

Together with ČSOB

The Matching Fund Together with ČSOB is intended to support individual donations of our colleagues. Every employee can request a cash contribution for their favourite nonprofit organisation or charity project. They are supposed to arrange any charity event and involve other colleagues from the bank. The same amount collected at the event is matched by the bank (but not more than CZK 30,000 per one project). During 2018 our colleagues organised 17 charity events and money collections. The bank added CZK 385,338 to their contributions in the amount of CZK 439,681, so we jointly donated CZK 825,019 for a good thing.

Awards in 2018

In the area of Corporate Sustainability and Responsibility (CSR), ČSOB confirmed its position as one of the best rated Czech companies by achieving the following awards:

Czech financial advisory company **Fincentrum** awarded ČSOB:

- second place in category Bank without barriers

In competition **TOP responsible company** ČSOB was awarded by **Business for society** by:

- Silver certificate in category Responsible Big Company
- Silver certificate in category Environment
- Bronze certificate in category Diversity
- Bronze certificate in category Reporting

Donors Forum awarded ČSOB by:

- third place for the Annual Corporate Social Responsibility Report

More information can be found in the ČSOB Group report to Society 2018 and at the website www.csob.cz/csr.

Diversity

ČSOB supports equal opportunities, an increasing number of women in management positions and the employment of people with disabilities. The bank promotes the equal number of men and women in senior management roles and eliminates the salary difference between them. ČSOB is providing space for intergenerational dialogue by supporting and developing "young personnel" (generation Y-ČSOB) and "55plus" communities. Also ČSOB makes the necessary steps to increase the employment of people with disabilities.

Comprehensive approach to diversity

In 2018, ČSOB continued with the well-established diversity development projects while also broadening its focus to support **"young personnel", parents and "55plus" communities**. We continue with an open discussion on the benefits of the diverse approach of men and women in the working environment and the presence of the **"Male and Female Principles"**. We promote an informal community encouraging the professional and personnel development of women - managers who support women in building a career in ČSOB. We offer a wide range of services and flexibility for parents (including the possibility of babysitting at the Children's centre in the ČSOB at Radlická HQ), expanding the possibilities of working from home and part-time.

Programme 55plus – for all employees over 55 years of age

New in 2017, the **55plus programme** was a major move towards fostering intentional diversity and professional and personal life balance. As the programme was highly successful it was extended to the whole ČSOB bank during the 2018. We offered a wide range of activities to the group of employees over 55 years of age (more than 840 people). We believe that diversity in the broad sense of the word means **a greater spectrum of opinions and different styles of work and management** for the bank. Ultimately, diversity can lead to sustainable long-term improved performance through higher engagement and motivation of people. The objectives of the 55plus programme include using the seniority of these employees to mentor their junior colleagues, increasing the team stability through the age diversity of team members, reducing pressure and stress, preventing the burnout syndrome, and providing more opportunities for regeneration, free time and re-energising.

ČSOB was awarded the bronze certificate in the category "Diversity" of the project "TOP - Responsible company" (awarded by the Business for Society) in 2018.

Year 2019

In 2019, we are going to continue with the **programme 55plus** for all employees in ČSOB over 55 years of age. The aim is to offer participants attractive programmes and workshops, specially targeted at supporting and enhancing the use of modern technologies and the orientation in the digital world. **Digital skills are the skills of the 21st century!**

Balancing professional and personal life

ČSOB **offers a wide range of support activities and services** to help its employees balance their professional and personal life. These include flexible working hours, shorter working hours, telecommuting, shared roles, etc. ČSOB runs the **Programme for Parents and Children's centre**, which helps mothers and fathers return from their parental leave earlier.

We want to continue with the diversity activities in management and flexible working places. We are planning to sustain programme for parents in regions as well.

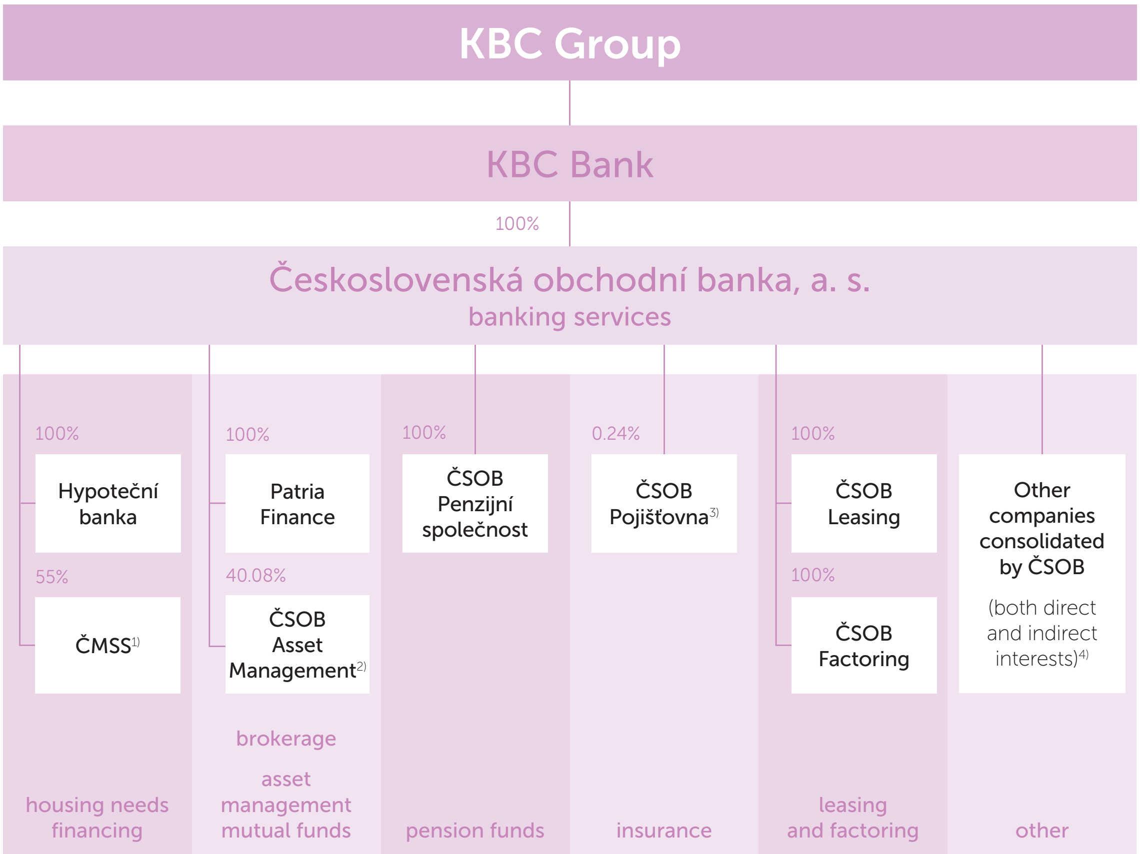
COMPANIES OF THE ČSOB GROUP

ČSOB group

The ČSOB group is the leading player in Czech financial services industry. It is a part of the international bank-insurance KBC group which is active in Belgium and the CEE region.

As at 31 December 2018, ČSOB had ownership interests in 29 legal entities and, in addition to ČSOB, other 26 companies were included in the group of consolidated companies.

The ČSOB group offers its clients in the Czech Republic the following types of services: banking services, building savings and mortgages, securities brokerage, asset management, mutual fund, pension funds, insurance, leasing and factoring.



Percentages show ČSOB's ownership interests on company's equity as at 31 December 2018.

1) 45% of shares owned by Bausparkasse Schwäbisch Hall; by the equity method consolidation.
2) 59.92% of shares owned by KBC Participations Renta C; by the equity method consolidation.
3) 99.76% of shares owned by KBC Insurance; by the equity method consolidation.
4) A complete list of companies consolidated by ČSOB is stated in this part of ČSOB Annual Report.

Hypoteční banka, a.s.

Date of establishment:	10. 1. 1991
Business activities:	Providing of mortgage loans and issuance of mortgage bonds
Identification number:	13584324
Registered capital:	CZK 5,076,336 ths
Shareholders:	100% ČSOB

Contact

Address:	Radlická 333/150 150 57 Praha 5
Telephone	+420 224 116 515
E-mail:	info@hypotecnibanka.cz
Internet:	www.hypotecnibanka.cz

Indicator		2018	2017
Total assets*	CZKm	308,765	288,314
Loans and advances to customers*	CZKm	299,439	280,409
Total equity*	CZKm	42,203	39,391
Profit for the year after tax*	CZKm	2,354	2,828
Total volume of new mortgage loans (according to the Ministry of Regional Development; CZ)	CZKm	55,993	63,392

** EU IFRS, audited.*

Branches	30	30
Agents and brokers	3,681	4,079

Hypoteční banka is a specialist in providing of mortgage loans. It is a leader in the mortgage market and pioneers innovations. Four times a year Hypoteční banka publishes HB Index – the index of residential property prices and tailors the appearance of its branches to a pleasant home environment. Last year, after redesigning branch in Ostrava Hypoteční banka also tailored its regional branch in Brno to the living room concept.

In 2018, Hypoteční banka provided 25,167 mortgage loans in total volume CZK 56 bn. For the eleventh time in a row HB defended its position as the market leader with a market share of 26.6% (new loans).

Last year, Hypoteční banka delivered a new product Zelená hypotéka and presented it together with the Český ostrovní dům project, where Hypoteční banka is the general partner, in all of its mortgage regions. Furthemore, the bank worked on the development and improvement of the Hypoteční zóna internet portal, where clients are granted safe and convenient online access to information about mortgage and are able to request changes concerning mortgages easily.

Longterm CSR activity is also to be noted, Hypoteční banka supports SOS dětské vesničky, the organization gets a contribution for every concluded mortgage.

Českomoravská stavební spořitelna, a.s.

Date of establishment:	26. 6. 1993	
Business activities:	Building savings and loans	
Identification number:	49241397	
Registered capital:	CZK 1,500,000 ths	
Shareholders:	55%	ČSOB
	45%	Bausparkasse Schwäbisch Hall

ČMSS
Na těchto základech můžete stavět

Contact

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Internet:	www.cmss.cz

Indicator		2018	2017
Total assets*	CZKm	148,070	149,193
Volume of loans and bridging loans (Retail)*	CZKm	114,261	112,599
Volume of client deposits*	CZKm	137,901	138,845
Total equity*	CZKm	8,559	9,146
Profit for the year after tax*	CZKm	873	1,043

** EU IFRS, audited.*

Advisory centers	297	302
Tied agents	1,839	1,879

Since ČMSS was established, it has been the largest and most successful building society in the Czech market from the point of view of the balance sheet total CZK 148.1 bn as at 31 December 2018 and of the realised profit in the year 2018 it amounted to CZK 873 m. In the long run, it has been the biggest provider of the building savings product (in the year 2018, the volume of the new savings contracts amounted to CZK 72.9 bn, which represented a market share of 33 %) and of building savings loans (new loans provided in the year 2018 amounted to a total of CZK 28.5 bn, which was a market share of 39.2 %*). Currently, 1.2 million clients have building savings or a building savings loan from ČMSS.

In addition, ČMSS is also an important provider of other products from the ČSOB group, namely: life risk insurance, supplementary pension savings, mortgage loans, investment life insurance, property and liability insurance, current accounts and newly car insurance.

**estimation*

Patria Finance, a.s.

Date of establishment:	23. 5. 2001
Business activities:	the securities services
Identification number	26455064
Registered capital:	CZK 150,000 ths
Shareholders:	100% ČSOB

PATRIA FINANCE

Contact

Address:	Jungmannova 745/24 110 00 Praha 1
Telephone:	+420 221 424 240
Fax:	+420 221 424 179
E-mail:	info@patria-direct.cz
Internet:	www.patria-direct.cz

Indicator		2018	2017
Profit for the year after tax (Patria group)*	CZKm	29	12
Number of orders realized through personal brokers and the online trading platform WebTrader (Patria Finance)	ca.	137,300	124,100
Number of clients (Patria Finance)	ca.	27,000	25,000

** EU IFRS, unaudited.*

The main activity of Patria Finance is the provision of investment banking services in the areas of securities trading and the provision of information on financial and capital markets through the Internet platform www.patria.cz. Patria Finance services also include investment research, both for the CEE region and the developed markets of Western Europe and the USA.Securities trading and brokerage is offered through the Internet portal www.patria-direct.cz.

In 2018, securities trading focused dominantly on stock markets. Patria Finance, serves more than 27,000 clients with the volume of AUM exceeding CZK 38 bn.

ČSOB Asset Management, a.s., investment company

Date of establishment:	3. 7. 1998	
Business activities:	Collective and individual portfolio management as per license by the CNB	
Identification number:	25677888	
Registered capital:	CZK 499,000 ths	
Shareholders:	59.92%	KBC Asset Management Participations, SA
	40.08%	ČSOB

ČSOB Asset Management

Contact

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Internet:	www.csobam.cz

Indicator		2018	2017
Total assets managed by ČSOB AM 1)	CZKm	219,515	219,861
Total assets in funds distributed by the ČSOB group 1), 2)	CZKm	105,472	106,789

Market share (according to methodology of AKAT) – total assets in funds	22,30%	22.09%

1) According to methodology of Czech Capital Market Association (AKAT); total statistic including funds and asset management.
2) Local and foreign funds distributed by the ČSOB group.

ČSOB AM provides to its clients investment services of asset management, collective investment services, including the management of local mutual funds and the distribution of the KBC group's funds in the Czech Republic and is one of the leading companies on the Czech market. ČSOB AM also participates in product development for the entire ČSOB group. ČSOB AM offers services to clients via ČSOB branches, outlets of the Czech Post network, PSB financial centers and Patria Finance.

In 2018 ČSOB AM launched on the market more than 20 mostly structured funds for both retail and private banking clients. Apart from many thematic funds focused, amongst others, on sport or health care and pharmacy, ČSOB AM introduced in October 2018 new short term bond fund ČSOB Premiéra that achieved the highest collected volume in subscription period in company's history. Furthermore, for year 2018 ČSOB was awarded prestigious award Europe Structured Products and Derivatives Awards for the best distribution and performance of the structured products in the Czech Republic.

ČSOB Penzijní společnost, a. s., a member of the ČSOB group

Date of establishment:	26. 10. 1994*
Business activities:	Activities related to the pension savings
Identification number:	61859265
Registered capital:	CZK 300,000 ths
Shareholders:	100% ČSOB

Contact

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Internet:	www.csob-penze.cz

* Date of establishment of ČSOB PF Stabilita. ČSOB PS was incorporated on 1 January 2013 through transformation of ČSOB PF Stabilita (the Transformed fund).

Indicator		2018	2017
Funds registered in favour of participants of the Transformed fund Stabilita	CZKm	47,476	44,909
Participant funds in participation funds	CZKm	6,093	4,501
Profit for the year after tax*	CZKm	136	132

** EU IFRS, unaudited.*

Customers	ca.	638,000	631,000

Pension savings perceived as a basic savings product for each of us. The aim of ČSOB Penzijní společnost is to create responsible clients and pension savings makes clients responsible. Clients are offered simple and effective solutions that help in arranging pension savings and its use, on-line way included.

Company is one of market leaders in area of pension savings for children, with market share exceeding 26%.

In 2018, the company had 638,000 clients who have entrusted it with CZK 53.5 bn.

ČSOB Pojišťovna, a. s., a member of the ČSOB holding

Date of establishment: 17. 4. 1992

Business activities: Life and non-life insurance

Identification number: 45534306

Registered capital: CZK 2,796,248 ths

Shareholders:

Registered capital	99.76%	KBC Insurance
	0.24%	ČSOB
Voting rights	60%	KBC Insurance
	40%	ČSOB

Contact

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Telephone:	+420 467 007 111 +420 800 100 777
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Internet:	www.csobpoj.cz

Indicator		2018	2017
Total assets*	CZKm	46,195	44,170
Total equity*	CZKm	4,157	4,460
Profit for the year after tax*	CZKm	904	859
Gross written premium life insurance	CZKm	6,672	6,852
Gross written premium non-life insurance	CZKm	6,685	5,922

** EU IFRS, audited.*

Branches		98	97
Customers, comprising individuals and business entities, including small and medium-sized businesses, as well as large corporations	ca.	1,232,000	1,184,000

ČSOB Pojišťovna is a universal insurance company providing a broad range of life and non-life insurance products for both individuals and companies. Insurance products are mainly distributed through tied agents, brokers and the ČSOB group's branches.

In 2018, ČSOB Pojišťovna posted a net profit of CZK 904 m mainly thanks to good business results. Gross written premium reached CZK 13.4 bn. Market share increased by 0.3 percentage point to 7.8% in 2018.

ČSOB Leasing, a.s.

Date of establishment:	31. 10. 1995
Business activities:	Financial services
Identification number:	63998980
Registered capital:	CZK 3,050,000 ths
Shareholders:	100% ČSOB

ČSOB Leasing

Contact

Address:	Na Pankráci 310/60 140 00 Praha 4
Telephone:	+420 222 012 111
E-mail:	info@csobleasing.cz
Internet:	www.csobleasing.cz

Indicator		2018	2017
Total assets [1]	CZKm	44,067	45,538
Amounts due from clients (gross) [1]	CZKm	40,094	40,161
Total equity [1]	CZKm	8,336	9,235
Profit for the year after tax [1]	CZKm	(187)	380
Volume of new leasing business [2]	CZKm	15,861	19,694

1) EU IFRS, unaudited.
2) According to methodology of Czech Leasing and Finance Association (ČLFA); Initial investment

Branches	7	7

ČSOB Leasing belongs to the largest asset finance providers in the Czech Republic. Its services are provided to wide spectrum of clients from large companies to individual consumers. Its products are distributed directly or via distribution channels of parent company ČSOB or third parties.

ČSOB Leasing is also nonbanking provider of tied consumer loan.

In 2018 ČSOB Leasing was awarded by Golden Crown for ČSOB Autopůjčka (Car loan), extended its services with car rental and within the framework of its ancillary services can provide subsidize advisory besides an asset investments.

ČSOB Factoring, a.s.

Date of establishment:	16. 7. 1992
Business activities:	Factoring
Identification number:	45794278
Registered capital:	CZK 70,800 ths
Shareholders:	100% ČSOB

Contact

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Telephone:	+420 267 184 805
Fax:	+420 267 184 822
E-mail:	info@csobfactoring.cz
Internet:	www.csobfactoring.cz

Indicator		2018	2017
Total assets*	CZKm	6,395	6,355
Amounts due from clients (gross)*	CZKm	6,688	6,661
Total equity*	CZKm	1,183	1,061
Profit for the year after tax*	CZKm	114	98
Turnover of receivables	CZKm	40,361	37,599

** EU IFRS, unaudited.*

ČSOB Factoring has been providing factoring services to its clients for more than twenty five years. Thanks to the quality of service the market share of the company has exceeded 23%.

In 2018, the volume of receivables assigned to ČSOB Factoring increased by 7 % and reached CZK 40.4 bn.

ČSOB Factoring is one of the founding members of the Association of Factoring Companies in the Czech Republic and a member of the Czech Leasing and Financial Association.

Companies of the ČSOB Group

(as at 31 December 2018)

Legal Entity				Share of ČSOB in:						
ID No.	Business Name of Legal Entity Business Activities	Registered Office	Registered Capital	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 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
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	293,391,755	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, Lomnického 1705/9	1,000,000	100,00	100,00	none	100,00	none	Y
28188667	Ušetřeno.cz Finanční služby, a.s. arranging loans	Praha 4, Lomnického 1705/9	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

Legal Entity				Share of ČSOB in:					
ID No.	Business Name of Legal Entity Business Activities	Registered Office	Registered Capital	Registered Capital			Voting Rights	Indirect Share of ČSOB via	Cons. EU IFRS
				Total	Direct	Indirect			
			CZK	%	%	%	%		Y/N
Others									
26199696	CBCB – Czech Banking Credit Bureau, a.s. Software development, IT advisory, data processing, network administration databank services	Praha 4, Štětkova 1638/18	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
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
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%.

Changes as at 31. 12. 2018

SousedeCZ, a.s. (IČ 02623111) – sale of company as of 4. 7. 2018

STRM Delta, a.s. (IČ 24776815) – merger with company Pardubická Rozvojová, a.s. (retroactively as of 1. 1. 2018)

IP Exit, a.s. (IČ 45316619) – disolution of the company and deletion from Commercial Register as of 24. 11. 2018.

ČSOB Leasing pojišťovací makléř, s.r.o. (IČ 27151221) - change of commercial name to ČSOB Pojišťovací makléř, s.r.o. (as of 1. 10. 2018)

CBCB – Czech Banking Credit Bureau, a.s. (IČ 26199696) – change of registered seat of the company as of 1. 10. 2018

CORPORATE GOVERNANCE

Managing and Supervisory Bodies

Corporate governance and administration of Československá obchodní banka, a. s. are based on the OECD principles and, while executing them, experience collected by the KBC Group, is extensively exploited. ČSOB professes principles formulated in the Code of Governance and seeks to observe them consistently in its day-to-day activities.

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 in 2018

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
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 [5]
Jiří Vévoda	Member	8. 12. 2010	9. 12. 2015 [3]	Senior Executive Officer, Finance 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 [6]
Hélène Goessaert	Member	1. 3. 2018	1. 3. 2018	Senior Executive Officer, Group Risk Management

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 2018, members of ČSOB's Top Management were identical with the members of the Board of Directors of ČSOB.
5) Senior Executive Officer of Retail until 28 February 2018.
6) Senior Executive Officer of Specialized Banking and Insurance until 28 February 2018.

For a description of areas of responsibility managed by ČSOB's Board of Directors (Top For a description of areas of responsibility managed by ČSOB's Board of Directors (Top Management) as at 31 December 2018 please refer to ČSOB's Organisation Chart, page 67 of this Annual Report. Descriptions of work and decision-making processes are given in Corporate Governance chapter of this Annual Report, page 61.

The Supervisory Board in 2018

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	2. 6. 2018 [3]	–
Christine Van Rijsseghem	Member	1. 6. 2014	2. 6. 2018 [3]	–
Willem Hueting	Member	1. 7. 2016	1. 7. 2016	31. 12. 2018
Marc Wittemans	Member	1. 10. 2016	1. 10. 2016	31. 8. 2018
Petr Šobotník	Member	1. 2. 2017	1. 2. 2017	31. 12. 2018
Willy Kiekens	Member	1. 9. 2018	1. 9. 2018	–

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 in 2018

First Name and Surname	Position		Membership since	Termination of Membership
Petr Šobotník	Chairman [1]; Independent member	Member of ČSOB's Supervisory Board (since 1. 2. 2017)	1. 2. 2011	–
Ladislav Mejzlík	Independent member	Not a member of any ČSOB body	27. 1. 2016	–
Willem Hueting	Member	Member of ČSOB's Supervisory Board (since 1. 7. 2016)	1. 7. 2016	–

1) Chairman since 7 April 2016.

Changes in ČSOB's Managing and Supervisory Bodies in 2018

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

On 27 February 2018

- Tomáš Kořínek was removed from ČSOB's Board of Directors with effect from 28 February 2018.
- Hélène Goessaert was elected a member of ČSOB's Board of Directors with effect from 1 March 2018.

On 27 August 2018

- Marc Wittemans was removed from ČSOB's Supervisory Board with effect from 31 August 2018.
- Willy Kiekens was elected a member of ČSOB's Supervisory Board with effect from 1 September 2018.

On 30 October 2018

- Marek Ditz was removed from ČSOB's Board of Directors with effect from 31 October 2018.

On 20 December 2018

- Willem Hueting was removed from ČSOB's Supervisory Board with effect from 31 December 2018.
- Petr Šobotník was removed from ČSOB's Supervisory Board with effect from 31 December 2018.

Changes in ČSOB's Managing and Supervisory Bodies in 2019

On 23 October 2018

- Ladislava Spielbergerová was elected a member of ČSOB's Supervisory Board representing the employees with effect from 1 January 2019.
- Štěpán Stránský was elected a member of ČSOB's Supervisory Board representing the employees with effect from 1 January 2019.

The Composition of ČSOB's Board of Directors since 1 March 2019:

John Arthur Hollows (Chairman), Petr Hutla, Petr Knapp, Jiří Vévoda, Hélène Goessaert, Marcela Suchánková, Jan Sadil.

For a description of areas of responsibility managed by ČSOB's Board of Directors (Top Management) since 1 March 2019 please refer to ČSOB's Organization Chart, page 68 of this Annual Report. Abbreviated curriculum vitaes of the members of the Board of Directors can be found on page 51.

Conflict of Interests

under Commission Regulation (EC) No 809/2004

ČSOB hereby declares that it is not aware of any potential conflict of interests between any of the duties of any member of the Board of Directors, ČSOB's Top Management and the Supervisory Board to ČSOB and their private interests and / or other duties.

ČSOB does not regard entering into banking transactions by the members of the Board of Directors of ČSOB, the members of ČSOB's Top Management and the members of the Supervisory Board of ČSOB under standard terms as a conflict of interests between the duties of these persons to ČSOB and their private interests and / or other duties.

The Business Address

of members of the Board of Directors, ČSOB's Top Management and the Supervisory Board is:

Československá obchodní banka, a. s.
Radlická 333/150
150 57 Praha 5
Czech Republic

INTRODUCING MEMBERS OF MANAGING AND SUPERVISORY BODIES

ČSOB's Board of Directors in 2018

JOHN ARTHUR HOLLOWS

Born on 12 April 1956

Chairman of the Board of Directors

He graduated from the Sidney Sussex College at the University in Cambridge with a degree in economics and law.

Upon graduation Mr. Hollows has followed a career in banking. He gained experience in the area of financial services at Barclays Bank in London and Taipei and at KBC in Hong Kong, Shanghai and Singapore. He held senior managerial positions in credit departments and in areas such as export finance, corporate and investment banking and treasury. He also focused on cost management. From August 2003 to April 2006, he was the Chief Executive Officer of K&H Bank (KBC Group) in Hungary. Between 2006 and 2009, Mr. Hollows served as the Senior General Manager of the Central and Eastern Europe Business Unit of the KBC Group. From September 2009 to April 2010, he was the CEO of KBC Group's Central and Eastern Europe and Russia Business Unit. Since September 2009 he has been a member of the Executive Committee of the KBC Group. From May 2010 to April 2014, he served as the Chief Risk Officer of the KBC Group. Between April 2006 and June 2009, Mr. Hollows was a member of ČSOB's Supervisory Board and the Chairman of its Audit Committee. Since 1 May 2014, he has been a member of the Board of Directors of ČSOB (and its Chairman since 2 May 2014). Since 1 May 2014, Mr. Hollows has been the member of the Executive Committee of the KBC Group responsible for the Business Unit Czech Republic.

Membership in bodies of other companies:
- Member of the Executive Committee of the KBC Group (Belgium)
- Member of the Board of Directors and member of the Executive Committee of KBC Bank (Belgium) and KBC Insurance (Belgium)

PETR KNAPP

Born on 7 May 1956

Member of the Board of Directors

Relationship Services

He graduated from the University of Economics, Prague.

Mr. Knapp originally joined ČSOB in 1979. He worked in Teplotechna Praha as Deputy Managing Director from 1984 and later as Director of Foreign Operations. He returned to ČSOB in 1991 and was appointed Director of ČSOB Corporate Finance Department and later Director of the Credits Section. He has been a member of the Board of Directors and Senior Executive Officer of ČSOB since 1996. Between March 2005 and April 2014, Mr. Knapp served as a member of ČSOB's Top Management as the Senior Executive Officer, Corporate Banking and Financial Markets. Since 1 May 2014, he has been a member of ČSOB's Top Management responsible for Relationship Services.

Membership in bodies of other companies:
- Chairman of the Supervisory Board in: ČSOB Factoring (CZ) and ČSOB Leasing (CZ)
- Member of the Supervisory Board in: Patria Finance (CZ) and Patria Corporate Finance (CZ)
- Member of the Board of Directors of the Prague Economic Chamber (CZ)
- Member of the Board of Trustees of the University of Chemistry and Technology, Prague (CZ)
- Member of the Committee of UNIJAZZ – Association for the support of cultural activities
- Member of the Board of Trustees of the Buďánka, z. ú.

PETR HUTLA

Born on 24 August 1959

Member of the Board of Directors

Credits Management

He graduated from the Czech Technical University Prague, Faculty of Electrical Engineering.

Mr. Hutla worked for Tesla Pardubice between 1983 and 1993, as the Economic Associate Director of Tesla Pardubice – RSD from 1991. He has been working for ČSOB since 1993: first as the branch manager in Pardubice and the main branch manager in Hradec Králové, then as the main branch manager in Prague 1. Mr. Hutla then served as Senior Director, Corporate and Institutional Banking (between 2000 and 2005). He has worked as Senior Executive Officer since 2005: Personnel and Strategic Management (between 2005 and 2006), Human Resources and Transformation (between 2006 and 15 November 2009), Distribution (between 16 November 2009 and 31 December 2012). Since 27 February 2008, Mr. Hutla has been a member of the Board of Directors. From 14 January 2009 to 31 December 2011, he was also the head of KBC Global Services Czech Branch, organizational unit. Between January 2013 and June 2014, Mr. Hutla was a member of ČSOB's Top Management as the Senior Executive Officer, Specialized Banking and Insurance. From 1 July 2014 to 9 March 2015, he was a member of ČSOB's Top Management responsible for Convenient Retail Services and from 1 October 2014 to 9 March 2015, also responsible for Change Zone; Mr. Hutla was responsible for Retail (after the merger of these two management areas) from March 2015 to January 2018. As of February 2018 Mr. Hutla has been in charge of Credits Management.

Membership in bodies of other companies:
- Member of the Supervisory Board in ČSOB Leasing (CZ)
- Member of the Board of Directors in: the Czech Transplant Foundation (CZ) and the Nadační fond Srdce (endowment fund; CZ)

JIŘÍ VÉVODA

Born on 4 February 1977

Member of the Board of Directors

Finance Management

He graduated from the Joint European Studies Programme at the Staffordshire University and the University of Economics, Prague.

From 2000 to 2004, Mr. Vévoda worked for GE Capital in the Czech Republic, Ireland, Finland and Sweden. From 2004 to 2010, he worked for McKinsey & Company. Since 1 May 2010, he has been a member of ČSOB's Top Management. As of 8 December 2010, he has become a member of ČSOB's Board of Directors. Firstly Mr. Vévoda acted as the Senior Executive Officer responsible for HR and Transformation and afterwards he was responsible for Products and Staff Functions. Between January 2013 and June 2014, Mr. Vévoda acted as the Chief Risk Officer. Since 1 July 2014, he has been appointed as the Chief Finance Officer.

Membership in bodies of other companies:
- Member of the Supervisory Board in: Hypoteční banka (CZ), ČSOB Asset Management (CZ), ČMSS (CZ)
- Chairman of the Supervisory Board in: Patria Finance (CZ), Patria Corporate Finance (CZ)

HÉLÈNE GOESSAERT
Born on 3 April 1965

Member of the Board of Directors

Group Risk Management

Ms. Goessaert graduated from Ghent University, Belgium and after gaining that Post graduate degree in Financial Sciences, Vlerick School for Management.

In March 2018 Hélène Goessaert joined to ČSOB from the Belgian headquarters of KBC. She has worked at KBC since 1990. In 2002, she assumed the position of the Head of Market Risks, where she was responsible for the monitoring of the worldwide market risk in KBC Group. From 2007, she worked as the General Manager Market Risks. In that position, she led the Market risk and Modeling team. As of 2010, she became responsible for the risk management strategy for trading and corporate banking activities. In 2011, she became a member of the Management Committee, responsible for the financial reporting and performance measurement. In the same year, she also became a member of the Finance Committee of KBC Group, deciding on the strategy for the Finance function of the Group. Since 2015, she hold the post of the Chief Data Manager, responsible for the Data and Reporting Architecture of KBC Group from 2015 to 28 February 2018.

Membership in bodies of other companies:
- Member of the Audit Committee in: Hypoteční banka (CZ), ČMSS (CZ) and ČSOB Pojišťovna (CZ)
- Member of Supervisory Board in: ČSOB Penzijní společnost (CZ) and ČSOB Leasing (CZ)

MARCELA SUCHÁNKOVÁ
Born on 3 January 1971

Member of the Board of Directors

People and Communication

She graduated from University of Economics, Prague and has an MBA diploma from US Business School Prague (Rochester Institute of Technology).

Ms. Suchánková started her professional career in consulting and public relationship area. She joined ČSOB Communication department in 1997. In 1999, she moved to retail banking, where she managed various projects and departments (product development, direct marketing, savings and investments). From 2013 to 2015, Ms. Suchánková was a member of ČSOB Pension Company Board of Directors responsible for business and later became the Chairman of the Board and CEO of ČSOB Pension Company. From 2015 to 2016, she hold ČSOB Human Resources General Manager position. As of 1 March 2017, she has been appointed as a member of ČSOB's Board of Directors responsible area of People and Communication division.

Membership in bodies of other companies:
- Chairman of the Supervisory Board in ČSOB Penzijní společnost
- Member of the Supervisory Board in Hypoteční banka

JAN SADIL
Born on 16 February 1969

Member of the Board of Directors

Retail

He graduated from the Civil Engineering Faculty of the Czech Technical University in Prague and University of Economics and the Institute of Forensic Engineering of University of Technology in Brno (postgraduate studies).

Mr. Sadil started his banking career in Komerční banka, a.s. in 1995. In 2000, he was appointed as the manager responsible for private individuals loans division. In 2001, he joined Českomoravská hypoteční banka, a.s. (currently Hypoteční banka, a.s.) as a member of the Board of Directors responsible for sales and marketing. Since the end of 2003 till March 2017, he hold the position of Chairman of the Board of Directors and the CEO of Hypoteční banka. As of 1 March 2017, he has been appointed as a member of ČSOB's Board of Directors responsible for Specialised Banking and Insurance. Since 1 February 2018 he has been responsible for Retail.

Membership in bodies of other companies:
- Member of the Supervisory Board in: Centrum Paraple, o.p.s. (CZ)
- Chairman of the Supervisory Board in: ČSOB Pojišťovna, a.s. (CZ), Hypoteční banka (CZ), Via Cordata, o.p.s (CZ), Association for Real Estate Market Development (CZ)

ČSOB's Supervisory Board

PAVEL KAVÁNEK

Born on 8 December 1948

Chairman of the Supervisory Board

He graduated from the University of Economics, Prague and The Pew Economic Freedom Fellowship at Georgetown University.

Between 1972 and April 2014, Mr. Kavánek worked for ČSOB. From 1990 to April 2014, he was a member of the Board of Directors of ČSOB. Between 1993 and 30 April 2014, he served as the Chairman of the Board of Directors of ČSOB and the CEO. From 1 January 2013 to 30 April 2014, Mr. Kavánek was a member of the Executive Committee of the KBC Group responsible for the Business Unit Czech Republic. Since September 2015, Mr. Kavánek has been an investor and a non-executive director in Decipher Lab Ltd. (GB).

Since 1 May 2014, he has been a member of ČSOB's Supervisory Board (and its Chairman since 30 June 2014).

From 1 June 2014 to 27 January 2016, he was a member of ČSOB's Audit Committee.

Membership in bodies of other companies:
- President of the Executive Board of the Czech Banking Association (CZ)
- Member of the Board of Trustees of the Aspen Institute Prague (CZ)

FRANKY DEPICKERE

Born on 26 January 1959

Member of the Supervisory Board

Mr. Depickere studied commercial and financial sciences at the University of Antwerp (UFSIA; Belgium), and obtained a Master's degree in company financial management from the VLEKHO Business School (Belgium).

Following a short period at Gemeentekrediet bank, in 1982 Mr. Depickere joined the CERA group, where he spent more than 17 years. Among other things he was an internal audit inspector at CERA Bank, financial director of CERA Lease Factors Autolease, chairman of the board of Nédée België-Luxemburg, a subsidiary of CERA Bank, a member of the Management Committee of CERA Investment Bank, and finally a Managing Director at KBC Securities. In 1999 he became managing director and chairman of the Management Committee of F. van Lanschot Bankiers België, as well as group director of F. van Lanschot Bankiers Nederland. From 2005 he was also a member of the Strategic Committee of F. van Lanschot Bankiers Nederland. Since 15 September 2006, he has been a member of Cera's Day-to-Day Management Committee and Managing Director of Cera Société de gestion and Almancora Société de gestion. Mr. Depickere is a member of the Board of Directors of the KBC Group (a non-executive director).

Since 1 June 2014, he has been a member of ČSOB's Supervisory Board.

Membership in bodies of other companies:
- Member of the Board of Directors (a non-executive director) in: KBC Group (Belgium), KBC Bank (Belgium), KBC Assurances (Belgium) and CBC Banque (Belgium)
- Chairman of the Risk and Compliance Committee in: KBC Group (Belgium), KBC Bank (Belgium) and KBC Assurances (Belgium)
- Member of the Nomination Committee of the KBC Group (Belgium)
- Member of the Nomination Committee and the Remuneration Committee of CBC Banque (Belgium)
- Vice-Chairman of the Supervisory Board and Chairman of the Audit Committee of Euro Pool System International (the Netherlands)
- Chairman of the Board of Directors in: the Flanders Business School (Belgium) and the International Raiffeisen Union (Germany)
- Member of the Supervisory Board of University of Leuven – KULAK (Belgium)
- Member of the Supervisory Board of United Bulgarian Bank, AD,Sofia, Bulgaria (since December 27th 2018).

CHRISTINE VAN RIJSSEGHEM

Born on 24 October 1962

Member of the Supervisory Board

She graduated in 1985 from the Faculty of Law at the University of Ghent (Belgium). Subsequently she completed an MBA in Financial Sciences at Vlerick Management School in Ghent (Belgium).

Ms. Van Rijsseghem started her career at KBC (formerly Kredietbank) in 1987 at the Central Foreign Entities Department. Initially she was responsible for risk management and controlling and international acquisition strategy, and later on became head of that department. In 1994 she was appointed Head of the Credit Department of KBC's Irish subsidiary, Irish Intercontinental Bank. In 1996, she became CEO of KBC France and in 1999 of KBC's London branch. From 2000 to 2003, she was Senior General Manager of the Securities & Derivatives Processing Directorate of KBC Group. From 2003 to 30 April 2014, she was Senior General Manager of KBC Group Finance. Since 1 May 2014, Ms. Van Rijsseghem has been a member of the Executive Committee of the KBC Group and KBC Group Chief Risk Officer.

Since 1 June 2014, she has been a member of ČSOB's Supervisory Board.

Ms. Van Rijsseghem is also a chairwoman of the Risk and Compliance Committee and chairwoman of the Nomination and Remuneration Committee.

Membership in bodies of other companies:
- Member of the Executive Committee of the KBC Group (Belgium)
- Chairman of the Risk and Compliance Committee and member of the Audit Committee of ČSOB (SK)
- Member of the Board of Directors and Chairman of the Risk Committee of K&H Bank (Hungary)
- Member of the Supervisory Board, Chairman of the Risk and Compliance Committee and member of the Audit Committee of CIBANK (Bulgaria)
- Member of the Supervisory Board, Chairman of the Risk and Compliance Committee and member of the Audit Committee of UBB (Bulgaria)
- Member of the Board of Directors, Chairman of the Risk Committee and member of the Remuneration and Nomination Committee of Bank Ireland (Ireland)

WILLY KIEKENS

Born on 17 July 1952

Member of the Supervisory Board

Mr. Kiekens graduated from Catholic University of Leuven, Belgium where he studied law (graduated 1975), notarial sciences (1976) and economics (1978).

Mr. Kiekens started his professional career as a legal counsel for National Bank of Belgium in Brussels (1981-1984). He held also a position of professor of financial law and financial operations at VLEKHO Business School in Brussels (1987-1994). From 1994 to 2016 he acted as member of the Executive Board of the International Monetary Fund (IMF), where he held a position of executive director representing 10 countries including Belgium, Czech Republic and other European countries (1994-2012) and later of first alternate executive director representing 15 countries including Benelux, Central and Eastern European countries, Caucasus countries and Israel (2012-2016). In his positions he participated in decision-making on all major aspects of the functioning of the IMF, international economic cooperation and the international financial system. He also acted as an advisor to his constituency countries' governments, central banks and prudential supervisors on economic policies and financial stability, as a chair of several IMF Board committees, including the Ethics Committee of Interpretation of Legal Issues, and the Committee on Administrative Matters, and as a longstanding member of the IMF Pension Committee. From 2016 to 2017 he acted as a special advisor for Global Practice Finance and Markets of Worldbank in Washington, DC, where he provided technical expertise in organizing and conductiong IMF/Worldbank Financial Sector Assesments and advancing financial inclusion in emerging and developing countries.

Since September 2018, Mr. Kiekens has been a member of ČSOB's Supervisory Board.

Membership in bodies of other companies:
- Chair Executive Committee Kamerorkest Brugge – Chamber Orchestra Bruges, Belgium.

WILLEM HUETING

Born on 16 February 1962

Member of the Supervisory Board until 31 December 2018 (also member of the Audit Committee)

He obtained certificates in Organization and Marketing at the Open University Zwolle in the Netherlands.

Mr. Hueting has more than 30 years experiences in banking and insurance industry. He gained his experience in ABN AMRO in life insurance, investment funds, private banking, marketing, product and project management where he held several positions in The Netherlands and in Hungary.

From 2001 to 2006, he was appointed as the member of the Board of Directors in Raiffeisen International Bank Czech Republic, responsible for distribution network, marketing and quality, central project office and the overall reorganisation programme. Mr. Hueting joined the KBC Group in 2007 as a member of the Board KBC Consumer Finance International. After this he worked also as a Chief Executive Officer in ČSOB Poisťovňa (SK) and CEO Consumer Finance International KBC Group. Since May 2016, Mr. Hueting has been appointed as the Senior General Manager Business Unit International Markets in KBC Group. From 1 July 2016 to 31 December 2018, he was a Member of ČSOB's Supervisory Board. From 1 July 2016, he has been Member of ČSOB's Audit Committee, Risk and Compliance Committee (Deputy Chairman of the Risk and Compliance Committee) and Nomination and Remuneration Committee.

Membership in bodies of other companies:
- Member of the Board of Directors; Member of the Risk and Compliance Committee; Member of the Nomination and Remuneration Committee in K&H Bank (Hungary)
- Member of the Supervisory Board; Chairman of the Audit Committee; Member of the Risk and Compliance Committee; Member of the Nomination and Remuneration Committee in UBB (Bulgaria)
- Member of the Board of Directors; Chairman of the Audit Committee; Member of the Risk and Compliance Committee (Deputy Chairman of the Risk and Compliance Committee); Member of the Corporate Governance Committee; Member of the Non Equity Capital and Debt and Related Party Lending Committee in KBC Bank Ireland (Ireland)

PETR ŠOBOTNÍK

Born on 16 May 1954

Member of the Supervisory Board until 31 December 2018 (also member of the Audit Committee)

Member of the Supervisory Board until 31 December 2018 (also member of the Audit Committee)

Mr. Šobotník graduated from the University of Economics, Prague.

Between 1983 and 1991, he acted as a chief accountant in corporations as well as in governmental bodies. Petr joined Coopers & Lybrand in 1991, was promoted to Partnership in 1995 and worked in various top management assurance positions in both Coopers & Lybrand and PricewaterhouseCoopers till 2010. From 2007 to 2014, he was the President of the Czech Chamber of Auditors. At present, Mr. Šobotník is an independent consultant (Šobotník & Partners).

Since 1 February 2011, he has been an independent member of ČSOB's Audit Committee (and its Chairman since 7 April 2016).

From 1 February 2017 to 31 December 2018, he has been a member of ČSOB's Supervisory Board.

Membership in bodies of other companies:
- Chairman of the Audit Committees of Letiště Praha (CZ), ČEPRO (CZ), Severomoravské vodovody a kanalizace (CZ) and Kofola ČeskoSlovensko, (CZ)
- Member of the Audit Committee of ČSOB Penzijní společnost (CZ)
- Member of Letiště Praha's Supervisory Board (CZ)

ČSOB's Audit Committee

LADISLAV MEJZLÍK
Born on 1 May 1961

Independent member of the Audit Committee

He graduated from the University of Economics in Prague (UEP).

Since 1984 Mr. Mejzlík is working at the Department of Financial Accounting (UEP), where he was initially assistant, then deputy to the head of the department. In 2006 he was appointed as Head of Department of Financial Accounting and Auditing. In 2014 he was elected as the dean of the Faculty of Finance and Accounting. Mr. Mejzlík was licensed as an auditor in 1993 and he was elected as a member of the Executive Board of Chamber of Auditors of the Czech Republic (CA CR) in 2007. In the years 2010–2014 he was elected twice as the First Vice President of CA CR.

Mr. Mejzlík is representing the Faculty of Finance and Accounting of UEP in the National Accounting Council since 2004, and since 2004 he was elected twice as the National Representative for the Czech Republic in the European Accounting Association Board of Representatives. Mr. Mejzlík is professionally focused on the use of information and communication technology in accounting and auditing, and on the regulation and harmonization of accounting internationally, especially on the implementation of IFRS.

Since 27 January 2016, he has been an independent member of ČSOB's Audit Committee.

Membership in bodies of other companies:
- Chairman of the Audit Committee of ČSOB Insurance, member of the Supervisory Board and Chairman of the Audit Committee of ČSOB Slovakia (since 2016)
- Member of the scientific committees at the UEP, the Faculty of Finance of UEP and the Faculty of Economic Informatics of Economic University in Bratislava
- Licenced statutory auditor and member of the Chamber of Auditors of the Czech Republic (since 1993)
- Member of the European Accounting Association (since 1994) and the American Accounting Association (since 2005)

Termination of Membership in ČSOB's Managing and Supervisory Bodies in 2018

MAREK DITZ

Born on 16 September 1972

Member of the Board of Directors

Transformation

He graduated from the University of Economics, Prague and Swiss Banking School, Zurich.

Mr. Ditz has been working for ČSOB since 1994. He was appointed the Manager of the Specialised and Institutional Banking unit in 2005. He was appointed the Executive director of Corporate and Institutional Banking in 2010, where he was in charge of the distribution network of 10 regional branches providing service to corporate clients as well as for specialised financing, foreign trade and institutional banking which also caters to non-banking financial institutions, banks and selected public sector entities. Since 1 January 2013, Mr. Ditz has been a member of the Board of Directors. Between January 2013 and April 2014, he served as a member of ČSOB's Top Management as the Senior Executive Officer, Customer Relationships, and then as the Senior Executive Officer responsible for Investments & Markets (until 30 June 2014). From 1 July 2014 to 9 March 2015, he was a member of ČSOB's Top Management responsible for Insurance, Markets & Investments. From 10 March 2015 to 28 February 2017, he was responsible for Specialised Banking and Insurance. Since 1 March 2017, he has been responsible for Transformation area.

Marek Ditz's membership in the Board of Directors terminated on 31 October 2018.

TOMÁŠ KOŘÍNEK

Born on 10 June 1967

Member of the Board of Directors

Group Risk Management

He graduated from the Czech Technical University Prague, Faculty of Electrical Engineering (Economy and Management).

Upon his graduation Mr. Kořínek held senior management positions at several financial institutions in the Czech Republic. Before joining ČSOB, he worked as a member of Volksbank CZ Board of Directors responsible for risk management, finance and operations. He has been working for ČSOB since April 2009; between May 2010 and October 2013, as a Director of Risk Management Department and from November 2013 to 31 December 2014, as the Executive Director responsible for Group Risk Management. Mr. Kořínek was a member of ČSOB's Board of Directors responsible for Group Risk Management (CRO), Compliance and Legal from 1 January 2015 to 28 February 2018. As of 1 March 2018 Mr. Kořínek has been appointed as CEO and Chairman of the Board of Directors in ČMSS.

Membership in bodies of other companies:
- Chairman of the Audit Committee of Hypoteční banka (CZ)
- Member of the Audit Committee in ČMSS (CZ) and ČSOB Pojišťovna (CZ)
- Member of Supervisory Board in ČSOB Pojišťovna (CZ)

Tomáš Kořínek's membership in the Board of Directors terminated on 28 February 2018.

MARC WITTEMANS

Born on 8 February 1957

Member of the Supervisory Board

Mr. Wittemans graduated in 1980 from Catholic University of Leuven, Belgium (Applied Economics). After he graduated also from Institute of Fiscal Sciences Brussels (Taxation; 1981) and Institute of Actuarial Sciences at Catholic University of Leuven, Belgium (1983). He continued his education via various trainings and seminars focused on finance, banking, insurance, accounting, tax and legal topics organized mainly Catholic University of Louvain.

Mr. Wittemans started his professional career as an internal auditor in the holding company MRBB Group. He held several consulting and managerial positions in companies of MRBB, Acerta and KBC Group mainly in areas of finance, tax, audit, legal and governance. From 1982 to 2009 he worked also as a Professor Auditing in the academic master programme at Vlekho, associated with the Catholic University of Leuven. As of 2008, he has been appointed as the CEO of MRBB.

Since October 2016, Mr. Wittemans has been a member of ČSOB's Supervisory Board.

Membership in bodies of other companies:

- Member of the Board of Directors in: KBC Group, KBC Bank and KBC Insurance, Acerta Group, SBB Group (Belgium)
- Chairman of the Audit Committee in: KBC Group, KBC Bank and KBC Insurance (Belgium)
- Member of the Risk and Compliance Committee of KBC Group (Belgium)
- Member of the Board and the Audit Committee and Member of the Strategic Committee of Acerta Group (Belgium)
- Member of the Board and the Audit Committee of SBB Group (Belgium)
- Member of the Investment Committee of MRBB and of Agri Investment Fund (Belgium)
- Member of the Board of AVEVE (Belgium)

Marc Wittemans's membership in the Supervisory Board terminated on 31 August 2018.

New members in ČSOB's Managing and Supervisory Bodies in 2019

LADISLAVA SPIELBERGEROVÁ

Born on 6 November 1974

Member of the Supervisory Board

Mrs. Spielbergerová graduated in 2002 from BI VŠ Prague (bachelor's degree Banking management). She has been working for ČSOB since 1995, first as an investment and credit specialist (Trutnov branch), and later as a premium banker in Dvůr Králové branch. In years 2010 – 2014 she was a member of the Supervisory Board of ČSOB as an employee representative. She is a chairwoman of the Modern trade unions organized within ČSOB.

Other professional memberships:
- member of the bureau and vice-president of Trade Union of Employees in Financial and Insurance Sector (Odborový svaz pracovníků peněžnictví a pojišťovnictví)
- member of the executive committee of European Works Council of KBC
- member of UNI Global committee

Member of the Supervisory Board since 1 January 2019.

ŠTĚPÁN STRÁNSKÝ

Born on 4 December 1978

Member of the Supervisory Board

Mr. Stránský graduated from the Metropolitan university Prague (International Relations and European Studies and European Union) and from Karlovy Vary College (Business and Law). He has been working for ČSOB for more than 20 years (since 1998). He started his career as an investment and credit advisor in Mariánské Lázně branch and moved to Prague's headquarter of ČSOB in 2007. At first, he was an authorizing officer of credits for individuals, then he rotated to Credit frauds prevention department, which he managed for several years and is still part of it. He runs an international team of credit frauds prevention existing within the KBC Group. He is also a representative in European Works Council within the KBC Bank & Insurance group.

Member of the Supervisory Board since 1 January 2019.

Corporate Governance Policy

Československá obchodní banka, a. s., voluntarily meets and complies with the corporate governance guidelines set out in the Corporate Governance Code based on the OECD Principles.

The **Corporate Governance Code of ČSOB**, adopted by ČSOB's Board of Directors in 2012, defines the role of key bodies and sets basic rules of the Bank's governance in compliance with the Czech law and in line with internationally accepted practice. ČSOB's Corporate Governance Code is available in the department of the CEO.

Effective as from October 2012, the **Anti-Corruption Programme Policy of ČSOB** includes the principle of zero tolerance for bribery and corrupt practices. By issuing and introducing this programme, ČSOB formalized its principles and attitudes nurtured by ČSOB on a continuous and long-term basis. Compliant with the Code of Ethics, this regulation was issued to show to both the public and our employees that corrupt practices or other unethical conduct is and will not be tolerated in ČSOB.

Československá obchodní banka, a. s., is also governed by the Guidelines on internal governance issued by the European Banking Authority (EBA).

Československá obchodní banka, a. s. 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.

General Meeting

The General Meeting of shareholders is the supreme body of ČSOB. The General Meeting is equipped with a standard scope of powers as set out in the applicable laws. Among other things, the General meeting takes decisions on matters such as changes in the composition of the ČSOB's bodies, or amendments to the Articles of Association of ČSOB, or changes in the registered capital. The General Meeting also approves financial statements.

The sole shareholder (KBC Bank NV) exercises the powers of ČSOB's General Meeting. Resolutions are always in writing; a notarial deed is required in cases stipulated by the applicable laws. Where an approval is required by the law, draft resolutions are submitted to the sole shareholder by the Board of Directors. ČSOB's Board of Directors and ČSOB's Supervisory Board are notified of resolutions adopted by the sole shareholder in writing by the delivery of a written notice.

Board of Directors

The Board of Directors of Československá obchodní banka, a. s. performs its tasks within the framework of competencies defined for the statutory body by legal regulations, the Articles of Association of ČSOB and relevant basic management documents of the company.

The members of the Board of Directors are elected by the company's General Meeting provided they comply with other requirements stipulated by the Banking Act. In compliance therewith, ČSOB's Board of Directors has a full-scale executive composition. ČSOB's shareholder and clients receive regular reports containing the required range of relevant data on the members of the Board of Directors and their professional and personal qualifications enabling them to duly execute their duties.

At the end of 2018, ČSOB's Board of Directors had seven members and worked in the following composition: John Arthur Hollows (Chairman), Petr Hutla, Petr Knapp, Jiří Vévoda, Hélène Goessaert, Marcela Suchánková and Jan Sadil.

Personnel changes in ČSOB's Board of Directors during the year 2018 are described in the chapter Managing and Supervisory Bodies.

The Board of Directors meets regularly, usually once a week, and follows a fixed agenda based on the strategic schedule of main topics and other documents of more operational nature submitted for discussion individually by the Board members. The members of the Board of Directors receive timely information and make their decisions on the basis of these duly processed documents in accordance with the rules of procedure of the Board of Directors. Discussions of the statutory body are attended by the Corporate Secretary of the Board of Directors who is responsible for preparing the meetings and taking their minutes. The Board of Directors has quorum if more than half of its members are present at the meeting. Any decision shall receive the votes of a majority of all members of the Board of Directors to be adopted.

The Board of Directors establishes expert committees to discuss specific agendas. Considering the importance of topics covered by the committees with company-wide scope of authority, a member of the Board of Directors primarily responsible for its activities usually presides over each committee. Should the responsible member of the Board of Directors be unable to take part in a committee meeting, such responsible member is substituted by a formally appointed deputy (usually another member of the Board of Directors). This approach makes it possible to achieve continuity of the consistent follow-up process focused on the committee's decision-making and to keep the Board of Directors directly informed. Depending on their roles and responsibilities, all ČSOB's units covering the subject matter are made involved in discussions and take part in committee meetings. This is why the head of such involved unit is authorized to take part and represent his / her unit in committee meetings. In his or her absence, committee meetings are attended by his or her deputy or another appointed employee unless forbidden by the applicable rule of procedure. Committee meetings are governed by the committee's rules of procedure.

Board of Directors Committees

Risk and Capital Oversight Committee (RCOC)

The Committee aims to support ČSOB's Board of Directors in the field of risk and capital management of the ČSOB group.

Chairman of the Committee: Hélène Goessaert

Credit Sanctioning Committee (CSC)

The Committee decides approvals / non-approvals of credit exposure of the ČSOB group.

Chairman of the Committee: Petr Hutla

Enterprise Architecture Board (EAB)

The Committee manages and monitors the project portfolio from strategic, time and budget perspective. At the same time, the Committee decides about concepts and processes of business and IT architecture.

Chairman of the Committee: John Arthur Hollows

Public Affairs Committee (PAC)

The Committee intends to promote the establishment and implementation of business and strategic initiatives and projects reflecting own needs or external influences and aims to achieve the business and strategic objectives of the Bank or the companies associated in the ČSOB group.

Chairman of the Committee: Petr Hutla

ČSOB Corporate Social Responsibility Committee (CSRC)

The Committee defines the strategy of corporate social responsibility (CSR) and how it interlinks with the strategy of ČSOB, sets the direction in various areas of CSR and addresses inputs suggested and escalated from the Philanthropy Committee.

Chairman of the Committee: Petr Hutla

Crisis Committee (CRC)

The goal is to be efficient in solving crisis situations that, if unaddressed, would adversely affect the operations of the whole Bank, or the ČSOB group, as the case may be.

Chairman of the Committee: John Arthur Hollows

Other Bodies

Executive Committee Relationship Services

The purpose of the Committee is to ensure implementation of business and strategic initiatives and customer value proposition for corporate banking, SME and private banking in accordance with the powers delegated by ČSOB's Board of Directors and the ČSOB group's strategic plan.

Executive Committee for Retail Clients

The aim of the Committee is to review financial and business performance of Retail division in line with the plan, adherence to risk and compliance controls, and delivery of strategic and business initiatives in accordance with the powers delegated by ČSOB's Board of Directors, the ČSOB group strategic plan and Retail transformation roadmap.

Investments Executive Committee

Investments Executive Committee aims to provide winning investments products and solutions for segments and channels in order to become reference for clients and in the market and to create value for the shareholder.

Integrate, Simplify, Innovate

The Committee works as a joint platform composed of representatives of ICT, Project and Enterprise Architecture, Consumer Finance and Payments, Operations, Procurement, Data, Innovation including the representatives of Retail and Relationship Services, Design and Finance.

The main objective of the body is to coordinate the actions of these units, especially in the areas of innovations, projects, prioritisation, roadmaps, finance and legislation. At the same time the aim of the committee is to look for new joint opportunities and exchange of experiences in accordance with the powers delegated by ČSOB's Board of Directors and ČSOB group strategic plan.

Supervisory Board

The Supervisory Board of Československá obchodní banka, a. s. supervises performance of tasks by the Board of Directors and discharge of the Bank's business activities. The members of the Supervisory Board shall be elected and removed by the General Meeting.

At the end of 2018, ČSOB's Supervisory Board had six members and worked in the following composition: Pavel Kavánek (Chairman), Christine Van Rijsseghem, Franky Depickere, Willem Hueting, Petr Šobotník and Willy Kiekens.

Personnel changes in ČSOB's Supervisory Board during the year 2018 are described in the chapter Managing and Supervisory Bodies.

In compliance with its plan of work, the Supervisory Board held **four meetings in 2018** where it discussed issues falling under its responsibility according to the Articles of Association of ČSOB. Reading materials for meetings of the Supervisory Board were prepared and delivered well in advance for the members of the Supervisory Board to have enough time to study them. Meetings of the Supervisory Board are also regularly attended by the members of the Board of Directors who personally present submitted materials. In compliance with its powers and based on the Audit Committee recommendation, the Supervisory Board selects an external auditor prior the official appointment by the General Meeting of shareholders. The auditor attends all meetings of the Audit Committee, thus providing an independent, comprehensive and qualified opinion of whether ČSOB's financial statements reflect ČSOB's situation and performance correctly in all material respects. Pursuant to the Rules of Procedure of the Supervisory Board, administrative and organizational support is provided by the Corporate Secretary, who is responsible for taking the minutes of the meetings. Constitution of a quorum and majority necessary to adopt a decision follow the same principles as in case of the Board of Directors. Supervisory Board meetings are governed by the Articles of Association of ČSOB and by its rules of procedure.

Supervisory Board Committees

The Supervisory Board, like as the Board of Directors, may establish advisory committees and other initiative committees to ensure its activities, either on the basis of legal regulations or in accordance with the Articles of Association of ČSOB. ČSOB's Supervisory Board established the Nomination and Remuneration Committee for remuneration, nomination and personal issues. Another advisory committee is the Risk and Compliance Committee.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee submits recommendations to the Supervisory Board as to the election of suitable candidates to the position of member(s) of ČSOB's Board of Directors and member(s) of statutory bodies of other entities controlled by ČSOB ("Controlled Subsidiaries"), submits recommendations to the Supervisory Board as to removal of current member(s) of the ČSOB Board of Directors and member(s) of statutory bodies of the Controlled Subsidiaries. The Nomination and Remuneration Committee also proposes a remuneration policy for the members of ČSOB's Board of Directors and member(s) of statutory bodies of the Controlled Subsidiaries including fixed as well as variable parts, submits proposals to ČSOB's Supervisory Board with respect to appointment to offices in committees of the Supervisory Board and recommendations to the Supervisory Board as to principles of remuneration of the head of the internal audit. The members of the Committee are regularly informed about changes and rotations of key identified employees and their remuneration.

In 2018, the Nomination and Remuneration Committee was composed of the following members Christine Van Rijsseghem, Pavel Kavánek and Willem Hueting.

The Nomination and Remuneration Committee held **four meetings in 2018**.

Risk and Compliance Committee

The Risk and Compliance Committee was established in 2014 by separation from the Audit Committee in compliance with the regulatory requirements. Its authority and responsibilities are determined by the Articles of Association of ČSOB and by the statutes of Risk and Compliance Committee. In particular, the Risk and Compliance Committee advises the Supervisory Body on the institution's overall current and future risk profile, appetite and risk strategy (including compliance risks). Risk and Compliance Committee reviews whether prices of liabilities and assets offered to clients take fully into account the Company's business model and risk strategy. Assists in the establishment of sound remuneration policies and practices, the risk committee shall, without prejudice to the tasks of the remuneration committee, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings. The Committee supervises the proper functioning of Compliance and Risk Management departments.

The Risk and Compliance Committee members are elected by the Supervisory Board from among the members of the Supervisory Board or third parties based on their expertise that is required to perform their duties in a professional manner. Particularly the Chairman and eventually other members of ČSOB's Board of Directors, the External Auditor and heads of ČSOB's departments – Compliance, Internal Audit and Legal participate as permanent guests in all meetings. Furthermore, some line managers or other employees who can provide the Risk and Compliance Committee with relevant information can be invited to attend any meeting. Their participation is limited to the relevant agenda topics. Constitution of a quorum of the Risk and Compliance Committee and majority necessary to adopt a decision follow the same principles as in case of the Board of Directors.

In 2018, the Risk and Compliance Committee worked in the following composition: Christine Van Rijsseghem (Chairman), Pavel Kavánek, Willem Hueting a Petr Šobotník (independent Chairman of ČSOB's Audit Committee, member of Supervisory Board since 1 February 2017).

The Risk and Compliance Committee held **four meetings in 2018**.

Audit Committee

The authority and responsibilities of **ČSOB's Audit Committee** are determined by the Articles of Association of ČSOB and the Audit Committee's Rules of Procedure. In particular, the Audit Committee monitors the compilation of the financial statement and the process of mandatory audit, supervises and monitors the quality of internal control, the work of internal audit and financial reporting. The Audit Committee recommends a statutory auditor, examines the adequacy of the auditor's independence and providing of additional services.

The Audit Committee has 3 members. The Audit Committee members are elected by the General Meeting from among the members of the Supervisory Board or third parties based on their expertise that is required to perform their control tasks in a professional manner. The Chairman and relevant members of ČSOB's Board of Directors, the External Auditor and heads of ČSOB's departments – Compliance, Internal Audit and Legal participate as permanent guests in Audit Committee's meetings. Furthermore, some line managers or other employees who can provide the Audit Committee with relevant information can be invited to attend any meeting. Their participation is limited to the relevant agenda topics. Constitution of a quorum of the Audit Committee and majority necessary to adopt a decision follow the same principles as in case of the Board of Directors.

In 2018, the Audit Committee worked in the following composition: Petr Šobotník (independent Chairman), Ladislav Mejzlík (independent member) and Willem Hueting.

The Audit Committee held **four meetings in 2018**.

Internal Control Mechanisms to Minimize Financial Reporting Process Risks

A number of tools in several areas are used to ensure true and fair representation of transaction in the company's accounting records and correct financial statements presentation. There are both automated and manual checks incorporated in the entire process starting with the transaction registration in the company systems up to financial statements preparation.

Balances of all General Ledger accounts are subject to regular, at least monthly internal checks. The appointed person in charge, so-called Account Manager, performs logical and specific checks related to the General Ledger account balance consisting e.g. of reconciliation of data in support systems or non-accounting registers with the balances in the General Ledger, monitoring the development of the account balance, monitoring the occurrence of unusual transactions, manual entries in accounts with automatic accounting etc. Control procedures are set up to minimize the risk of accounting errors. Findings of accounting errors are listed centrally and relevant corrections are monitored. The adequacy and effectiveness of the accounting examinations are assessed on a regular basis. Findings are reported to the Internal Audit and Operational Risk Management on a semi-annual basis.

The internal control system also includes internal regulations determining authorities assumed by each staff member making entries in the accounting books in order to duly segregate responsibilities within the document flow. Control procedures are integrated to accounting systems including the “four eye” check and access right authentication. The risk of unauthorised entry is minimized by defining the persons who can make a predefined scope of transactions and persons authorised to give approvals.

Accounting procedures and valuation rules for assets and liabilities including rules for provisions and allowances are defined within internal regulations prepared in accordance with the legal requirements and international financial reporting standards. Monitoring of compliance with the requirements and incorporation of changes is provided by Accounting Methodology in cooperation with the units concerned. Applicable accounting policies, e.g. rules for valuation financial assets or principles of creation of allowances and provisions, are described in Note 2 to the Separate Financial Statement for the year 2018 prepared in accordance with EU IFRS and in Note 2 to the Consolidated Financial Statement for the year 2018 prepared in accordance with EU IFRS.

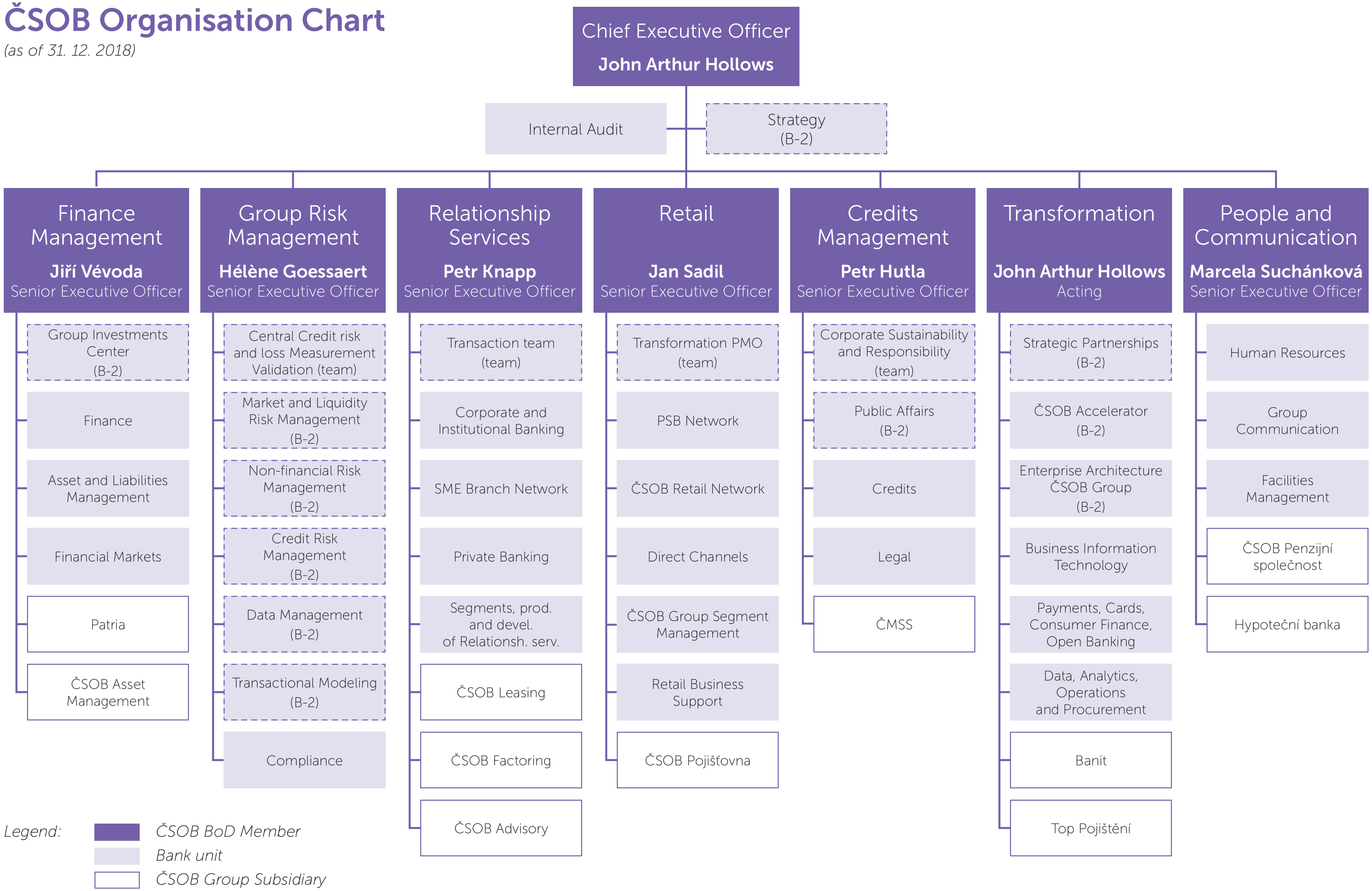
Control mechanisms are extended based on recommendations from internal audit, which evaluates the effectiveness and efficiency of internal controls, or based on outcomes of the risk assessment reviews organized as a part of the operational risk management, please refer to Note 38.5 to the Separate Financial Statement for the year 2018 prepared in accordance with EU IFRS and to Note 40.5 to the Consolidated Financial Statement for the year 2018 prepared in accordance with EU IFRS.

Majority of financial statements is generated automatically using the data from the central data warehouse, reconciled to the General Ledger balances.

Consolidated financial statements are submitted to ČSOB's Supervisory Board regularly and both consolidated and separate financial statements are subject to external audit review. Report on financial results is submitted to ČSOB's Audit Committee quarterly.

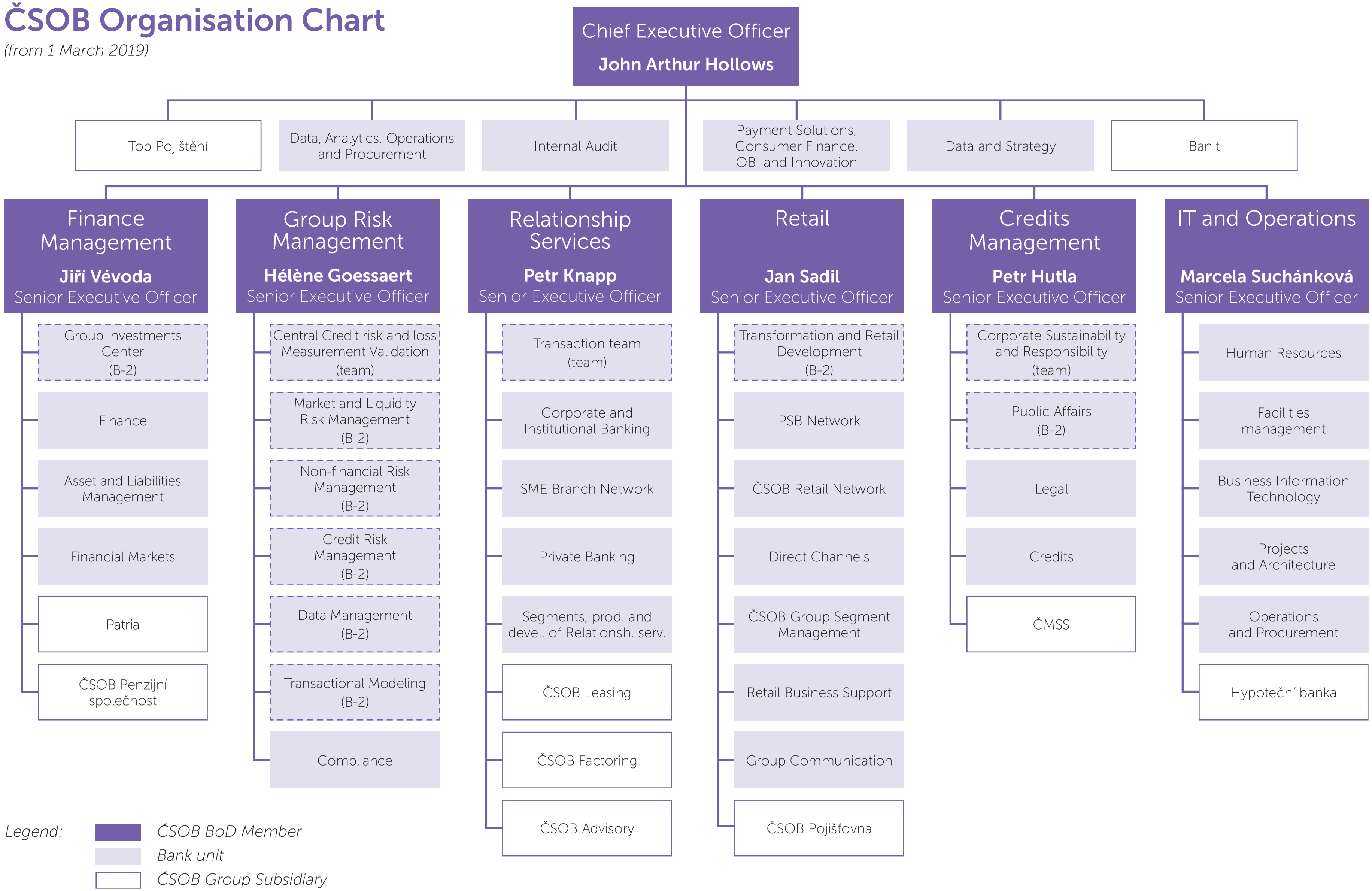
ČSOB Organisation Chart

(as of 31. 12. 2018)



ČSOB Organisation Chart

(from 1 March 2019)



FINANCIAL PART

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

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

(CZKm)	Note	2018 IFRS 9	2017 IAS 39
Interest income calculated using the effective interest rate method	5	33,069	25,539
Other similar income	5	695	440
Interest expense calculated using the effective interest rate method	6	(6,620)	(2,650)
Other similar expense	6	(1,128)	(637)
Net interest income		**26,016**	**22,692**
Fee and commission income		11,427	11,142
Fee and commission expense		(3,405)	(3,730)
Net fee and commission income	7	**8,022**	**7,412**
Dividend income		10	11
Net gains from financial instruments at fair value through profit or loss and foreign exchange	8	1,850	4,809
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	2,708	2,063
Expense from operating lease	9	(2,624)	(1,709)
Other net income	10	1,120	1,466
Operating income		**37,102**	**37,199**
Staff expenses	11	(8,709)	(7,920)
General administrative expenses	12	(7,605)	(6,952)
Depreciation and amortisation	22, 23	(1,455)	(1,380)
Operating expenses		**(17,769)**	**(16,252)**
Impairment losses	13	**(983)**	**(615)**
on loans and receivables		-	(131)
on held-to-maturity investments		-	(2)
on available-for-sale financial assets		-	(26)
on financial assets at amortised cost and at fair value through other comprehensive income (OCI)		(212)	-
on other financial and non-financial assets		(771)	(456)
Share of profit of associates and joint ventures	20	581	637
Profit before tax		**18,931**	**20,969**
Income tax expense	14	(3,174)	(3,453)
Profit for the year		**15,757**	**17,516**
Attributable to:			
Owners of the parent		15,757	17,517
Non-controlling interests		-	(1)

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

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

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

(CZKm)	Note	2018 IFRS 9	2017 IAS 39
Profit for the year		**15,757**	**17,516**
Other comprehensive income – to be reclassified to the statement of income			
Net loss on cash flow hedges		(582)	(1,823)
Net loss on available-for-sale financial assets		-	(616)
Net loss on financial debt instruments at fair value through other comprehensive income		(443)	-
Share of other comprehensive income of associates and joint ventures		(55)	(239)
Income tax benefit relating to components of other comprehensive income		195	463
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	31	**(885)**	**(2,215)**
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		112	-
Income tax expense relating to components of other comprehensive income		(11)	-
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	31	**101**	**-**
Total comprehensive income for the year, net of tax		**14,973**	**15,301**
Attributable to:			
Owners of the parent		14,973	15,302
Non-controlling interests		-	(1)

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

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

(CZKm)	Note	2018 IFRS 9	2017 IAS 39
ASSETS			
Cash, balances with central banks and other demand deposits	16	38,610	54,499
Financial assets held for trading	17	19,869	16,245
Financial assets held for trading pledged as collateral	17	1,676	2,097
Non-trading financial assets mandatorily at fair value through profit or loss	17	643	-
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	15,367	-
Financial assets at fair value through other comprehensive income pledged as collateral	18	3,286	-
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	1,223,433	-
Financial assets at amortised cost pledged as collateral	19	45,281	-
Fair value adjustments of the hedged items in portfolio hedge		(3,905)	(4,298)
Derivatives used for hedging	21	9,376	9,113
Current tax assets		149	114
Deferred tax assets	14	365	245
Investment in associates and joint ventures	20	4,482	4,706
Property and equipment	22	10,355	11,024
Goodwill and other intangible assets	23	6,350	5,816
Non-current assets held-for-sale	24	85	42
Other assets	25	2,616	2,836
Total assets		**1,378,038**	**1,315,590**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	26	33,177	34,606
Financial liabilities designated at fair value through profit or loss	26	26,065	9,498
Financial liabilities at amortised cost	27	1,212,589	1,163,087
Fair value adjustments of the hedged items in portfolio hedge		(3,062)	(3,803)
Derivatives used for hedging	21	10,125	10,485
Current tax liabilities		818	386
Deferred tax liabilities	14	984	1,562
Other liabilities	28	4,669	5,152
Provisions	29	657	914
Total liabilities		**1,286,022**	**1,221,887**
Share capital	30	5,855	5,855
Share premium		20,929	20,929
Statutory reserve		18,687	18,687
Retained earnings		46,136	46,246
Available-for-sale reserve	30	-	1,490
Revaluation reserve from financial assets at fair value through other comprehensive income	30	384	-
Cash flow hedge reserve	30	25	496
Shareholders’ equity		92,016	93,703
Non-controlling interests, presented within equity		-	-
Total equity		**92,016**	**93,703**
Total liabilities and equity		**1,378,038**	**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 notes are an integral part of these consolidated financial statements.

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

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

(CZKm)	Attributable to equity holders of the parent					Non-controlling interest	Total Equity
	Share capital (Note: 30)	Share premium	Statutory reserve[1]	Retained earnings	Other reserves (Note: 30)		
At 1 January 2017	**5,855**	**20,929**	**18,687**	**38,877**	**4,201**	**186**	**88,735**
Profit for the year	-	-	-	17,517	-	(1)	17,516
Other comprehensive income for the year (Note: 31)	-	-	-	-	(2,215)	-	(2,215)
Total comprehensive income for the year	-	-	-	17,517	(2,215)	(1)	15,301
Dividends paid (Note: 15)	-	-	-	(10,147)	-	-	(10,147)
Changes in consolidation scope	-	-	-	(1)	-	(185)	(186)
At 31 December 2017	**5,855**	**20,929**	**18,687**	**46,246**	**1,986**	**-**	**93,703**
Impact of transition to IFRS 9 (Note: 2.5)	-	-	-	(454)	(793)	-	(1,247)
At 1 January 2018	**5,855**	**20,929**	**18,687**	**45,792**	**1,193**	**-**	**92,456**
Profit for the year	-	-	-	15,757	-	-	15,757
Other comprehensive income for the year (Note: 31)	-	-	-	-	(784)	-	(784)
Total comprehensive income for the year	-	-	-	15,757	(784)	-	14,973
Equity investments disposed	-	-	-	(57)	-	-	(57)
Dividends paid (Note: 15)	-	-	-	(15,356)	-	-	(15,356)
At 31 December 2018	**5,855**	**20,929**	**18,687**	**46,136**	**409**	**-**	**92,016**

(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 notes are an integral part of these consolidated financial statements.

These consolidated financial statements were approved for issue by the Board of Directors and signed on its behalf on 18 April 2019 by:

John Arthur Hollows
Chairman of the Board of Directors

Jiří Vévoda
Member of the Board of Directors

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

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

(CZKm)	Note	2018 IFRS 9	2017 IAS 39
OPERATING ACTIVITIES			
Profit before tax		**18,931**	**20,969**
Adjustments for:			
Interest income	5	(33,764)	(25,979)
Interest expense	6	7,748	3,287
Dividend income (other than from associates and joint ventures)		(10)	(11)
Non-cash items included in profit before tax	33	2,801	(192)
Net gains from investing activities		(13)	(108)
Cash flow used in operations before changes in operating assets, liabilities, income tax paid, interest paid and received and dividend received		**(4,307)**	**(2,034)**
Change in operating assets	33	(37,692)	(18,651)
Change in operating liabilities	33	55,001	101,036
Income tax paid		(3,280)	(3,606)
Interest paid		(7,860)	(3,674)
Interest received		34,640	27,629
Dividend received (other than from associates and joint ventures)		10	11
Net cash flows from operating activities		**36,512**	**100,711**
INVESTING ACTIVITIES			
Purchase of held-to-maturity investments		-	(573)
Maturity / disposal of investment securities		-	15,739
Purchase of property, equipment and intangible assets		(3,269)	(5,603)
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale		997	2,299
Dividends from associates and joint ventures		576	649
Changes in consolidation scope (Note: 3)		(177)	(187)
Net cash flows (used in) / from investing activities		**(1,873)**	**12,324**
FINANCING ACTIVITIES			
Repayment of bonds		(2,717)	(7,719)
Issue of bonds		180	-
Dividends paid	15	(15,356)	(10,147)
Net cash flows used in financing activities		**(17,893)**	**(17,866)**
Net increase in cash and cash equivalents		**16,746**	**95,169**
Cash and cash equivalents at the beginning of the year	33	185,482	90,313
Net increase in cash and cash equivalents		16,746	95,169
Cash and cash equivalents at the end of the year	33	**202,228**	**185,482**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

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 accounting policies and methods of computation described in Note 2.4 (first set of policies) are adjusted to include the adoption of IFRS 9, and re-designed. The second set of the accounting policies (Note: 2.4), reflecting IAS 39 rules, are applicable to the comparative figures and are fully consistent with the policies disclosed in 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 financial statements have been prepared and approved by the Board of Directors of the Bank. In addition, the financial statements are subject to approval at the General Meeting of shareholders.

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale investments (IAS 39), financial assets at fair value through other comprehensive income (IFRS 9), 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 consolidated financial statements are presented in millions of Czech Crowns (CZKm), which is the presentation currency of the Group.

Statement of compliance

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

Basis of consolidation

The 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, associates 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: 40.2)

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
- an 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.

Business model assessment

Classification of financial assets is driven by the business model. Management applies judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Group considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity.

Assessment whether cash flows are solely payments of principal and interest ("SPPI")

Judgement is required to determine whether a financial asset's cash flows are solely payments of principal and interest as only features representing basic lending agreement are in line with the SPPI test. Judgement is required to assess whether risks and volatility of contractual cash flows are related to basic lending agreement. Among the features that require judgements were, for example, modification of time value of money, change of timing or amount, such as early settlement or prepayment.

Impairment of assets under operating leases (Note: 13)

The Group assesses internal and external impairment indicators and if any indications exist that the carrying amount of assets is higher than their recoverable amount, impairment loss is recognised. Recoverable amount approximates the assets' fair value less costs to sell. Residual maturity of operating leases is short and changes of selling price have the most significant impact on impairment losses. The Group uses judgement in using valuation techniques to arrive at the assets' fair value. The judgements include use of various coefficients specific to each asset class.

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 consolidated financial statements of the Group 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 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 and endorsed by the EU. 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.

IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019 and endorsed by the EU. 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. Expected impact of IFRS 16 on the consolidated statements of financial position is shown in Note 35.

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 and endorsed by the EU. 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 and has not yet been endorsed by the EU. 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.

Definition of a Business (Amendment to IFRS 3) is effective for periods on or after 1 January 2020 and has not yet been endorsed by the EU. The amendment offers guidance how to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. Business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

Definition of Material (Amendments to IAS 1 and IAS 8) is effective for periods on or after 1 January 2020 and has not yet been endorsed by the EU. The amendment defines that information is material if omitting, misstating or obscuring it could influence decisions that the users of financial statements make on the basis of financial statements. Materiality depends on the nature or magnitude of information, or both.

Amendments to References to the Conceptual Framework in IFRS Standards are effective for periods on or after 1 January 2020 and has not yet been endorsed by the EU.

IFRIC 23 Uncertainty over Income Tax Treatments is effective for periods on or after 1 January 2019 and endorsed by the EU. 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 and have not yet been endorsed by the EU.

2.4 Summary of significant accounting policies

Effective from 1 January 2018

The principal accounting policies applied in the preparation of the financial information as for the current period (year ended 31 December 2018) of these 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 derivatives that provide an effective hedge in the cash flow hedge of currency risk which are deferred in OCI 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 through OCI reserve in equity until the assets are derecognised, and then they are transferred to retained earnings.

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 from 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 then 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 Other income 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. For modified financial assets an assessment of whether there has been a significant increase in credit risk is based on comparing the PD at the reporting date (modified terms) and PD at initial recognition (unmodified terms). The significant increase in credit risk indicators (below) are used to determine whether the expected credit losses would be lifetime or 12-month expected credit losses. More information on forbearance measures can be found in 40.2 Credit risk.

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

In the case when a stand alone derivative does not qualify as a hedging derivative, it is classified as a trading derivative.

- *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 nominal interest rate. 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*

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 also classified into this category.

- *Financial assets designated at fair value through profit or loss (FVO)*

Financial assets designated at fair value through profit or loss 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 nominal interest rate.

(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.

Uncollectible loan is written off after all the necessary procedures for collecting the loan have been completed and the amount of the loss has been determined. A loan is deemed uncollectible when there are no reasonable expectations of recovering the asset and all of the criteria are fulfilled:

- the loan is classified as Irrecoverable;
- the gross carrying amount of the loan is reduced through 100% ECL;
- the debtor does not exist or best case recovery from the receivable is considered to be immaterial.

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 is applicable to long-term, strategic investments. 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 are disposed of. The only exception applies to the dividend income which is 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.

In the case when the stand-alone derivative does not qualify as a hedging derivative, it is classified as a trading derivative.

- *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 nominal interest rate. 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 nominal interest rate.

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 realised.

(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 (SICR) 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. Financial instruments for which the internal credit rating at reporting date corresponds to a PD9, including those which were originated in that rating, are automatically assigned to Stage 2. For these financial instruments, the internal credit rating at reporting date is not compared to the internal credit rating at initial recognition. For pooled portfolios, this corresponds to an internal credit rating of 12.8% and higher (i.e. the lower bound of the PD9 category).
- Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

If the triggers do not result 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 cause of the transfer ceases to exist.

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, does not 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 each reporting period. Financial instruments for which the internal credit rating at reporting date corresponds to a PD9, including those which were originated in that rating, are automatically assigned to Stage 2. For these financial instruments, the internal credit rating at reporting date is not compared to the internal credit rating at initial recognition. For pooled portfolios, this corresponds to an internal credit rating of 12.8% and higher (i.e. the lower bound of the PD9 category).
- 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 cause of the transfer ceases to exist.

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 rate. 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. The extension of the expected maturity beyond the contractual maturity for credit revolving facilities is based on the Group's credit risk management actions done on the particular products basis. These credit risk management actions provide relevant indications to estimate the maturity of such products and which are further used in estimation of ECL.

The ECL for loan commitments and guarantees are presented as provisions in the statement of financial position. If a financial asset contains both a loan (a drawn component) and an undrawn loan commitment, the ECL is determined for both the drawn and undrawn part. The entire ECL amount is presented within Impairment losses.

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 decided 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 purchased 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 financial assets at fair value through OCI and hedging derivatives are also recognised in the caption using the effective interest rate method.

(ii) Fee and commission income

Most net fee and commission income relates to the services that the Group provides to its customers. For the recognition of revenue, the Group identifies the contract and defines the performance obligations in the transaction. Revenue is recognised only when the Group has satisfied the performance obligation.

Fees and commissions that are not an integral part of the effective interest rate are generally recognised on a straight line basis as the services have been rendered, when a client simultaneously receives and consumes benefits provided (recurring account maintenance fees or custody fees, for example).

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 at a point in time, when the Group satisfies its performance obligation, usually upon execution of the underlying transaction.

Payment services (incl. network income), where the Group charges customers for certain current account transactions, domestic or foreign payments, payment services provided through ATMs, etc., are usually settled when the actual transaction is carried out, enabling the relevant fee to be recognised directly at that time.

Recognition of management advisory and service fees is based on the applicable service contracts. Asset management fees relating to investment funds are accrued over the period for which the service is provided and only to the extent, where a significant reversal of revenue is not probable.

Distribution fee income, such as commissions from sales of insurance products, are based on the applicable contract and revenue is recognised when the performance obligation is satisfied.

The Group operates a customer loyalty programme through which retail customers can accumulate points and the points can be used to claim discounts on products or services. The promise to provide discount to the customer is a separate performance obligation. A liability is recognised for the points expected to be redeemed. Revenue from the awarded points is recognised when the points are redeemed or when they expire.

(iii) Dividend income

Income 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.

Effective until 31 December 2017

The principal accounting policies applied in the preparation of the financial information as for the comparative period (year ended 31 December 2017) of these 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 available-for-sale financial assets 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. A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

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 available-for-sale financial assets, 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 Available-for-sale 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

The classification of financial instruments depends on the purpose for which the financial instruments were acquired and their 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 or issue.

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

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

Financial assets or financial liabilities held for trading consist of derivatives held for trading and financial instruments other than derivatives 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 or issues financial instruments containing embedded derivatives. An embedded derivative is separated from the host contract and carried at fair value if the economic characteristics of the derivative are not closely related to the economic characteristics of the host contract and the hybrid instrument is not classified as at fair value through profit or loss. If a separated 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 contract 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 or 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 income or expense is recorded in Net interest income using the effective interest rate method. Dividends received are recorded in Dividend income. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term.

- *Financial instruments designated at fair value through profit or loss*

Financial assets and financial liabilities designated at fair value through profit or loss on initial recognition are classified in this category when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and 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 income or expense is recorded in Net interest income using the effective interest rate method.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell or reclassify other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any allowance for impairment. 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.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group has no intention of trading the financial asset.

After initial measurement, loans and receivables are measured at amortised cost using the effective interest rate method, less any allowance for impairment, 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.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and receivables.

After initial measurement, available-for-sale financial assets are measured at fair value. Unrealised gains and losses are recognised directly in equity in the Available-for-sale reserve on an after-tax basis, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of income. When an available-for-sale asset is disposed of, the unrealised gain or loss recorded in the Available-for-sale reserve is reclassified to Net realised gains/losses on available-for-sale financial assets. Interest income arising from available-for-sale assets, calculated using the effective interest rate method, is recorded separately in Net interest income. Dividends received from available-for-sale equity shares are recorded in Dividend income.

(v) Financial liabilities 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.

After initial measurement, those financial liabilities 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.

(vi) '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 Loans and receivables. 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 (ie an exit price). Financial instruments classified as financial assets and financial liabilities at fair value through profit or loss or available-for-sale 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

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated. Objective evidence that a financial asset or a group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Group would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

(i) Assets carried at amortised cost

The Group assesses objective evidence of impairment individually or collectively for financial assets at amortised cost. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recorded in the statement of income.

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.

(ii) 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.

(iii) Financial assets carried at fair value

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of a debt instrument classified as available-for-sale, the assessment of impairment is based on the same criteria as financial assets carried at amortised cost. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. A significant decline is considered to be a 30% decline in the fair value. A prolonged decline is considered to be a decline of one year or longer. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of income - is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of income, the impairment loss is reversed through the statement of income.

(7) Impairment of non-financial assets

The policy is consistent with the one applied in the current period.

(8) Hedge accounting

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 available-for-sale financial asset 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

The policy is consistent with the one applied in the current period.

(10) Reclassification of financial assets

The Group does not reclassify any financial assets into or out of the Financial assets designated at fair value through profit or loss after initial recognition.

If a non-derivative financial asset at fair value through profit or loss is no longer held for selling or repurchasing it can only be reclassified in rare circumstances.

The Group can also reclassify, under certain circumstances, financial assets out of Available-for-sale. A financial asset classified as Available-for-sale that would have met the definition of loans and receivables may be reclassified out of the Available-for-sale category to the loans and receivables category if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. A financial asset classified as Available-for-sale that would have met the definition of held-to-maturity investment may be reclassified out of the Available-for-sale category to the held-to-maturity investment category if the Group has the intention and ability to hold the financial asset until maturity.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the Available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised in the statement of income over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flow is also amortised over the remaining life of the asset using the effective interest rate.

Sales and reclassifications from the Held-to-maturity portfolio without the risk of triggering tainting rules are possible only in limited circumstances, such as when it concerns an insignificant amount of instruments or instruments that are so close to maturity that the changes in the market interest rates would not significantly change their fair value. Further, no tainting rules are applied if the sales or reclassifications are attributable to an isolated event that is beyond the Group's control (i.e. significant deterioration in the issuer's creditworthiness or changes in tax, statutory or regulatory requirements) or if the sales occur after collecting a substantial amount of the instrument's principal.

However, if sales or reclassifications from the Held-to-maturity portfolio do not fulfil the above limits, any remaining investments have to be reclassified as available-for-sale. Furthermore, no financial assets can be classified as Held-to-maturity for the following two years.

(11) Leasing

The policy is consistent with the one applied in the current period.

(12) 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 measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded using the effective interest rate method.

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 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.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(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 accrued over the period for which the service is provided. 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.

(13) Cash and cash equivalents

The policy is consistent with the one applied in the current period.

(14) Investments in associates and joint ventures

The policy is consistent with the one applied in the current period.

(15) Property and equipment

The policy is consistent with the one applied in the current period.

(16) Business combinations and goodwill

The policy is consistent with the one applied in the current period.

(17) Intangible assets

The policy is consistent with the one applied in the current period.

(18) 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 best estimates of expenditure required to settle any financial obligation arising as a result of the guarantee and are presented in Provisions.

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.

(19) Employee benefits

The policy is consistent with the one applied in the current period.

(20) Provisions

The policy is consistent with the one applied in the current period.

(21) 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 available-for-sale securities, 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.

(22) Share capital and reserves

The policy is consistent with the one applied in the current period.

(23) Fiduciary activities

The policy is consistent with the one applied in the current period.

(24) Operating segments

The policy is consistent with the one applied in the current period.

2.5 Comparative balances

Until 31 December 2017, the Group measured its financial assets and liabilities according to accounting standard IAS 39. On 1 January 2018, a new standard IFRS 9 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.

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, as reported according to IAS 39, 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 the 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 the consolidated equity;

  The remaining part of the portfolio of Available-for-sale assets in the amount of CZK 16,481 m was reclassified to the category of Financial assets at amortised cost. Unrealised gains / losses related to these assets were reversed and adjusted the other comprehensive income. The main reason for the transfer from the Available-for-sale portfolio to the category of Financial assets at amortised cost was to reduce a volatility of regulatory capital;
- 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 carrying amount of 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. As impairments on FVOCI debt instruments shall not reduce the instruments’ carrying amount, the ECL with the opposite sign was shifted to OCI reserves. Thus, there is no impact on the carrying amount of these assets, nor 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 the consolidated retained earnings;
- Other assets;
- Provisions for loans commitments and guarantees.

A reconciliation of the consolidated statement of financial position as at 31 December 2017 reported based on IAS 39 and at 1 January 2018 based on IFRS 9, incl. split of the transition change between the impact of remeasurement due to reclassification (Phase I) and of remeasurement due to impairment (Phase II), is as follows:

(CZKm)	31-12-2017	Phase I	Phase II	01-01-2018
ASSETS				
Cash, balances with central banks and other demand deposits	54,499	-	-	54,499
Financial assets held for trading	16,245	-	-	16,245
Financial assets held for trading pledged as collateral	2,097	-	-	2,097
Available-for-sale financial assets	29,482	(29,482)	-	-
Available-for-sale financial assets pledged as collateral	5,847	(5,847)	-	-
Financial assets at fair value through other comprehensive income	-	17,167	-	17,167
Financial assets at fair value through other comprehensive income pledged as collateral	-	1,681	-	1,681
Held-to-maturity investments	86,604	(86,604)	-	-
Held-to-maturity investments pledged as collateral	29,017	(29,017)	-	-
Loans and receivables	1,062,201	(1,062,201)	-	-
Financial assets at amortised cost	-	1,160,384	(388)	1,159,996
Financial assets at amortised cost pledged as collateral	-	33,182	-	33,182
Fair value adjustments of the hedged items in portfolio hedge	(4,298)	-	-	(4,298)
Derivatives used for hedging	9,113	-	-	9,113
Current tax assets	114	-	35	149
Deferred tax assets	245	110	45	400
Investment in associates and joint ventures	4,706	(72)	(103)	4,531
Property and equipment	11,024	-	-	11,024
Goodwill and other intangible assets	5,816	-	-	5,816
Non-current assets held-for-sale	42	-	-	42
Other assets	2,836	-	(81)	2,755
Total assets	**1,315,590**	**(699)**	**(492)**	**1,314,399**
LIABILITIES AND EQUITY				
Financial liabilities held for trading	34,606	-	-	34,606
Financial liabilities designated at fair value through profit or loss	9,498	-	-	9,498
Financial liabilities at amortised cost	1,163,087	-	-	1,163,087
Fair value adjustments of the hedged items in portfolio hedge	(3,803)	-	-	(3,803)
Derivatives used for hedging	10,485	-	-	10,485
Current tax liabilities	386	-	-	386
Deferred tax liabilities	1,562	-	(13)	1,549
Other liabilities	5,152	-	-	5,152
Provisions	914	-	69	983
Total liabilities	**1,221,887**	**-**	**56**	**1,221,943**
Share capital	5,855	-	-	5,855
Share premium	20,929	-	-	20,929
Statutory reserve	18,687	-	-	18,687
Retained earnings	46,246	97	(551)	45,792
Available-for-sale reserve	1,490	(1,490)	-	-
Revaluation reserve from financial assets at fair value through other comprehensive income	-	697	-	697
Cash flow hedge reserve	496	-	-	496
Total equity	**93,703**	**(696)**	**(551)**	**92,456**
Total liabilities and equity	**1,315,590**	**(696)**	**(495)**	**1,314,399**

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

	Cash, balances with central banks and other demand deposits	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	Total
Assets and liabilities as at 31 December 2017 (carrying amount before IFRS 9 application)	54,499	18,342	35,329	115,621	1,062,201	
Cash, balances with central banks and other demand deposits						
At amount classified before IFRS 9 application	54,499	-	-	-	-	54,499
Remeasurement due to reclassification	-	-	-	-	-	-
At amount according to IFRS 9 on 1 January 2018	**54,499**	**-**	**-**	**-**	**-**	**54,499**
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 – debt securities						
At amount classified before IFRS 9 application	-	-	18,388	-	-	18,388
Remeasurement due to reclassification	-	-	-	-	-	-
At amount according to IFRS 9 on 1 January 2018	**-**	**-**	**18,388**	**-**	**-**	**18,388**
Financial assets FVOCI – equity securities						
At amount classified before IFRS 9 application	-	-	460	-	-	460
Remeasurement due to reclassification	-	-	-	-	-	-
At amount according to IFRS 9 on 1 January 2018	**-**	**-**	**460**	**-**	**-**	**460**
Financial assets at amortised cost – debt securities						
At amount classified before IFRS 9 application	-	-	16,481	115,621	8,560	140,662
Remeasurement due to reclassification	-	-	(499)	(238)	-	(737)
Remeasurement due to impairment	-	-	-	(24)	-	(24)
At amount according to IFRS 9 on 1 January 2018	**-**	**-**	**15,982**	**115,359**	**8,560**	**139,901**
Financial assets at amortised cost – loans and advances						
At amount classified before IFRS 9 application	-	-	-	-	1,053,641	1,053,641
Remeasurement due to reclassification	-	-	-	-	-	-
Remeasurement due to impairment	-	-	-	-	(364)	(364)
At amount according to IFRS 9 on 1 January 2018	**-**	**-**	**-**	**-**	**1,053,277**	**1,053,277**

A reconciliation of the selected items of consolidated equity as at 31 December 2017 as reported according to IAS 39 and at 1 January 2018 according to IFRS 9 is provided below:

(CZKm)	Retained earnings	Available-for-sale reserve	Revaluation reserve from financial assets at fair value through OCI
At 31 December 2017 (IAS 39)	**46,246**	**1,490**	**-**
Debt securities reclassified from Available-for-sale assets to the category of Financial assets FVOCI	-	(619)	619
Debt securities reclassified from Available-for-sale assets to the category of Financial assets AC (incl. ČMSS)	-	(587)	-
Frozen reserve related to the debt securities historically reclassified from Available-for-sale assets to Held-to-maturity investments	-	(238)	-
ECL booked on Financial assets FVOCI	(2)	-	2
ECL booked on Financial assets AC (incl. ČMSS)	(491)	-	-
ECL booked on Other assets	(80)		
ECL booked on Credit commitments and guarantees	(69)	-	-
Equity securities reclassified from Available-for-sale assets to the category of Financial assets FVOCI	-	(46)	46
Reversal of accumulated impairment losses on equity securities	124	-	(124)
Tax impact of IFRS 9 transition adjustments	64	-	154
At 1 January 2018 (IFRS 9)	**45,792**	**-**	**697**

Reclassification

In 2018, the ČSOB group and the KBC Group have decided to change presentation of some items within the structure of the consolidated financial statements. In the consolidated statement of income, 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 2017, network income in the amount of CZK 1,016 m was shifted from Net gains from financial instruments at fair value through profit or loss to Net fee and commission income since the new presentation better reflects the business reality.

A reconciliation of the selected items of the consolidated statement of income for the year ended 31 December 2017 is provided in the table below:

(CZKm)	As reported	Network income	Reclassified
Fee and commission income	10,126	1,016	11,142
Net gains from financial instruments at fair value through profit or loss and foreign exchange	5,825	(1,016)	4,809

Presentation of interest income and interest expense in Consolidated statement of income was changed as a result of IFRS 9 adoption.

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	% 2018	% 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 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 acquired 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 325 m consists of cash paid of CZK 177 m and of estimated fair value of contractual future cash outflows (‘earn-out’) of CZK 148 m, recognised in Other liabilities. 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 (cash equivalents)	13
Property and equipment	3
Other intangible assets	124
Other assets	34
Total assets	**174**
LIABILITIES	
Other liabilities	30
Total liabilities	**30**
Total identifiable net assets	**144**
Goodwill	181
Acquisition value	**325**

On 17 May 2017, the management of the Bank decided to merge the Bank with its subsidiaries Centrum Radlická and Patria Online, ČSOB being the successor company, resulting in the simplification of the consolidation scope of the Group. The merger was subject to the Czech National Bank approval and was finalised on 1 December 2017.

Based on the Agreement on the exercise of voting rights, the Group is entitled to a total of 40% of the voting rights in ČSOB Pojišťovna. Thus, ČSOB Pojišťovna is still assessed to be an associated company of the Bank (Note: 20).

Based on the Agreement on the exercise of voting rights, the Group was entitled to a total of 95.67% of the voting rights in ČSOB Property fund and Merrion Properties (special purpose entity fully owned by ČSOB Property Fund). Both these two subsidiaries were consolidated using full method of consolidation. Non-controlling interest represented the 38.39% portion of the net profit and the net assets of ČSOB Property fund and Merrion Properties not owned by the Group.

In 2017, the Bank liquidated its subsidiaries ČSOB Property Fund and Merrion Properties as a result of the earlier decision of the management of the Group to terminate its real estate activities.

Based on the company statutes, the Group controls ČMSS jointly with the owner of the remaining 45% share. Therefore, the entity is classified as a joint venture.

Ownership in other companies corresponds with the share of voting rights.

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 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). Net fee and commission income of this segment contains payment services, administration of credits, network income, distribution and other fees.

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). Net fee and commission income of this segment contains payment services, administration of credits, network income, securities, custody, retail service fees, distribution and other fees.

Financial markets: This segment contains investment products and services to institutional investors and intermediaries and fund management activities and trading included in dealing services, mutual funds and asset management. Net fee and commission income of this segment contains securities and custody fees and asset management income fees and commissions to agents.

Specialised banking: This segment contains mortgages and pension funds. Net fee and commission income of this segment contains administration of credits, collective investment and distribution fees.

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, building savings and building savings loans, the results of the reinvestment of free equity of ČSOB and items not directly attributable to other segments. Net fee and commission income of this segment contains payment services and other fees.

In 2018, the Group's segment reporting was modified following the change of organisational structure of the Group. Thus, Asset Management and Penzijní společnost were moved from Retail to Financial markets and Specialised banking, respectively. ČMSS was moved to Group Centre. Comparative figures in the Consolidated statement of income for 2017 have been reclassified following the change of organisational structure of the Group and following the change of reporting of Network income (Note: 2.5).

Segment reporting information by customer segments for 2018 (IFRS 9)

(CZKm)	Retail	Relationship services	Financial markets	Specialised banking	Group Centre	**Total**
Statement of income						
Net interest income	7,985	9,576	2,105	4,061	2,289	**26,016**
Net fee and commission income	2,757	3,474	394	807	590	**8,022**
Dividend income	-	-	1	-	9	**10**
Net gains from financial instruments at fair value through profit or loss	63	1,465	617	(136)	(159)	**1,850**
Income from operating lease	-	2,708	-	-	-	**2,708**
Expense from operating lease	-	(2,624)	-	-	-	**(2,624)**
Other net income	50	98	9	20	943	**1,120**
Operating income	**10,855**	**14,697**	**3,126**	**4,752**	**3,672**	**37,102**
of which:						
External operating income	*4,908*	*12,089*	*3,126*	*7,262*	*9,717*	*37,102*
Intersegment operating income	*5,947*	*2,608*	*-*	*(2,510)*	*(6,045)*	*-*
Depreciation and amortisation	(22)	(65)	(21)	(94)	(1,253)	**(1,455)**
Other operating expenses	(7,000)	(4,631)	(463)	(1,078)	(3,142)	**(16,314)**
Operating expenses	**(7,022)**	**(4,696)**	**(484)**	**(1,172)**	**(4,395)**	**(17,769)**
Impairment losses	38	(1,289)	-	139	129	(983)
Share of profit of associates and joint ventures	2	-	83	-	496	**581**
Profit before tax	**3,873**	**8,712**	**2,725**	**3,719**	**(98)**	**18,931**
Income tax expense	(786)	(1,669)	(502)	(780)	563	**(3,174)**
Segment profit	**3,087**	**7,043**	**2,223**	**2,939**	**465**	**15,757**
Attributable to:						
Owners of the parent	3,087	7,043	2,223	2,939	465	**15,757**
Non-controlling interest	-	-	-	-	-	**-**
Assets and liabilities						
Segment assets	30,979	294,966	40,610	300,907	706,009	**1,373,471**
Investment in associates and joint ventures	-	-	-	-	4,482	**4,482**
Non-current assets held-for-sale	-	47	-	-	38	**85**
Total assets	**30,979**	**295,013**	**40,610**	**300,907**	**710,529**	**1,378,038**
Total liabilities	**411,922**	**394,039**	**64,002**	**11,255**	**404,804**	**1,286,022**
Capital expenditure	**233**	**1,048**	**60**	**185**	**1,613**	**3,139**

Segment reporting information by customer segments for 2017 (IAS 39)

(CZKm)	Retail	Relationship services	Financial markets	Specialised banking	Group Centre	Total
Statement of income						
Net interest income	7,089	8,743	341	4,480	2,039	**22,692**
Net fee and commission income	2,401	3,210	508	906	387	**7,412**
Dividend income	-	-	2	-	9	**11**
Net gains from financial instruments at fair value through profit or loss	69	1,434	2,584	(74)	796	**4,809**
Net realised gains on available-for-sale financial assets	-	-	-	-	455	**455**
Income from operating lease	-	2,063	-	-	-	**2,063**
Expense from operating lease	-	(1,709)	-	-	-	**(1,709)**
Other net income	44	106	7	9	1,300	**1,466**
Operating income	**9,603**	**13,847**	**3,442**	**5,321**	**4,986**	**37,199**
of which:						
External operating income	*4,461*	*11,688*	*3,442*	*7,085*	*10,523*	*37,199*
Intersegment operating income	*5,142*	*2,160*	*-*	*(1,764)*	*(5,538)*	*-*
Depreciation and amortisation	(25)	(60)	(16)	(75)	(1,204)	**(1,380)**
Other operating expenses	(6,604)	(4,341)	(415)	(1,094)	(2,418)	**(14,872)**
Operating expenses	**(6,629)**	**(4,401)**	**(431)**	**(1,169)**	**(3,622)**	**(16,252)**
Impairment losses	135	(585)	-	21	(186)	(615)
Share of profit of associates and joint ventures	2	-	77	-	558	**637**
Profit before tax	**3,111**	**8,861**	**3,088**	**4,173**	**1,736**	**20,969**
Income tax expense	(629)	(1,682)	(573)	(775)	206	**(3,453)**
Segment profit	**2,482**	**7,179**	**2,515**	**3,398**	**1,942**	**17,516**
Attributable to:						
Owners of the parent	2,482	7,179	2,515	3,398	1,943	**17,517**
Non-controlling interest	-	-	-	-	(1)	**(1)**
Assets and liabilities						
Segment assets	27,665	288,685	47,516	281,264	665,712	**1,310,842**
Investment in associates and joint ventures	-	-	-	-	4,706	**4,706**
Non-current assets held-for-sale	-	42	-	-	-	**42**
Total assets	**27,665**	**288,727**	**47,516**	**281,264**	**670,418**	**1,315,590**
Total liabilities	**388,545**	**398,764**	**47,928**	**13,586**	**373,064**	**1,221,887**
Capital expenditure	**317**	**2,734**	**26**	**187**	**2,261**	**5,525**

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)	2018 IFRS 9	2017 IAS 39
Interest income on financial instruments calculated using effective interest rate method		
Cash, balances with central banks and other demand deposits	181	88
Financial assets at amortised cost, incl. assets pledged as collateral		
Credit institutions	9,221	-
Other than credit institutions	20,193	-
Loans and receivables		
Credit institutions	-	1,456
Other than credit institutions	-	15,138
Financial assets at fair value through other comprehensive income, incl. assets pledged as collateral	533	-
Available-for-sale financial assets, incl. assets pledged as collateral	-	1,341
Held-to-maturity investments, incl. assets pledged as collateral	-	4,428
Derivatives used for hedging (Note: 8)	2,073	1,905
Negative interest from financial liabilities measured at amortised cost	868	1,183
	33,069	25,539
Interest income on other financial instruments		
Financial assets held for trading, incl. assets pledged as collateral (Note: 8)	391	225
Derivatives used as economic hedges (Note: 8)	295	200
Negative interest from financial liabilities measured at fair value (Note: 8)	9	15
	695	440
Interest income	**33,764**	**25,979**

6. INTEREST EXPENSE

(CZKm)	2018 IFRS 9	2017 IAS 39
Interest expense on financial instruments calculated using effective interest rate method		
Financial liabilities at amortised cost		
Central banks	42	3
Credit institutions	1,329	540
Other than credit institutions	3,534	795
Debt instruments in issue	1,238	328
Discount amortisation on other provisions (Note: 29)	17	3
Derivatives used for hedging (Note: 8)	460	981
	6,620	2,650
Interest expense on other financial instruments		
Financial liabilities held for trading (Note: 8)	485	447
Financial liabilities designated at fair value through profit or loss (Note: 8)	107	43
Derivatives used as economic hedges (Note: 8)	536	140
Negative interest from financial assets measured at fair value (Note: 8)	-	7
	1,128	637
Interest expense	**7,748**	**3,287**

7. NET FEE AND COMMISSION INCOME

(CZKm)	2018 IFRS 9	2017 IAS 39
Fee and commission income		
Payment services	5,539	5,438
Administration of credits	1,534	1,713
Network income	995	1,016
Collective investments	861	823
Distribution	839	729
Securities	285	270
Custody	198	202
Asset management	31	36
Other	1,145	915
	11,427	**11,142**
Fee and commission expense		
Payment services	2,260	1,868
Retail service fees	385	963
Commissions to agents	136	125
Distribution	25	16
Other	599	758
	3,405	**3,730**
Net fee and commission income	**8,022**	**7,412**

As from 2018, the financial information has been prepared in accordance with IFRS 9, without affecting net fee and commission income. The impact of implementing IFRS 15 is negligible.

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 caption Retail service fees in notes Net fee and commission income 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, 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 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)	2018 IFRS 9	2017 IAS 39
Net gains from financial instruments at fair value through profit or loss and foreign exchange- as reported	**1,850**	**4,809**
Net interest income (Notes: 5, 6)	1,180	727
	3,030	**5,536**
Financial instruments held for trading and derivatives used for hedging		
Interest rate contracts	1,558	958
Foreign exchange	(279)	11,706
Equity contracts	(883)	352
Commodity contracts	13	10
	409	13,026
Non-trading financial instruments mandatorily at fair value through profit or loss		
Non-trading financial assets mandatorily at fair value through profit or loss	646	-
Financial instruments designated at fair value through profit or loss		
Financial liabilities designated at fair value through profit or loss	764	22
	764	22
Foreign exchange differences	1,211	(7,512)
Financial instruments at fair value through profit or loss and foreign exchange	**3,030**	**5,536**

9. NET RESULT FROM OPERATING LEASE

(CZKm)	2018 IFRS 9	2017 IAS 39
Income from operating lease		
Revenues from operating leases	638	992
Revenues from disposal of assets under operating leases	1,544	857
Revenues from other services relating to operating leases	526	214
	2,708	**2,063**
Expense from operating lease		
Depreciation of assets under operating leases	(503)	(420)
Expenses from disposal of assets under operating leases	(1,607)	(861)
Other services relating to operating leases	(514)	(428)
	(2,624)	**(1,709)**

10. OTHER NET INCOME

(CZKm)	2018 IFRS 9	2017 IAS 39
ICT services	672	606
Services provided to the parent and to entities under common control (excluding income from ICT services)	191	148
Net gain on disposal of Held-to-maturity investments	-	126
Net gain on disposal of investments measured at amortised cost	30	2
Other services provided by ČSOB Leasing	21	49
Net gain/(loss) on disposal of property and equipment	20	(11)
Net decrease/(increase) in provisions for legal issues and other losses	9	(9)
Net loss on disposal of intangible assets	(7)	(10)
Other	184	565
	1,120	**1,466**

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

11. STAFF EXPENSES

(CZKm)	2018 IFRS 9	2017 IAS 39
Wages and salaries	6,163	5,679
Salaries and other short-term benefits of top management	105	91
Social security charges	2,003	1,876
of which pension security charges (obligatory)	*1,228*	*1,149*
Pension (voluntary) and similar expenses	173	139
Net increase in provisions for Restructuring programme	96	-
Other	169	135
	8,709	**7,920**

Number of personnel of the Group

The number (in full-time equivalents) of personnel of the Group was 8,318 at 31 December 2018 (31 December 2017: 8,299).

Management bonus scheme

Included within Salaries and other short-term benefits of top management are base salaries, annual bonuses and other short-term benefits of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Supervisory Board.

A bonus scheme of the Group follows the changes in legislation in previous years. Half of the bonus is provided in a non-cash instrument, so called ‘Virtual investment certificate’ (VIC). VIC is linked to the Economic Value Added of the Group which captures both finance and risk aspects. Another half of the bonus is paid in cash. The payment of half of the bonus (both cash and non-cash portion) is deferred for up to the next five years following the initial assignment of the benefit.

Retirement benefits

The Group provides its employees (including top management) with a voluntary defined contribution retirement scheme. Participating employees can contribute 1% or 2% of their salaries to pension companies approved by the Ministry of Finance of the Czech Republic (MF CZ), with an additional contribution of the Group of 2% or 3% of their salaries, respectively.

Termination benefits

Employees dismissed by their employer according to Czech employment law are entitled to termination benefits equal to or less than three times the employee’s monthly average salary. Additional termination benefits are granted to employees who were employed between 10-15 years (2 times the month’s average salary), 15-20 years (2.5 times the month’s average salary), 20-25 years (3 times the month’s average salary), 25-30 years (4 times the month’s average salary), 30-35 years (5 times the month’s average salary) and over 35 years (6 times the month’s average salary).

In the case of contract termination, the members of the Board of Directors are entitled to receive an amount of 0 to 12 monthly salaries as termination benefits (according to conditions of individual contracts). The compensation amounted to CZK 8 m in 2018 (2017: CZK Nil).

12. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2018 IFRS 9	2017 IAS 39
Information technologies	2,541	2,379
Marketing	702	661
Contribution to the Single Resolution Mechanism	568	546
Rental expenses on land and buildings - minimum lease payments	551	554
Retail service fees	502	232
Professional fees	486	485
Other building expenses	480	467
Communication	416	395
Deposit insurance premium and contribution to the Securities Traders Guarantee Fund	203	181
Administration	195	215
Travel and transportation	189	174
Payment cards and electronic banking	163	211
Training	94	88
Insurance	47	41
Car expenses	26	26
Other	442	297
	7,605	**6,952**

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 under Retail service fees in notes Net fee and commission income (Note: 7) and in General administrative expenses changed.

13. IMPAIRMENT LOSSES

(CZKm)	2018 IFRS 9	2017 IAS 39
Impairment of financial assets at amortised cost - loans and advances (Notes: 33, 40.2)	(478)	-
Impairment of financial assets at amortised cost - debt securities (Notes: 33, 40.2)	23	-
Impairment of loans and receivables (Notes: 33, 40.2)	-	106
Provisions for loan commitments and guarantees (Notes: 29, 33)	241	(237)
Impairment of property, plant and equipment (Notes: 22, 33)	(731)	(140)
Impairment of financial assets at fair value through OCI	2	-
Impairment of available-for-sale financial assets (Notes: 18, 33)	-	(26)
Impairment of held-to-maturity investments (Notes: 18, 33)	-	(2)
Impairment of intangible assets (Notes: 23, 33)	-	(189)
Impairment of non-current assets held-for-sale (Notes: 24, 33)	-	9
Impairment of other assets (Note: 33)	(40)	(136)
	(983)	**(615)**

14. INCOME TAX

The components of income tax expense for the years ended 31 December 2018 and 2017 are as follows:

(CZKm)	2018 IFRS 9	2017 IAS 39
Current tax expense	3,821	3,062
Net provisions for tax disputes	(156)	7
Previous year over accrual of current tax	(145)	(7)
Deferred tax expense / (benefit) relating to the origination and reversal of temporary differences	(346)	391
	3,174	**3,453**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2018 and 2017 is as follows:

(CZKm)	2018 IFRS 9	2017 IAS 39
Profit before taxation	18,931	20,969
Applicable tax rates	19%	19%
Taxation at applicable tax rates	3,597	3,984
Net provisions for tax disputes	(156)	7
Previous year over accrual of current tax	(145)	(7)
Tax effect of non-taxable income	(621)	(792)
Tax effect of non-deductible expenses	499	271
Unused tax losses applicable in next periods	-	(10)
	3,174	**3,453**

The applicable tax rate for 2018 was 19% (2017: 19%).

Included in non-taxable income is interest income accrued on tax-free financial investments.

Deferred income taxes are calculated on all temporary differences under the liability method using the income tax rate of 19%.

The movement on the deferred income tax account is as follows:

(CZKm)	2018	2017
Impact of transition to IFRS 9	168	-
At 1 January	**(1,149)**	**(1,397)**
Statement of income	346	(391)
Financial assets FVOCI (Note: 31)		
Fair value remeasurement	72	-
Transfer to net profit	1	-
Available-for-sale securities (Note: 31)		
Fair value remeasurement	-	4
Transfer to net profit	-	113
Cash-flow hedges (Note: 31)		
Fair value remeasurement	(6)	190
Transfer to net profit (Note: 21)	117	156
Other	-	8
At 31 December	**(619)**	**(1,317)**

Deferred tax asset and liability are attributable to the following items:

(CZKm)	2018 IFRS 9	2017 IAS 39
Deferred tax asset		
Employee benefits	280	258
Initial fee income	213	208
Temporary difference resulting from tax depreciation	184	290
Temporary difference resulting from tax depreciation related to acquisition of ICT function	123	124
Provisions	84	135
Legal claims	76	124
Impairment losses on loans and advances at amortised cost	41	48
Impairment of tangible and intangible assets	11	45
Impairment losses on debt securities	11	-
Unused tax losses applicable in the next periods	5	7
Impairment losses on financial investments	-	26
Held-to-maturity investments - bonds reclassified from Available-for-sale assets (Note: 18)	-	(45)
Available-for-sale securities	-	(275)
Cash-flow hedging derivatives	(6)	(123)
Revaluation of financial assets and liabilities at fair value through profit or loss	(29)	(76)
Debt securities at fair value through other comprehensive income	(123)	-
Amortisation of goodwill	(511)	(511)
Other temporary differences	6	10
	365	**245**

(CZKm)	2018 IFRS 9	2017 IAS 39
Deferred tax liability		
Temporary difference resulting from tax depreciation	671	761
Debt securities at fair value through other comprehensive income	167	-
Cash-flow hedging derivatives	146	70
Revaluation of financial assets and liabilities at fair value through profit or loss	57	187
Finance lease valuation	28	39
Initial fee expense	2	451
Available-for-sale securities	-	179
Employee benefits	(10)	(69)
Provisions	(25)	(12)
Impairment losses on loans and advances at amortised cost	(37)	(32)
Other temporary differences	(15)	(12)
	984	**1,562**

The deferred tax (charge) / benefit in the statement of income comprises of the following temporary differences:

(CZKm)	2018 IFRS 9	2017 IAS 39
Initial fee income	454	(60)
Revaluation of financial assets and liabilities at fair value through profit or loss	177	(304)
Impairment losses on loans and advances at amortised cost	18	(134)
Finance lease valuation	11	47
Available-for-sale securities	-	(11)
Amortisation of goodwill	-	(33)
Temporary difference resulting from tax depreciation related to acquisition of ICT function	(1)	(10)
Unused tax losses applicable in the next periods	(4)	(23)
Impairment losses on debt securities	(15)	-
Temporary difference resulting from tax depreciation	(16)	146
Provisions	(27)	35
Impairment of tangible and intangible assets	(34)	28
Employee benefits	(37)	55
Legal claims	(48)	(78)
Debt securities at fair value through other comprehensive income	(134)	-
Other temporary differences	2	(49)
	346	**(391)**

The Group management believes it is probable that the Group will fully realise its gross deferred income tax assets based upon the Group's current and expected future level of taxable profits and the expected offset within each Group company from gross deferred income tax liabilities. The Group can carry forward tax loss for up to 5 years from its initial recognition.

15. DIVIDENDS PAID

Dividends are not accounted for until they have been ratified by a resolution of the sole shareholder on a profit distribution. The decision of a profit allocation for 2018 has not been taken before the date of issue of the financial statements.

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 10,147 m.

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

(CZKm)	2018 IFRS 9	2017 IAS 39
Cash (Note: 33)	8,838	9,745
Mandatory minimum reserves (Notes: 33, 34, 40.2)	7,366	12,831
Other balances with central banks (Notes: 33, 34, 40.2)	20,817	30,435
Other demand deposits in credit institutions (Notes: 33, 34, 40.2)	1,589	1,488
	38,610	**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 15,000 m at 31 December 2018 (31 December 2017: CZK 27,250 m).

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2018 IFRS 9	2017 IAS 39
Financial assets held for trading		
Loans and advances		
Reverse repo transactions (Note: 36)	9	39
Money market placements	1	-
Debt instruments		
General government	3,225	1,047
Credit institutions	1,151	2,263
Corporate	122	430
Equity securities		
Corporate	3	9
Derivative contracts (Note: 21)		
Trading derivatives	15,171	12,224
Derivatives used as economic hedges	187	233
	19,869	**16,245**
Financial assets held for trading pledged as collateral		
Debt instruments		
General government	1,676	2,097
	1,676	**2,097**
Non-trading financial assets mandatorily at fair value through profit or loss		
Loans and advances		
Credit institutions	643	-
	643	**-**
Financial assets at fair value through profit or loss	**22,188**	**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)	2018 IFRS 9	2017 IAS 39
Financial assets at fair value through other comprehensive income		
Debt securities classified as stage 1		
General government	12,738	-
Credit institutions	1,912	-
Corporate	184	-
Equity securities		
Corporate	534	-
Gross carrying amount	15,368	-
Allowance for impairment losses	(1)	-
	15,367	**-**
Financial assets at fair value through other comprehensive income pledged as collateral		
Debt securities classified as stage 1		
General government	3,286	-
	3,286	**-**
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**

Debt securities classified in Stage 1 are assessed as low credit risk financial instruments.

Included within Financial assets at fair value through other comprehensive income pledged as collateral in repo transactions in the amount of CZK 3,286 m (2017: Available-for-sale financial assets pledged as collateral of CZK 5,550 m) or securities lending in the amount of CZK Nil (2017: Available-for-sale financial asset pledged as collateral of 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.

The following table shows a reconciliation of the cumulative impairment losses on available-for-sale financial assets for 2017:

	Available-for-sale financial assets	Total
(CZKm)	Equity securities	
At 1 January 2017	**76**	**76**
Increase	26	26
Utilisation	(24)	(24)
Foreign currency translation	3	3
At 31 December 2017	**81**	**81**

According to IFRS 9, equity instruments measured at fair value through OCI are not subject to impairment. As part of the IFRS 9 first-time application (‘transition’) procedure in the Group, cumulative impairment losses in the amount of CZK 81 m as at 31 December 2017 were converted to accumulated changes of fair value and transferred from Retained earnings to OCI.

19. FINANCIAL ASSETS AT AMORTISED COST

	2018 IFRS 9				
(CZKm)	Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Debt securities					
General government	80,893	-	-	-	80,893
Credit institutions	4,171	-	-	-	4,171
Other legal entities	5,119	331	-	-	5,450
Debt securities – gross carrying amount	90,183	331	-	-	90,514
Allowance for impairment losses	(3)	(1)	-	-	(4)
	90,180	**330**	**-**	**-**	**90,510**
Loans and advances					
Central banks	521,042	-	-	-	521,042
General government	6,661	216	5	-	6,882
Credit institutions	7,485	134	-	-	7,619
Other legal entities	205,213	22,794	9,196	170	237,373
Private individuals	351,327	12,414	5,622	63	369,426
Loans and advances – gross carrying amount	1,091,728	35,558	14,823	233	1,142,342
Allowance for impairment losses	(675)	(1,277)	(7,396)	(71)	(9,419)
	1,091,053	**34,281**	7,427	**162**	**1,132,923**
Total financial assets at amortised cost	**1,181,233**	**34,611**	**7,427**	**162**	**1,223,433**
Financial assets at amortised cost pledged as collateral					
Debt securities					
General government	43,315	-	-	-	43,315
Credit institutions	1,966	-	-	-	1,966
Debt securities – gross carrying amount	45,281	-	-	-	45,281
Allowance for impairment losses	-	-	-	-	-
Total financial assets at amortised cost pledged as collateral	**45,281**	-	-	**-**	**45,281**

Debt securities classified in Stage 1 are assessed as low credit risk financial instruments.

The following table shows the gross carrying amount of those financial assets which are in a different impairment stage at 31 December 2018 than they were at the beginning of the financial year or their initial recognition:

	Transfers between stages 1 and 2		Transfers between stages 2 and 3		Transfers between stages 1 and 3	
(CZKm)	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
Loans and advances						
General government	147	71	-	10	-	-
Credit institutions	-	421	-	-	-	-
Other legal entities	7,451	3,778	532	240	3,676	118
Private individuals	5,988	6,173	957	492	773	142
Total	**13,586**	**10,443**	**1,489**	**742**	**4,449**	**260**

(CZKm)	2017 IAS 39 Held-to-maturity investments	Loans and receivables	Total
Financial assets at amortised cost			
Debt securities			
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 carrying 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 521,042 m at 31 December 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 26,166 m (2017: Held-to-maturity investments pledged as collateral of CZK 15,753 m) or securities lending in the amount of CZK 19,115 m (2017: Held-to-maturity investments pledged as collateral of 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.

Financial assets at amortised cost contain debt securities of CZK 17,035 m (2017: Held-to-maturity investments of CZK 15,514 m) pledged as collateral of term deposits and financial guarantees.

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, 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.

Set out below is a set of information relating to the Group’s financial instruments reclassified from the Available-for-sale financial assets to the Held-to-maturity investments:

(CZKm)	2017
Carrying value	6,268
Fair value	6,758
Net gain (before tax) that would have been recognised in the Statement of other comprehensive income after the date of reclassification if the Group had not reclassified the assets	(354)
Interest income (before tax) recorded on reclassified assets after date of reclassification	250
Expected undiscounted cash recoveries, as assessed at the date of reclassification	15,135
Anticipated average EIR over the remaining life of the assets	3.5%

As part of the IFRS 9 transition procedure, a number of debt securities were transferred from the Available-for-sale financial assets to the category of Financial assets at amortised cost (Note: 2.5). Unrealised gains from the bonds at the date of the transfer in the amount of CZK 498 m were reversed from the equity of the Group and, accordingly, carrying amount of the transferred bonds was adjusted.

Set out below is a set of information relating to the Group's financial instruments reclassified from the Available-for-sale financial assets to the Financial assets at amortised cost:

(CZKm)	2018 IFRS 9
Carrying value	16,222
Fair value	16,537
Net gain (before tax) that would have been recognised in the Statement of other comprehensive income after the date of reclassification if the Group had not reclassified the assets	40

Finance lease receivables may be analysed as follows:

(CZKm)	2018 IFRS 9	2017 IAS 39
Total amount of the future minimum lease payments	**16,730**	**17,292**
At not more than one year	4,562	4,629
At more than one but not more than five years	9,047	9,343
At more than five years	3,121	3,320
Unearned future finance income on finance leases	(515)	(551)
Present value of the future minimum lease payments	**16,215**	**16,740**
At not more than one year	4,422	4,481
At more than one but not more than five years	8,768	9,045
At more than five years	3,025	3,214
Accumulated allowance for uncollectible minimum lease payments receivable	(217)	(212)

Finance lease receivables are collateralised by the leased items. Leasing companies maintain legal ownership of the respective collateral.

As at 31 December 2018, the Group possessed assets (mainly cars related to leased assets) with an estimated value of CZK 47 m (2017: CZK 42 m), which the Group is in the process of selling (Note: 24).

20. INVESTMENT IN ASSOCIATES AND JOINT VENTURES

The investment in ČMSS is a strategic interest of the Bank involved in the business of providing building savings loans and accepting building savings deposits. With regard to the characteristics of its business, ČMSS is exposed to credit risk. The risk is managed on the level of ČMSS while adopting the same policies and processes of credit risk management as used by the Group. Except for loan commitments given in the amount of CZK 4,061 m equivalent to the Group's share (31 December 2017: CZK 2,322 m) ČMSS had no other contingent liabilities.

As a result of the sale of significant part the ČSOB's participation in ČSOB Pojišťovna in 2012, the Group's ownership interest in ČSOB Pojišťovna is 0.24% while an amount of voting rights of ČSOB remains at 40% (Note: 3).

Effective from January 2012, ČSOB lost control in ČSOB AM but retained significant influence and therefore ČSOB AM is considered to be an associated company (Note: 3). ČSOB AM is an interest of the Bank specialised in providing its clients with investment services of asset management and collective investment services, including management of local mutual funds.

The following table illustrates the summarised financial information of the investment in the associates and joint ventures:

(CZKm)	ČMSS 2018 IFRS 9	ČMSS 2017 IAS 39	ČSOB AM 2018 IFRS 9	ČSOB AM 2017 IAS 39	ČSOB Pojišťovna 2018 IFRS 9	ČSOB Pojišťovna 2017 IAS 39
The associate's and joint venture's assets and liabilities						
Assets	147,931	149,042	1,174	943	47,442	45,312
of which current assets	1,573	22,355	127	85	334	148
Liabilities	139,511	140,047	454	431	43,285	40,852
of which current liabilities	1,098	893	454	431	2,192	1,925
Net assets	**8,420**	**8,995**	**720**	**512**	**4,157**	**4,460**
Elimination of intra-group profit	(816)	(831)	-	-	-	-
Adjusted net assets	**7,604**	**8,164**	**720**	**512**	**4,157**	**4,460**
Carrying amount of the investment	**4,182**	**4,490**	**289**	**205**	**11**	**11**
The associate's and joint venture's results						
Interest income	4,232	4,456	7	-	902	866
Interest expense	(2,211)	(2,282)	-	-	(159)	(167)
Total revenues	2,586	2,736	446	413	14,114	13,511
Depreciation and amortisation	(265)	(240)	(5)	(7)	(66)	(46)
Income tax expense	(204)	(202)	(53)	(46)	(221)	(198)
Profit for the year	900	1,013	208	193	904	859
Profit for the year – share of the Group	495	558	84	77	2	2
Dividend – share of the Bank	574	647	-	-	2	2
Other comprehensive income	(55)	(239)	-	-	-	-
Total comprehensive income	440	318	84	77	2	2

21. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are utilised by the Group for trading and hedging purposes. Derivative instruments include swaps, forwards and option contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date and rate or price. An option contract is an agreement that conveys to the purchaser the right, but not the obligation, to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined rate or price at a time or during a period in the future.

Credit risk associated with derivative financial instruments

By using derivative instruments, the Group is exposed to credit risk in the event of non-performance by counterparties in respect of derivative instruments. If a counterparty fails to perform, credit risk is equal to the positive fair value of the derivatives with that counterparty. When the fair value of a derivative is positive, the Group bears the risk of loss; conversely, when the fair value of a derivative is negative, the counterparty bears the risk of loss (or credit risk). The Group minimises credit risk through credit approvals, limits and monitoring procedures. Furthermore, the Group obtains collateral where appropriate and uses bilateral master netting arrangements.

All derivatives are traded over-the-counter.

The maximum credit risk on the Group's outstanding non-credit derivatives is measured as the cost of replacing their cash flows with positive fair value if the counterparties default, less the effects of bilateral netting arrangements and collateral held. The Group's actual credit exposures are less than the positive fair value amounts shown in the derivative tables below as netting arrangements and collateral have not been considered.

Trading derivatives

The Group's trading activities primarily involve providing various derivative products to its customers and managing trading positions for its own account. Trading derivatives also include those derivatives which are used for asset and liability management (ALM) purposes to manage the interest rate position of the Banking Book (positions managed by ALM) and which do not meet the criteria of hedge accounting; still they are used as natural or economic hedges.

The contract or notional amounts and positive and negative fair values of the Group's outstanding derivative trading positions as at 31 December 2018 and 2017 are set out in the table below.
The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with the market risk or credit risk of such transactions.

Trading positions

	2018 IFRS 9			2017 IAS 39		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	825,234	10,375	10,901	574,187	7,558	8,064
Forwards	23,586	2	4	49,994	1	13
Options	25,254	56	23	25,045	64	36
	874,074	**10,433**	**10,928**	**649,226**	**7,623**	**8,113**
Foreign exchange contracts						
Swaps / Forwards	779,046	3,014	2,180	374,588	2,137	3,921
Cross currency interest rate swaps	98,984	690	673	73,242	894	556
Options	90,435	734	741	106,668	1,024	1,046
	968,465	**4,438**	**3,594**	**554,498**	**4,055**	**5,523**
Equity contracts						
Swaps	6,600	5	698	5,124	110	67
Options	8,568	137	53	6,304	297	30
	15,168	**142**	**751**	**11,428**	**407**	**97**
Commodity contracts						
Swaps / Options	2,917	158	151	2,719	139	134
Total trading derivatives (Notes: 17, 26)	**1,860,624**	**15,171**	**15,424**	**1,217,871**	**12,224**	**13,867**

Positions of ALM – economic hedges

	2018 IFRS 9			2017 IAS 39		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	18,432	25	24	46,127	46	-
Foreign exchange contracts						
Cross currency interest rate swaps	4,274	162	-	4,573	187	-
Total derivatives used as economic hedges (Notes: 17, 26)	**22,706**	**187**	**24**	**50,700**	**233**	**-**

Hedging derivatives

The Group's ALM function utilises derivative interest rate contracts in the management of the Group's interest rate risk arising from non-trading or ALM activities, which are contained in the Group's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Group's objective for managing interest rate risk in the Banking Book is to reduce the structural interest rate risk within each currency and, thus, the volatility of net interest margins. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that the changes in interest rates do not have a significant adverse effect on the net interest margins and cash flows of the Banking Book. Group policies to achieve these strategies currently require the use of both cash flow hedges and fair value hedges.

In CSOB Group, an effectiveness of hedge accounting relationship is measured by a comparison of cumulative changes in net present value of a hedging derivative and cumulative changes in net present value of a "hypothetical" derivative. Hypothetical derivative is not a real transaction. It is a virtual financial derivative representing a hedged item and hedged risk. Besides, the Group is testing whether the total amount of hedging derivatives does not exceed the volume of financial instruments eligible for hedging.

The hedging ineffectiveness results from the different floating rate repricing frequencies in hedging and hypothetical derivatives having an impact on their valuation.

Cash flow hedging derivatives

Most of the hedging derivatives are CZK single currency interest rate swaps. The Group uses these instruments to hedge floating interest income from expected reverse repo operations with the Czech National Bank earning the 14-day interest repo rate. The hedging swap contracts are arranged to swap the floating interest rate 3M PRIBOR or 6M PRIBOR paid by the Group and the fixed interest rate the Group receives. The hedging construction is effective due to the strong correlation between the 14-day interest repo rate and 3M or 6M PRIBOR.

The Group also uses single currency interest rate swaps

- to hedge the interest rate risk arising from changes in external interest rates on a group of non-retail client current accounts (the variability in the interest paid on the client deposits is effectively hedged by the fixed rate payer/floating rate receiver swaps).
- to convert floating-rate client loans to fixed rates.

Cross currency interest rate swaps are used to hedge currency risk resulting from interest income accrued on foreign currency investment debt securities. These fixed and floating interest earning securities are included in Financial assets at amortised cost (2017: Available-for-sale financial assets and in Held-to-maturity investments) of the Group’s statement of financial position.

The contract or notional amounts and positive and negative fair values of the Group's outstanding cash flow hedging derivatives as at 31 December 2018 and 2017 are set out as follows:

	2018 IAS 39			2017 IAS 39		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	88,133	1,846	1,267	104,802	2,793	1,716
Cross currency interest rate swaps	8,322	226	507	11,008	243	481
Total hedging derivatives	**96,455**	**2,072**	**1,774**	**115,810**	**3,036**	**2,197**

In 2018, a loss of CZK 31 m was recognised in the statement of income due to hedge ineffectiveness from single currency interest rate swaps cash flow hedges (2017: a gain of CZK 50 m).

In 2018, the discontinuation of hedge accounting (due to sales of / impairment on underlying hedged bonds or retrospective hedge effectiveness test failure) resulted in a reclassification of the associated cumulative losses of CZK 2 m from equity to the statement of income (2017: gains of CZK 13 m). The gains / losses are included in Net gains from financial instruments at fair value through profit or loss.

The following table contains details of the hedged financial instruments as at 31 December 2018 covered by the Group's hedging strategies:

	2018 IAS 39		
	Cash flow hedge reserve		Change in fair value of hedged item for ineffectiveness assessment
(CZKm)	Continuing hedges	Discontinued hedges	
Cash flow hedges	(114)	144	(31)

Net gains and losses on cash flow hedges reclassified to the statement of income are as follows:

(CZKm)	2018 IAS 39	2017 IAS 39
Interest income (Note: 31)	643	758
Net gains from financial instruments at fair value through profit or loss (Note: 31)	(33)	63
Taxation (Note: 14)	(117)	(156)
Net gains	**493**	**665**

Since the cash flows from the hedging interest rate swaps are variable and difficult to predict, the Group uses the remaining contractual maturity analysis of the hedging derivatives notional amounts instead of the expected future cash flows from the hedged items. As the objective of the hedging structure is to achieve fixed interest income, the information of the hedging swaps notional amounts remaining maturity is more relevant. Cash flows from hedged items are expected to occur in the same periods as the remaining maturity of cash flows from hedging derivatives.

The following table shows the notional amounts of hedging derivatives by remaining contractual maturity at 31 December 2018 and 2017:

	2018 IAS 39		2017 IAS 39
(CZKm)	Single currency interest rate swaps	Cross currency interest rate swaps	Interest rate swaps
Less than 3 months	4,136	-	3,313
More than 3 months but not more than 6 months	3,090	-	5,652
More than 6 months but not more than 1 year	7,272	114	11,873
More than 1 year but not more than 2 years	50,656	2,974	14,697
More than 2 years but not more than 5 years	22,779	5,234	55,740
More than 5 years	200	-	24,535
	88,133	**8,322**	**115,810**

Fair value hedging derivatives

Cross currency interest rate swaps are used to hedge both FX risks and interest rate risks arising from the movement in the fair value of foreign currency fixed rate bonds classified as at fair value through other comprehensive income and as Financial assets at amortised cost (2017: Available-for-sale) attributable to the changes in the FX rate and the risk-free (interest rate swap) yield curve. A fixed rate payer (foreign currency)/floating rate receiver (home currency) interest rate swap is expected to be a highly effective hedge.

Interest rate swaps are used by the Group to hedge the interest rate risk arising from the movement in the fair value of bonds classified as at fair value through other comprehensive income and as Financial assets at amortised cost (2017: Available-for-sale) attributable to changes in the risk-free (interest rate swap) yield curve. A fixed payer/floating rate receiver interest rate swap denominated in the same currency as the hedged bond is expected to be a highly effective hedge.

Fair value hedges for portfolios of retail non-maturity deposits have been used to hedge interest rate risk arising from changes in fair value of non-maturity retail deposits to changes in the risk-free yield curve. The portfolio consisting of the part of retail current accounts was designated as a hedged item. The interest rate risk is effectively hedged by the single currency fixed rate receiver/floating rate payer swaps.

Fair value hedges for portfolios of fixed rate loans have been used to hedge interest rate risk arising from changes in the fair value of fixed rate loans to changes in the risk-free yield curve. The interest rate risk is effectively hedged by the single currency fixed rate payer/floating rate receiver swaps.

The contract or notional amounts and positive and negative fair values of the Group's outstanding fair value hedging derivatives as at 31 December 2018 and 2017 are set out as follows:

	2018 IAS 39			2017 IAS 39		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Fair value hedges						
Single currency interest rate swaps						
Fair value micro hedges	63,950	265	2,500	55,304	105	3,001
Fair value portfolio hedges	473,850	7,039	5,765	416,794	5,972	5,210
Cross currency interest rate swaps						
Fair value micro hedges	923	-	86	923	-	77
Total hedging derivatives	**538,723**	**7,304**	**8,351**	**473,021**	**6,077**	**8,288**

The following table contains details of the hedged items as at 31 December 2018 covered by the Group's hedging strategies:

	2018 IAS 39			
	Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged items		Change in fair value of hedged item for ineffectiveness assessment
(CZKm)		Assets	Liabilities	
Fair value micro hedges				
Financial assets at amortised cost	17,276	166	-	37
Financial assets at fair value through other comprehensive income	15,307	86	-	(157)
Financial liabilities at amortised cost	32,733	-	191	(237)
Total	65,316	252	191	(357)
Fair value portfolio hedges				
Financial assets at amortised cost	322,592	(3,905)	-	330
Financial liabilities at amortised cost	187,115	-	(3,062)	(742)
Total	509,707	(3,905)	(3,062)	(412)
Total hedged items	**575,023**	**(3,653)**	**(2,871)**	**(769)**

In 2018, the discontinuation of hedge accounting due to sales of underlying hedged bonds resulted in realised losses of CZK 51 m (2017: CZK 159 m) included in Net gains from financial instruments at fair value through profit or loss in the statement of income.

In 2018, the net losses in the amount of CZK 769 m (2017: gains of CZK 2,705 m) realised on the hedged item attributable to the hedged interest rate risk is included in Net gains from financial instruments at fair value through profit or loss.

Net gains realised on the hedging contracts, which are included in Net gains from financial instruments at fair value through profit or loss, amounted to CZK 749 m (2017: losses of CZK 2,535 m).

22. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2017	7,729	1,030	586	7,175	470	16,990
Depreciation and impairment at 1 January 2017	(3,516)	(412)	(490)	(2,563)	-	(6,981)
Net book value at 1 January 2017	**4,213**	**618**	**96**	**4,612**	**470**	**10,009**
Transfers	627	296	52	2,892	(3,867)	-
Additions	-	-	-	-	4,500	4,500
Disposals	(16)	(5)	(3)	(2,162)	-	(2,186)
Transfer to non-current assets held-for-sale	(6)	-	-	-	-	(6)
Depreciation	(254)	(272)	(27)	(202)	-	(755)
Depreciation related to operating leased assets (Note: 33)	-	-	-	(398)	-	(398)
Impairment charge (Note: 13)	(6)	-	-	(134)	-	(140)
Net book value at 31 December 2017	**4,558**	**637**	**118**	**4,608**	**1,103**	**11,024**
of which						
Cost	8,187	1,283	602	7,442	1,103	18,617
Depreciation and impairment	(3,629)	(646)	(484)	(2,834)	-	(7,593)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2018	8,187	1,283	602	7,442	1,103	18,617
Depreciation and impairment at 1 January 2018	(3,629)	(646)	(484)	(2,834)	-	(7,593)
Net book value at 1 January 2018	**4,558**	**637**	**118**	**4,608**	**1,103**	**11,024**
Transfers	1,317	207	68	1,153	(2,745)	-
Additions	-	-	-	-	2,171	2,171
Additions through business combination	-	3	-	-	-	3
Disposals	(14)	(10)	(2)	(803)	-	(829)
Transfer to non-current assets held-for-sale	(38)	-	-	-	-	(38)
Depreciation	(245)	(279)	(25)	(194)	-	(743)
Depreciation related to operating leased assets (Note: 33)	-	-	-	(502)	-	(502)
Impairment charge (Note: 13)	(22)	-	-	(709)	-	(731)
Net book value at 31 December 2018	**5,556**	**558**	**159**	**3,553**	**529**	**10,355**
of which						
Cost	9,358	1,452	647	6,860	529	18,846
Depreciation and impairment	(3,802)	(894)	(488)	(3,307)	-	(8,491)

ČSOB Leasing owns assets leased out under operating leases, which represent 89% (2017: 89%) of the net book value of the Other class of property and equipment.

Property and equipment are assessed as non-current assets.

23. GOODWILL AND OTHER INTANGIBLE ASSETS

(CZKm)	Goodwill	Acquired software	Internally developed software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2017	3,636	5,801	38	654	1,305	11,434
Amortisation and impairment at 1 January 2017	(1,095)	(4,065)	(3)	(577)	(60)	(5,800)
Net book value at 1 January 2017	**2,541**	**1,736**	**35**	**77**	**1,245**	**5,634**
Transfers	-	293	1,515	11	(1,819)	-
Additions	-	-	-	-	1,025	1,025
Disposals	-	(13)	-	(16)	-	(29)
Amortisation	-	(517)	(89)	(19)	-	(625)
Impairment (Note: 13)	-	(189)	-	-	-	(189)
Net book value at 31 December 2017	**2,541**	**1,310**	**1,461**	**53**	**451**	**5,816**
of which						
Cost	3,636	5,870	1,553	610	451	12,120
Amortisation and impairment	(1,095)	(4,560)	(92)	(557)	-	(6,304)

(CZKm)	Goodwill	Acquired software	Internally developed software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2018	3,636	5,870	1,553	610	451	12,120
Amortisation and impairment at 1 January 2018	(1,095)	(4,560)	(92)	(557)	-	(6,304)
Net book value at 1 January 2018	**2,541**	**1,310**	**1,461**	**53**	**451**	**5,816**
Transfers	-	305	619	9	(933)	-
Additions	-	-	-	-	969	969
Additions through business combination	181	1	-	124	-	306
Disposals	-	(4)	(24)	(2)	-	(30)
Amortisation	-	(402)	(279)	(30)	-	(711)
Impairment (Note: 13)	-	-	-	-	-	-
Net book value at 31 December 2018	**2,722**	**1,210**	**1,777**	**154**	**487**	**6,350**
of which						
Cost	3,817	5,064	2,150	654	487	12,172
Amortisation and impairment	(1,095)	(3,854)	(373)	(500)	-	(5,822)

Included in Construction in progress is internally developed software in the net amount of CZK 349 m as at 31 December 2018 (31 December 2017: CZK 356 m).

Goodwill and other intangible assets are assessed as non-current assets.

Goodwill does not generate cash flows independently of other groups of assets and thus is assigned to cash generating units (CGUs) for the purposes of impairment testing. These CGUs are based upon how management monitors the business and represents the lowest level to which goodwill can be allocated on a reasonable basis.

An allocation to CGUs of the Group's goodwill attributable to shareholders is shown below:

(CZKm)	2018	2017
Retail segment and SME clients – Bank	2,511	2,511
Retail segment and SME clients – subsidiaries	211	30
	2,722	**2,541**

Retail segment and SME clients - Bank

The recoverable amount for the Retail segment and SME clients - Bank was determined based on the value-in-use methodology. The calculation uses cash flow projections from business plans for the forthcoming three years which are then extrapolated for a five further years using the expected average growth rate of 3%; after that a terminal value is applied.

Cash flows in the Retail segment and SME clients – Bank are based on the net profit generated by the cash-generating unit above the required capital and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 10.6% (2017: 10.1%) and no long term growth rates were used in 2018 and 2017.

The value in use is particularly sensitive to a number of key assumptions:

- The growth rate in forecasted cash flows beyond the terminal year of the budget. The Group has a conservative approach when calculating the terminal value, which implies that no growth rate for Retail segment and SME clients - Bank has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For Retail segment and SME clients - Bank an average risk discount rate of 10.8% has been applied (2017: 10.3%). This reflects a risk-free rate in the Eurozone, long-term inflation in the Czech market and in the Eurozone, the credit default swap spread for the Czech Republic relative to the Eurozone, an average 'beta' factor for relative market risk, including the market risk premium.

The key assumptions described above may change as economic and market conditions change.

The outcome of the impairment assessment was that it is considered unlikely that goodwill in respect of the Retail segment and SME clients - Bank would be impaired given that the value-in-use is significantly higher than the carrying value of goodwill.

The management believes that reasonable potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

Retail segment and SME clients - subsidiaries

In April 2018, the Group acquired 100% share in entities "Ušetřeno.cz" and "Ušetřeno.cz finanční služby". As part of the acquisition, the Group recognised goodwill in the amount of CZK 181 m. The recoverable amount for this cash generating unit was determined based on the value-in-use methodology. The calculation uses cash flow projections from business plans for the forthcoming three years which are then extrapolated for twenty years using the expected average growth rate. After that a terminal value is applied.

Cash flows in Ušetřeno.cz and in Ušetřeno.cz finanční služby are based on the net profit generated by the cash generating unit above the required capital and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 9.9% and a negative long term growth rate of -10% were used.

The value in use is particularly sensitive to a number of key assumptions:

- The growth rate in forecasted cash flows beyond the terminal year of the budget. The Group has a conservative approach when calculating the terminal value, which implies that no growth rate for Ušetřeno.cz and Ušetřeno.cz finanční služby has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For Ušetřeno.cz and Ušetřeno.cz finanční služby an average risk discount rate of 11.2% has been applied. This reflects a risk-free rate in the Eurozone, long-term inflation in the Czech market and in the Eurozone, the credit default swap spread for the Czech Republic relative to the Eurozone, an average 'beta' factor for relative market risk, including the market risk premium.

Based on the impairment assessment, there is no evidence of impairment of goodwill in respect of the Ušetřeno.cz and Ušetřeno.cz finanční služby given the fact that the value-in-use is higher than the carrying value of the CGU.

The management believes that reasonable potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

24. NON-CURRENT ASSETS HELD-FOR-SALE

(CZKm)	Land and buildings	Other (Note: 19)	Total
Net book value at 1 January 2017	**15**	**37**	**52**
Transfer from Property and equipment (Note: 22)	6	-	6
Additions	-	78	78
Disposals	(30)	(73)	(103)
Impairment release	9	-	9
Net book value at 31 December 2017	**-**	**42**	**42**
of which			
Cost	-	42	42
Impairment	-	-	-

(CZKm)	Land and buildings	Other (Note: 19)	Total
Net book value at 1 January 2018	**-**	**42**	**42**
Transfer from Property and equipment (Note: 22)	38	-	38
Additions	-	130	130
Disposals	-	(125)	(125)
Net book value at 31 December 2018	**38**	**47**	**85**
of which			
Cost	38	47	85
Impairment	-	-	-

Movements disclosed in Transfer from Property and equipment represent buildings and other property which the Group decided to sell. The buildings are measured at the lower of their carrying amount and fair value less costs to sell. The fair value of the buildings was calculated based on indicative market prices.

25. OTHER ASSETS

(CZKm)	2018 IFRS 9	2017 IAS 39
Other financial assets		
Other debtors, net of provisions (Notes: 32, 34, 37, 40.2)	634	634
Receivables from pension funds (Notes: 32, 34, 37, 40.2)	432	430
Accrued income (Notes: 32, 34, 37, 40.2)	394	322
Other receivables from clients (Notes: 32, 34, 37, 40.2)	54	11
	1,514	**1,397**
Other non-financial assets		
Assets subject of terminated operating leasing contracts	260	590
Prepaid charges	622	541
VAT and other tax receivables	88	169
Other	132	139
	1,102	**1,439**
Total other assets	**2,616**	**2,836**

The following table shows staging and detail of cumulative impairment losses on other financial assets for 2018:

(CZKm)	2018 IFRS 9 Stage 2	2018 IFRS 9 Stage 3	2018 IFRS 9 Total
Other financial assets			
Gross carrying amount	1,522	33	1,555
Allowance for impairment losses	(17)	(24)	(41)
	1,505	**9**	**1,514**

Expected credit losses of Other financial assets are assessed using simplified approach.

Other assets are assessed as current assets.

26.FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2018 IFRS 9	2017 IAS 39
Financial liabilities held for trading		
Short positions	11,916	12,952
Derivative contracts (Note: 21)		
Trading derivatives	15,424	13,867
Derivatives used as economic hedges	24	-
Term deposits	1,272	362
Repo transactions	1	2,108
Bonds and investment certificates issued	4,540	5,317
	33,177	**34,606**
Financial liabilities designated at fair value through profit or loss		
Bonds issued	11,988	-
Investment certificates	14,077	9,498
	26,065	**9,498**
Financial liabilities at fair value through profit or loss	**59,242**	**44,104**

The amount that the Group would contractually be required to pay at the maturity of the financial liabilities designated at fair value through profit or loss is by CZK 729 m higher than the carrying amount at 31 December 2018 (31 December 2017: lower by CZK 52 m).

The changes in the fair value of the Financial liabilities designated at fair value through profit or loss attributable to changes in own credit risk were not significant.

The investment certificates and bonds issued reported as Financial liabilities designated at fair value through profit or loss are hybrid contracts which contain an embedded derivative. The Group has assessed the contract, where the separation of the embedded derivative would require unreasonable cost and therefore the Group has decided to apply the fair value option on measurement of these hybrid contracts as a whole.

27. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2018 IFRS 9	2017 IAS 39
Deposits received from credit institutions		
Current accounts and overnight deposits	10,210	36,196
Term deposits	14,641	10,296
Repo transactions	29,802	22,011
	54,653	**68,503**
Deposits received from other than credit institutions		
Current accounts and overnight deposits	541,318	506,522
Term deposits	28,603	11,806
Savings deposits	212,311	214,976
Pension funds clients deposits	30	51
Repo transactions	316	-
Other deposits	10,047	11,093
	792,625	**744,448**
Debt securities in issue		
Bonds and investment certificates issued	10,714	13,251
Promissory notes	354,597	336,885
	365,311	**350,136**
Financial liabilities at amortised cost	**1,212,589**	**1,163,087**

28. OTHER LIABILITIES

(CZKm)	2018 IFRS 9	2017 IAS 39
Other financial liabilities		
Payables to employees including social security charges (Notes: 32, 34, 37, 40.3)	2,076	2,021
Accrued charges (Notes: 32, 34, 37, 40.3)	1,842	2,332
Other creditors (Notes: 32, 34, 37, 40.3)	295	278
Other debts to clients (Notes: 32, 34, 37, 40.3)	162	176
Other (Notes: 32, 34, 37, 40.3)	93	131
	4,468	**4,938**
Other non-financial liabilities		
Income received in advance	102	86
VAT and other tax payables	99	128
	201	**214**
Total other liabilities	**4,669**	**5,152**

Other liabilities are assessed as current liabilities.

29. PROVISIONS

(CZKm)	Pending legal Issues and other losses	Restructuring	Contractual engagements	Total
At 1 January 2017	**360**	**49**	**32**	**441**
Additions	109	-	9	118
Amounts utilised	(11)	(37)	(21)	(69)
Unused amounts reversed	(37)	-	(5)	(42)
Discount amortisation (Note: 6)	-	-	3	3
Foreign currency translation	(3)	-	-	(3)
At 31 December 2017	**418**	**12**	**18**	**448**
Additions	71	96	66	233
Amounts utilised	(10)	(47)	(18)	(75)
Unused amounts reversed	(235)	-	(8)	(243)
Discount amortisation (Note: 6)	-	-	3	3
Foreign currency translation	(1)	-	-	(1)
At 31 December 2018	**243**	**61**	**61**	**365**

Loan commitments and guarantees (Note: 35):

(CZKm)	Total
At 1 January 2017 (IAS 39)	**232**
Additions	345
Unused amounts reversed	(109)
Foreign currency translation	(2)
At 31 December 2017 (IAS 39)	**466**
Impact of transition to IFRS 9 (Note: 2.5)	69

(CZKm)	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018 (IFRS 9)	**127**	**62**	**346**	**535**
Origination and acquisition	90	27	110	227
Change in credit risk not leading to stage transfers	(87)	(4)	(288)	(379)
Change in credit risk leading to stage transfer	(6)	(16)	4	(18)
Derecognition	(50)	(10)	(22)	(82)
Foreign currency translation	37	(11)	(17)	9
At 31 December 2018 (IFRS 9)	**111**	**48**	**133**	**292**

Restructuring

During 2018, the Group started a restructuring programme, resulting in the creation of a provision of CZK 96 m. In the framework of this restructuring programme the total number of personnel was reduced in 2018 and continues in 2019.

Pending legal issues and other losses

Provisions for legal issues and other losses represent an obligation to cover potential risks resulting from litigation, where the Group is the defendant.

The Group is involved in a number of ongoing legal disputes, the resolution of which may have an adverse financial impact on the Group. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for.

The Group's policy is to create a provision, where the possibility of an outflow of resources embodying economic benefits to settle the obligation is more than 50%. In such cases the Group creates a provision in the full amount to cover the possible cost in the event of loss.

In 2018, the Group had a provision for pending legal issues and other losses in the total amount of CZK 243 m. It is expected that the majority of the costs will be incurred in the next 3 years.

On a quarterly basis, the Group monitors the status of all cases and makes a decision whether to create, utilise or reverse any provision.

The Group does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Group's interests.

Contractual engagements

A number of leasehold property arrangements for which, on a net basis, the unavoidable contractual rental costs exceeds expected economic benefits exists in the Group. Particularly, when the Group decides to terminate the occupation of the building before the maturity of the leasehold arrangement. This provision represents the present value of the future net rental losses, or other costs, that will arise. It is expected that a majority of the costs will be incurred over the next 5 years.

30. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 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 31 December 2018 and 2017.

On 31 December 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)	Revaluation reserve from financial assets at fair value through OCI	Available-for-sale reserve	Cash flow hedge reserve	Total
At 1 January 2017 (IAS 39)	**-**	**2,228**	**1,973**	**4,201**
Other comprehensive income (Note: 31)	-	(738)	(1,477)	(2,215)
At 31 December 2017 (IAS 39)	**-**	**1,490**	**496**	**1,986**
Impact of transition to IFRS 9 (Note: 2.5)	697	(1,490)	-	(793)
At 1 January 2018 (IFRS 9)	**697**	**-**	**496**	**1,193**
Other comprehensive income (Note: 31)	(313)	-	(471)	(784)
At 31 December 2018 (IFRS 9)	**384**	**-**	**25**	**409**

31. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2018 IFRS 9	2017 IAS 39
Other comprehensive income – to be reclassified to the statement of income		
Cash flow hedges		
Net unrealised gain / loss on cash flow hedges	28	(1,002)
Net gains on cash flow hedges reclassified to the statement of income (Note: 21)	(610)	(821)
Tax effect relating to cash flow hedges (Note: 14)	111	346
	(471)	(1,477)
Financial debt instruments FVOCI		
Net unrealised losses on financial debt instruments FVOCI	(441)	-
Realised gains on financial debt instruments FVOCI reclassified to the statement of income on impairment	(2)	-
Tax effect relating to financial debt instruments FVOCI (Note: 14)	84	-
	(359)	-
Available-for-sale financial assets		
Net unrealised losses on available-for-sale financial investments	-	(31)
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal	-	(455)
Net realised gains on available-for-sale financial investments amortised to the statement of income on reclassified assets (Note: 18)	-	(143)
Realised losses on available-for-sale financial investments reclassified to the statement of income on impairment	-	13
Tax effect relating to available-for-sale financial investments (Note: 14)	-	117
	-	(499)
Share of other comprehensive income of associates	(55)	(239)
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	**(885)**	**(2,215)**
Other comprehensive income – not to be reclassified to the statement of income		
Financial equity instruments FVOCI		
Net unrealised gains on financial equity instruments FVOCI	55	-
Net realised losses on financial equity instruments FVOCI reclassified to the retained earnings on disposal	57	-
Tax effect relating to financial equity instruments FVOCI	(11)	-
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	**101**	**-**
Other comprehensive income for the year, net of tax attributable to owners of the parent	**(784)**	**(2,215)**
Non-controlling interests	-	-
Other comprehensive income for the year, net of tax	**(784)**	**(2,215)**

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities at fair value

The Group's accounting policy on fair value measurements is discussed in the Accounting policies (Note 2.4 (3)).

Financial assets and liabilities at fair value, i.e. financial assets FVOCI (2017: available-for-sale financial assets), held for trading, designated at fair value through profit or loss, are valued as follows:

- Level 1

  If available, published price quotations in active markets are used to determine the fair value of financial assets or financial liabilities. Revaluation is obtained using prices of an identical asset or liability, which means that no model is involved in the process of a revaluation.

Financial instruments valued on this basis include spot foreign exchange contracts and listed shares and bonds.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

- Level 2

  Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observed from the market.

  Financial instruments valued on this basis include forward interest rate, foreign exchange and commodity contracts, mortgage bonds, money market loans and deposits.

- Level 3

  Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

  Financial instruments for which the parameters are not observable include unlisted shares, a part of the portfolio of trading derivatives, a part of the portfolio of mortgage bonds and selected listed but not traded bonds.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to determine a fair value that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and less complex financial instruments like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives like interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain over-the-counter structured derivatives, certain loans and securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, the determination of expected future cash flows on the financial instrument being valued, the determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates. The Valuation policy is subject to approval of the ČSOB Risk and Capital Oversight Committee and KBC Group Valuation Committee. The process for the approval of any new product consist also of an assessment of the valuation of the product and the eventual new valuation model for the product has to be approved before the product is endorsed or approval of the model is a blocking condition for the product implementation. The New and Active Product Process also requires a regular review of all products and the assessment of valuation quality is an important part of the review. Any valuation model, which uses not directly observable inputs, is subject to the Parameter review policy. The policy requires quarterly assessment of all parameters correctness. The Group currently checks the valuation of all bonds quarterly.

The Group also monitors the quality of asset valuations on a daily basis. If an asset quote quality does not meet the required criteria for Level 1 or Level 2 the asset is transferred to Level 3 and vice versa. The monitoring process evaluates among others the frequency of quote updates.

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 31 December 2018:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	10	-	10
Debt instruments	2,437	198	1,863	4,498
Equity securities	3	-	-	3
Derivative contracts	-	15,107	252	15,358
Financial assets held for trading pledged as collateral				
Debt instruments	1,676	-	-	1,676
Non-trading financial assets mandatorily at fair value through profit or loss				
Loans and advances	-	643	-	643
Financial assets FVOCI				
Debt securities	12,830	-	2,004	14,833
Equity securities	-	-	534	534
Financial assets FVOCI pledged as collateral				
Debt securities	2,505	-	781	3,286
Fair value adjustments of the hedged items in portfolio hedge	-	(3,905)	-	(3,905)
Derivatives used for hedging	-	9,376	-	9,376
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Short positions	11,916	-	-	11,916
Derivative contracts	-	14,624	824	15,448
Term deposits	-	1,272	-	1,272
Repo transactions	-	1	-	1
Bonds and investment certificates issued	-	-	4,540	4,540
Financial liabilities designated at fair value through profit or loss				
Bonds and investment certificates issued	-	-	26,065	26,065
Fair value adjustments of the hedged items in portfolio hedge	-	(3,062)	-	(3,062)
Derivatives used for hedging	-	10,125	-	10,125

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 31 December 2017:

(CZKm)	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 and investment certificates issued	-	5,317	-	5,317
Financial liabilities designated at fair value through profit or loss				
Bonds and investment certificates issued	-	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

Yield curve used in the mortgage bonds valuation model for discounting future cash flows is constructed from IRS rates and respective credit spreads. The credit spreads for all maturities were derived from market unobservable inputs in 2018. The credit spread curve for mortgage bonds was derived from newly issued mortgage bonds for 5Y bucket (as the most frequent maturity) and spreads for other maturities were calculated using slope from bank bond credit spread curve with rating grade A. The management considers this a significant market unobservable input, and as a consequence, all mortgage bonds are reported as part of Level 3

In 2017, the spreads for the first year of maturity were exclusively derived from market observable quotes of mortgage bonds. Therefore mortgage bonds with a maturity of up to one year were included in Level 2.

The spread according to bond maturity was 74 bps (2-year) to 102 bps (above 20-year) in 2017 and 0 bps (2-year) to 25 bps (above 20-year) in 2018.

Valuation of bonds issued by Česká Exportní Banka (ČEB) is based on model using unobservable inputs. Yield curves (different for floating and fix bonds) used in the ČEB bonds valuation model for discounting future cash flows are constructed from IRS rates and respective credit spreads. The credit spreads are derived from the quotes of the most liquid bonds issued by ČEB and IRS rates.
The management considers this a significant market unobservable input and, as a consequence, the bonds issued by ČEB are classified as Level 3.

The spreads are regularly updated, at the latest quarterly. The spread according to bond maturity was 49 bps (1-year) to 100 bps (10-year) for fixed bonds after last review in December 2018 (31 December 2017: 5 bps (1-year) to 215 bps (10-year) for fixed bonds and 9 bps (1-year) to 42 bps (10-year) for floating bonds).

The Group's share in Visa Inc. classified as financial asset at fair value through other comprehensive income (2017: Available-for-sale financial asset) is subject to fair value measurement based on the quoted price of Visa Inc.

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. Issued bonds 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 both, market observable and unobservable inputs. In 2018, unobservable inputs represented a significant portion of the valuation, and as a consequence, the investment certificates and bonds issued were transferred to Level 3 financial instruments.

All transfers of financial instruments among the levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Movements in Level 3 financial instruments measured at fair value

The following table shows the 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:

	Financial assets held for trading		Available-for-sale financial assets (incl. assets pledged as collateral)		Total
(CZKm)	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	(288)	240	(170)	-	(218)
Total gains recorded in OCI	-	-	(74)	64	(10)
Transfers into level 3	58	-	-	-	58
Transfers out of level 3	(76)	-	-	-	(76)
Purchases	1,040	-	-	10	1,050
Settlement	(141)	(140)	-	(6)	(287)
Sales	(686)	-	(109)	-	(795)
Impairment losses	-	-	-	(24)	(24)
At 31 December 2017	**3,289**	**200**	**4,074**	**460**	**8,023**
Total gains / (losses) recorded in profit or loss related to assets held at the end of the reporting period	(278)	240	(170)	-	**(208)**

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(CZKm)	Financial assets held for trading		Financial assets FVOCI (incl. assets pledged as collateral)		Total
	Debt securities	Financial derivatives	Debt securities	Equity securities	
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	45	(115)	7	-	(63)
Total gains recorded in OCI	-	-	26	68	94
Transfers into level 3	3	343	-	-	346
Transfers out of level 3	(81)	-	-	-	(81)
Purchases	74	-	745	11	830
Settlement	-	(176)	-	-	(176)
Sales	(1,467)	-	-	(5)	(1,472)
At 31 December 2018	**1,863**	**252**	**2,785**	**534**	**5,434**
Total gains / (losses) recorded in profit or loss related to assets held at the end of the reporting period	(38)	(115)	7	-	**(146)**

Total losses recorded in profit or loss are included within the captions Interest income calculated using the effective interest rate method, Net gains from financial instruments at fair value through profit or loss, Net realised gains on financial instruments at fair value through other comprehensive income (2017: available-for-sale financial assets) and Impairment losses of the statement of income.

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:

(CZKm)	Financial liabilities held for trading		Financial liabilities designated at fair value through profit or loss	Total
	Debt instruments	Financial derivatives	Debt instruments	
At 1 January 2017	**-**	**142**	**-**	**142**
Total losses recorded in profit or loss	-	72	37	109
Issued	-	-	6,916	6,916
Settlement	-	(134)	-	(134)
At 31 December 2017	**-**	**80**	**6,953**	**7,033**
Total losses recorded in profit or loss related to liabilities held at the end of the reporting period	-	72	37	109
At 1 January 2018	**-**	**80**	**6,953**	**7,033**
Total (gains) / losses recorded in profit or loss	(173)	705	(635)	(103)
Transfers into level 3	4,744	179	2,593	7,516
Issued	-	-	19,008	19,008
Settlement	(31)	(140)	(1,854)	(2,025)
At 31 December 2018	**4,540**	**824**	**26,065**	**31,429**
Total (gains) / losses recorded in profit or loss related to liabilities held at the end of the reporting period	(299)	705	(855)	(449)

Total gains / losses recorded in profit or loss are included within the captions Net gains from financial instruments at fair value through profit or loss of the statement of income.

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

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

As at 31 December 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 34 m and CZK 25 m, respectively (2017: CZK 40 m and CZK 65 m, respectively). Such a change in the credit spread is based on the variability of mortgage bond and ČEB bond quotes that were observed by the management on the market.

Management believes that reasonably possible changes in other non-observable market 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

In 2017 and 2018, no transfers were made between a group of financial instruments with a market quoted price and those for which the fair value is calculated using valuation techniques based on market observable inputs.

Financial assets and liabilities not carried at fair value

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the financial statements:

	2018 IFRS 9		2017 IAS 39	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash, balances with central banks and other demand deposits	38,610	38,610	54,499	54,499
Financial assets at amortised cost	1,223,433	1,193,613	-	-
Financial assets at amortised cost pledged as collateral	45,281	47,015	-	-
Loans and receivables	-	-	1,062,201	1,054,207
Held-to-maturity investments	-	-	86,604	95,483
Held-to-maturity investments pledged as collateral	-	-	29,017	30,814
Other assets (Note: 25)	1,514	1,514	1,397	1,397
Financial liabilities				
Financial liabilities at amortised cost	1,212,589	1,213,160	1,163,087	1,162,520
Other liabilities (Note: 28)	4,468	4,468	4,938	4,938

The following table shows an analysis of assets and liabilities for which fair values are disclosed, 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 31 December 2018:

	2018 IFRS9			
(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash, balances with central banks and other demand deposits	8,838	29,772	-	38,610
Financial assets at amortised cost	84,755	521,041	587,817	1,193,613
Financial assets at amortised cost pledged as collateral	44,890	-	2,125	47,015
Other assets (Note: 25)	-	1,514	-	1,514
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	1,151,454	61,706	1,213,160
Other liabilities (Note: 28)	-	4,468	-	4,468

The following table shows an analysis of assets and liabilities for which fair values are disclosed, 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 31 December 2017:

	2017 IAS 39			
(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash, balances with central banks and other demand deposits	9,745	44,754	-	54,499
Loans and receivables	-	477,750	576,457	1,054,207
Held-to-maturity investments	93,190	-	2,293	95,483
Held-to-maturity investments pledged as collateral	30,814	-	-	30,814
Other assets (Note: 25)	-	1,397	-	1,397
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	1,106,802	55,718	1,162,520
Other liabilities (Note: 28)	-	4,938	-	4,938

The following methods and assumptions were applied in estimating the fair values of the Group's financial assets and liabilities:

Financial debt securities at amortised cost

Fair values for securities measured at amortised cost are based on quoted market prices, where available. Such quotes are obtained from relevant exchanges, if exchange activity for the particular security is considered sufficiently liquid, or from reference rates averaging market maker quotes. If quoted market prices are not available, fair values are estimated from quoted market prices of comparable instruments or using the valuation model based on discounted future cash flows.

Loans and advances to credit institutions and balances with central banks measured at amortised cost

The carrying values of current account balances are equal to their fair values. The fair values of term placements with credit institutions and central banks are estimated by discounting their future cash flows using current interbank market rates, including the respective credit spread derived from the Group's own experience of probability of default and loss given default. A majority of the loans reprice within relatively short time periods, therefore, it is assumed that their carrying values approximate their fair values.

Loans and advances to other than credit institutions measured at amortised cost

A substantial majority of the loans to customers reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates including the respective credit spread derived from the Group's own experience of probability of default and loss given default.

Deposits received from credit institutions and subordinated liabilities

The carrying values of current account balances are equal to their fair values. For other amounts due to credit institutions with equal to or less than one year remaining maturity, it is assumed that their carrying values approximate their fair values. The fair values of other amounts due to credit institutions are estimated by discounting their future cash flows using IRS rates modified by market unobservable credit spread.

Deposits received from other than credit institutions

The fair values of current accounts and term deposits, with equal to or less than one year remaining to maturity, approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using IRS rates modified by market unobservable credit spreads.

Debt securities in issue

The fair values of bonds issued are estimated by discounting their future cash flows using Czech government bond rates adjusted by credit spread derived from market observable transactions with respective or comparable bonds. The carrying values of promissory notes and certificates of deposit approximate their fair values.

Other assets and other liabilities

A majority of other assets and liabilities have a remaining maturity equal to or less than one year or reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values.

33. ADDITIONAL CASH FLOW INFORMATION

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

(CZKm)	2018 IFRS 9	2017 IAS 39
Cash, balances with central banks and other demand deposits (Note: 16)	38,610	54,499
Loans and advances to credit institutions and central banks	521,278	477,454
Financial liabilities at amortised cost to credit institutions and central banks	(10,446)	(36,324)
Financial liabilities at amortised cost - promissory notes issued to credit institutions	(347,214)	(310,147)
Cash and cash equivalents	**202,228**	**185,482**

Change in operating assets

(CZKm)	2018 IFRS 9	2017 IAS 39
Net change in financial assets held for trading (incl. assets pledged as collateral)	(3,203)	1,666
Net change in non-trading financial assets mandatorily at fair value through profit or loss	(643)	-
Net change in available-for-sale financial assets (incl. assets pledged as collateral)	-	20,217
Net change in financial assets at FVOCI (incl. assets pledged as collateral)	(377)	-
Net change in loans and receivables	-	(40,524)
Net change in financial assets at amortised cost	(32,755)	-
Net change in derivatives used for hedging	(846)	720
Net change in other assets	132	(730)
	(37,692)	**(18,651)**

Change in operating liabilities

(CZKm)	2018 IFRS 9	2017 IAS 39
Net change in financial liabilities held for trading	(1,430)	(5,437)
Net change in financial liabilities designated at fair value through profit or loss	16,567	7,878
Net change in financial liabilities at amortised cost	40,851	98,445
Net change in derivatives used for hedging	(360)	(47)
Net change in other liabilities	(627)	197
	55,001	**101,036**

Non-cash items included in profit before tax

(CZKm)	2018 IFRS 9	2017 IAS 39
Depreciation and amortisation	1,455	1,380
Impairment on property, plant and equipment (Note: 13)	731	140
Depreciation related to operating leases assets (Note: 22)	502	398
Net change in fair value adjustments of the hedged items in portfolio hedge	348	(3,449)
Allowances and provisions for credit losses (Note: 13)	237	131
Creation of provisions	71	-
Impairment on other assets (Note: 13)	40	136
Foreign exchange differences in held-to-maturity investments	-	1,049
Impairment on intangible assets (Note: 13)	-	189
Impairment on non-current assets held-for-sale (Note: 13)	-	(9)
Impairment on financial investments (Note: 13)	(2)	28
Share of profit of associates and joint ventures	(581)	(637)
Other	-	452
	2,801	**(192)**

The table below sets out the movements of the debt instruments issued by the Group in 2017 and 2018. The debt items are those that are reported within net cash flows used in financing activities in the consolidated statement of cash flows:

(CZKm)	Financial liabilities at amortised cost Bonds issued (Note: 27)
At 1 January 2017	**20,970**
Cash flows	(7,719)
At 31 December 2017	**13,251**
Cash flows	(2,537)
At 31 December 2018	**10,714**

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table sets out the financial assets and liabilities of the Group by expected remaining maturity as at 31 December 2018:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	**Total**
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 16)	38,610	-	-	-	**38,610**
Financial assets held for trading					
Financial derivatives	4,835	7,957	2,566	-	**15,358**
Other than financial derivatives	224	1,979	2,305	3	**4,511**
Financial assets held for trading pledged as collateral	17	1,244	415	-	**1,676**
Non-trading financial assets mandatorily at fair value through profit or loss	643	-	-	-	**643**
Financial assets FVOCI	4,933	3,309	6,591	534	**15,367**
Financial assets FVOCI pledged as collateral	36	1,362	1,888	-	**3,286**
Financial assets at amortised cost	669,742	219,213	334,478	-	**1,223,433**
Financial assets at amortised cost pledged as collateral	7,174	21,347	16,760	-	**45,281**
Fair value adjustments of the hedged items in portfolio hedge	(2,059)	(2,304)	458	-	**(3,905)**
Derivatives used for hedging	3,157	5,541	678	-	**9,376**
Other assets (Note: 25)	1,514	-	-	-	**1,514**
Total carrying value	**728,826**	**259,648**	**366,139**	**537**	**1,355,150**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	5,304	8,038	2,106	-	**15,448**
Other than financial derivatives	13,076	4,653	-	-	**17,729**
Financial liabilities designated at fair value through profit or loss	11,969	11,538	2,558	-	**26,065**
Financial liabilities at amortised cost	507,492	340,808	364,289	-	**1,212,589**
Fair value adjustments of the hedged items in portfolio hedge	(290)	(1,451)	(1,321)	-	**(3,062)**
Derivatives used for hedging	2,090	5,623	2,412	-	**10,125**
Other liabilities (Note: 28)	4,468	-	-	-	**4,468**
Total carrying value	**544,109**	**369,209**	**370,044**	**-**	**1,283,362**

For derivatives, disclosed amounts are calculated based on assumption, that fair value will be evenly settled each year up to maturity date.

The following table sets out the financial assets and liabilities of the Group by expected remaining maturity as at 31 December 2017:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	**Total**
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 16)	44,754	-	-	-	**44,754**
Financial assets held for trading					
Financial derivatives	4,055	6,525	1,877	-	**12,457**
Other than financial derivatives	227	2,227	1,325	9	**3,788**
Financial assets held for trading pledged as collateral	-	196	1,901	-	**2,097**
Available-for-sale financial assets	581	13,838	14,603	460	**29,482**
Available-for-sale financial assets pledged as collateral	41	891	4,915	-	**5,847**
Loans and receivables	601,827	182,609	277,765	-	**1,062,201**
Fair value adjustments of the hedged items in portfolio hedge	(1,173)	(3,415)	290	-	**(4,298)**
Held-to-maturity investments	11,187	42,793	32,624	-	**86,604**
Held-to-maturity investments pledged as collateral	4,394	19,994	4,629	-	**29,017**
Derivatives used for hedging	2,499	6,061	553	-	**9,113**
Other assets (Note: 25)	1,397	-	-	-	**1,397**
Total carrying value	**669,789**	**271,719**	**340,482**	**469**	**1,282,459**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	5,726	6,535	1,605	-	**13,866**
Other than financial derivatives	15,343	5,224	173	-	**20,740**
Financial liabilities designated at fair value through profit or loss	13	7,547	1,938	-	**9,498**
Financial liabilities at amortised cost	487,728	330,797	344,562	-	**1,163,087**
Fair value adjustments of the hedged items in portfolio hedge	(261)	(1,473)	(2,069)	-	**(3,803)**
Derivatives used for hedging	1,985	5,190	3,310	-	**10,485**
Other liabilities (Note: 28)	4,938	-	-	-	**4,938**
Total carrying value	**515,472**	**353,820**	**349,519**	**-**	**1,218,811**

35. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

Contingent assets

Based on a court ruling, the Group recovered a written-off loan amounting to CZK 485 m in 2007. Due to the uncertainty regarding the continuing court proceedings following the appeal by the counterparty against the decision, the Group will not recognise this amount in the statement of income until the final court decision regarding the Group's claim. In 2011, the original court ruling was cancelled and the legal case was passed to the court in the first instance for new judicial proceedings. Based on that decision, the Group returned the expenses compensation of CZK 3 m from the total received amount from the original court case to the counterparty. Judicial proceeding is continuing at the Supreme court.

Contingent liabilities and commitments

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

(CZKm)	2018 IFRS 9	2017 IAS 39
Loan commitments – irrevocable (Note: 40.2)	127,061	125,527
Loan commitments – revocable	54,754	52,272
Financial guarantees (Note: 40.2)	38,260	32,879
Other commitments (Note: 40.2)	3,358	1,340
	223,433	**212,018**
Provisions for loan commitments and guarantees (Notes: 29, 40.2)	292	466

Revocable loan commitments are such commitments in which the Group may at any time limit the amount that may be drawn under the credit limit. Further the Group may not provide any drawdown under the credit facility requested by the client or the Group can suspend further drawdowns under the credit facility all together. The Group can do so with or without specifying the reason, giving a prior notice or stipulating any time limit. Loan commitments which do not meet the above definition are assessed as irrevocable.

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 (Note: 40.3).

The Group is obliged by law to guarantee the positive results and equity position of the Transformed fund. With regard to the conservative investment policy and investment limits of the Transformed fund the management of the Group is convinced it is not probable the guarantee will be used.

Litigation

Other than the litigations, for which provisions have already been made (Note: 29), the Group is named in and is defending a number of legal actions in various jurisdictions arising in the ordinary course of business. The Group does not believe that the ultimate resolution of these legal actions will result in a material impact on the financial position of the Group.

The Group is subject to a number of claims in the context of the IPB acquisition amounting to tens of billions of Czech Crowns. The Group believes that such claims are unfounded. In addition, the Group believes that potential risk arising from such claims is covered by guarantee agreements issued by the institutions of the Czech state.

Further, the Group has initiated a number of legal actions to protect its assets.

Taxation

Czech tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations that the respective tax authorities may apply in a number of areas. As a result, the Group has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

Operating lease commitments (Group is the lessee)

Future minimum lease payments under operating leases related to information technologies, land and buildings are as follows:

(CZKm)	2018	2017
Not later than 1 year	400	455
Later than 1 year and not later than 5 years	802	906
Later than 5 years	222	190
	1,424	**1,551**

Future minimum sublease payments amounted to CZK 2 m as at 31 December 2018 (31 December 2017: CZK 1 m).

The operating leases related to land and buildings can be technically cancelled under Czech law; however, the Group is commercially bound to continue with these leases for the periods set out above.

A reconciliation of lease commitments as at 31 December 2018 as reported according to IAS 17 and at 1 January 2019 according to IFRS 16 is provided below:

(CZKm)	2018
Operating lease commitments disclosed as at 31 December 2018 (IAS 17)	**1,424**
Effect of discounting	(271)
Adjustments as a result of a different treatment of extension and termination options	1,659
Short-term leases and low-value leases recognised on straight-line basis as expense	(68)
Other	(13)
Lease liability recognised as at 1 January 2019 (IFRS 16)	**2,731**

The selected items of the statement of financial position as at 1 January 2019 shows the following amounts relating to operating leases:

(CZKm)	1 January 2019
Right-of-use assets	
Property and equipment	2,731
Property and equipment impairment	(43)
	2,688
Lease liabilities	
Financial liabilities at amortised cost	2,731
Contractual engagements	
Provisions	(43)

Operating lease receivables (Group is the lessor)

Future minimum lease payments (including sublease payments) under operating leases related to land and buildings and movables are as follows:

(CZKm)	2018	2017
Not later than 1 year	496	532
Later than 1 year and not later than 5 years	511	646
Later than 5 years	2	1
	1,009	**1,179**

These operating leases can be technically cancelled under the Czech law; however, the lessees are commercially bound to continue with these leases for the periods set out above.

Commitments

Capital expenditure contracted at the balance sheet date but not yet incurred in respect of the Group's new head office building is CZK 1,060 m as at 31 December 2018 (31 December 2017: CZK 1,847 m).

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)	2018	2017
Financial assets		
Financial assets held for trading	9	39
Financial assets at amortised cost	524,247	-
Loans and receivables	-	478,202
	524,256	**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 31 December 2018 was CZK 550,604 m, of which CZK 29,791 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)	2018	2017
Financial liabilities		
Financial liabilities held for trading	1	2,108
Financial liabilities at amortised cost	30,119	22,011
	30,120	**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), Financial assets at fair value through OCI (Note: 18) and Financial assets at amortised cost (Note: 19).

37. OFFSET FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table shows an analysis of the financial assets and liabilities of the Group that have been set-off or that have not been set-off as at 31 December 2018:

(CZKm)	Gross amounts of recognised financial instrument	Gross amounts of recognised financial Instrument set-off	Net amounts of financial instrument
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	21,365	-	21,365
Derivatives not set-off that are not subject to an enforceable master netting arrangement	3,369	-	3,369
Total trading and hedging derivatives	**24,734**	**-**	**24,734**
Repurchase agreements set-off	2,151	2,151	-
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	524,256	-	524,256
Total repurchase agreements (Note: 36)	**526,407**	**2,151**	**524,256**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	22,513	-	22,513
Derivatives not set-off that are not subject to an enforceable master netting arrangement	3,060	-	3,060
Total trading and hedging derivatives	**25,573**	**-**	**25,573**
Repurchase agreements set-off	2,151	2,151	-
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	30,120	-	30,120
Total repurchase agreements (Note: 36)	**32,271**	**2,151**	**30,120**

The following table shows an analysis of the financial assets and liabilities of the Group that have not been set-off as at 31 December 2017:

(CZKm)	Gross amounts of recognised financial instrument	Gross amounts of recognised financial instrument set-off	Net amounts of financial instrument
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	18,483	-	18,483
Derivatives not set-off that are not subject to an enforceable master netting arrangement	3,087	-	3,087
Total trading and hedging derivatives	**21,570**	**-**	**21,570**
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	478,241	-	478,241
Total repurchase agreements (Note: 36)	**478,241**	**-**	**478,241**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	18,392	-	18,392
Derivatives not set-off that are not subject to an enforceable master netting arrangement	5,960	-	5,960
Total trading and hedging derivatives	**24,352**	**-**	**24,352**
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	24,119	-	24,119
Total repurchase agreements (Note: 36)	**24,119**	**-**	**24,119**

The following table shows an analysis of the financial assets and liabilities of the Group that have not been set-off and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2018:

(CZKm)	Net amounts of financial assets and liabilities	Amounts not set-off			Total net amount
		Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	21,365	20,614	633	-	118
Debt securities pledged as collateral in repo transaction not set-off that are subject to an enforceable master netting arrangements	30,120	30,120	-	-	-
Total carrying value	**51,485**	**50,734**	**633**	**-**	**118**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	22,513	20,614	1,709	-	190
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	30,120	-	-	30,120	-
Total carrying value	**52,633**	**20,614**	**1,709**	**30,120**	**190**

The following table shows an analysis of the financial assets and liabilities of the Group that have not been set-off and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2017:

(CZKm)	Net amounts of financial assets and liabilities	Amounts not set-off			Total net amount
		Financial instruments	Cash collateral	Securities collateral	
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	18,483	16,502	1,651	-	330
Debt securities pledged as collateral in repo transaction not set-off that are subject to an enforceable master netting arrangements	24,119	24,119	-	-	-
Total carrying value	**42,602**	**40,621**	**1,651**	**-**	**330**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	18,392	16,502	1,643	-	247
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	24,119	-	-	24,119	-
Total carrying value	**42,511**	**16,502**	**1,643**	**24,119**	**247**

The amounts in both tables are subject to master netting agreement in accordance with International Swaps and Derivatives Association (ISDA), however with no intention to settle them on a net basis.

38. RELATED PARTY DISCLOSURES

A number of transactions are executed with related parties in the normal course of business.

The outstanding balances of assets from related party transactions as at 31 December 2018 are as follows:

(CZKm)	Cash, balances with central banks and other demand deposits	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at amortised cost	Derivatives used for hedging	Other assets
Directors / Top management	-	-	-	-	-	-
KBC Bank	47	5,043	643	2,213	7,811	-
Entities under common control						
ČSOB SK	16	-	-	-	-	-
KBC Securities NV	-	-	-	-	-	-
Other	17	17	-	-	-	1
Associates						
ČSOB AM	-	-	-	-	-	-
ČSOB Pojišťovna	-	165	-	-	-	109
Joint ventures						
ČMSS	-	411	-	40	72	30

The outstanding balances of liabilities from related party transactions as at 31 December 2018 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	82	-	52
KBC Bank	4,731	370,329	9,018	-
Entities under common control				
ČSOB SK	-	15	-	-
KBC Securities NV	-	64	-	-
Other	10	88	-	31
Associates				
ČSOB AM	-	1,074	-	-
ČSOB Pojišťovna	23	2,332	-	-
Joint ventures				
ČMSS	-	4,043	17	-

The outstanding balances of assets from related party transactions as at 31 December 2017 are as follows:

(CZKm)	Cash, balances with central banks and other demand deposits	Financial assets held for trading	Loans and receivables	Derivatives used for hedging	Other assets
Directors / Top management	-	-	-	-	-
KBC Bank	550	3,121	1,434	7,065	-
Entities under common control					
ČSOB SK	44	8	-	-	-
KBC Securities NV	4	-	3	-	-
Other	19	19	127	-	3
Associates					
ČSOB AM	-	-	144	-	-
ČSOB Pojišťovna	-	145	-	-	34
Joint ventures					
ČMSS	-	-	40	20	23

The outstanding balances of liabilities from related party transactions as at 31 December 2017 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	212	-	48
KBC Bank	2,254	341,456	9,320	3
Entities under common control				
ČSOB SK	2,098	43	-	-
KBC Securities NV	-	1	-	3
Other	2	93	-	59
Associates				
ČSOB AM	-	835	-	-
ČSOB Pojišťovna	43	2,300	-	-
Joint ventures				
ČMSS	-	3,616	8	-

The outstanding balances of financial assets and liabilities held for trading comprise positive and negative fair values of derivative financial instruments (mainly single currency and cross-currency interest rate swaps). Majority of these transactions are collateralised by cash deposit or by securities. Loans and receivables from related parties represent balances on current accounts. Financial liabilities to related parties measured at amortised cost consist of balances on demand deposits. Liabilities to KBC Bank NV represent balances on money-market products, specifically promissory notes with maturities up to one year issued by the Bank, repo transactions and short-term deposits.

The Group provides banking services to its associates and joint ventures such as provided loans, overdrafts, interest bearing deposits and current accounts as well as other services.

The outstanding balances, described above, arose in the ordinary course of business and are subject to the substantially same terms, including interest rates and security, as for comparable transactions with third party counterparties.

The balances of interest income and expense from related party transactions for the year ended 31 December are as follows:

	2018 IFRS 9		2017 IAS 39	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
Directors / Top management	-	-	-	-
KBC Bank	2,503	2,270	2,248	1,147
Entities under common control				
ČSOB SK	-	24	-	3
Other	3	1	2	-
Associates				
ČSOB AM	-	7	-	-
ČSOB Pojišťovna	-	79	-	36
Joint ventures				
ČMSS	32	228	7	123

The balances of fee and commission income and expenses from related party transactions for the year ended 31 December are as follows:

	2018 IFRS 9		2017 IAS 39	
(CZKm)	Fee and commission income	Fee and commission expense	Fee and commission income	Fee and commission expense
KBC Bank NV	58	12	64	2
Entities under common control				
ČSOB SK	15	-	-	-
KBC Securities NV	5	17	8	37
Other	16	3	-	1
Associates				
ČSOB AM	598	44	557	40
ČSOB Pojišťovna	847	6	534	2
Joint ventures				
ČMSS	7	21	5	14

Effective from 1 July 2009, the Group concluded a service level agreement on the provision of administration services, such as human resources and accounting services, with KBC Group. In 2018, the Group received income of CZK 108 m (2017: CZK 63 m) from the provision of administration services and paid expense of CZK 352 m (2017: CZK 495 m) for IT services, including rental expenses on information technologies.

In 2018, the Group received income of CZK 705 m (2017: CZK 675 m) from ČSOB SK and ČSOB Pojišťovna arising from providing services and support in the following areas such as: ICT services, electronic banking, cards, payment processing, financial management and risk management.

The outstanding contractual balances of the contingent assets and liabilities to the related parties at 31 December are as follows:

(CZKm)	2018 IFRS 9 Guarantees received	2018 IFRS 9 Guarantees given	2017 IAS 39 Guarantees received	2017 IAS 39 Guarantees given
KBC Bank NV	3,931	64	2,444	194
Entities under common control				
ČSOB SK	1,708	16	2,308	23
Kereskedelmi és Hitelbank Rt.	-	18	219	18

The outstanding balances of guarantees received from KBC Bank and the entities under common control principally comprise sub-participation arrangements and other compensation commitments.

39. EVENTS AFTER THE REPORTING PERIOD

Until 31 December 2018, the Bank was exercising a significant influence in ČSOB AM having an ownership amounted to 40.08%. Given that fact, ČSOB AM was assessed as an associated company being included into the consolidated financial statements using equity method. In February 2019, the Bank sold the share in ČSOB AM to KBC Asset Management. Cash consideration received by the Bank amounted to CZK 910 m. As a result, the Group cessed its significant influence and excluded the company from the consolidated financial statements in 2019.

On 15 April 2019, ČSOB and Bausparkasse Schwäbisch Hall (BSH) reached agreement for ČSOB to acquire BSH's 45% stake in the building savings bank Českomoravská stavební spořitelna, a.s. and thus assume 100% ownership control of ČMSS, for a total consideration of EUR 240m. The agreement is subject to antitrust approval. Transaction has a strong financial and strategic rationale and ČSOB consolidates its position as the largest provider of financial solutions for housing purposes in the Czech Republic. Parties have agreed that dividends from 2018 and 2019 profits fully accrue to ČSOB.

40. RISK MANAGEMENT

40.1 Introduction

Risk is an inherent part of the Group's activities, and risk and capital management is critical to the results of operations and financial condition of the Group.

The principal risks that the Group faces are credit risk, liquidity risk, operational and other non-financial risks, market risk subdivided into trading (trading portfolio) and non-trading (credit and investment portfolio) risks. The Group manages risk and capital through a system of ongoing identification, measurement and monitoring, subject to risk and capital limits and other controls. The Group primarily allocates capital to each subsidiary and business unit with the aim of achieving an acceptable balance between risk and return. The Group's risk and capital management system is based on a risk strategy determined by the Bank's Board of Directors and is consistent with the KBC Group's risk and business strategy, with a primary focus on the early identification and management of risks and trends.
The Group maintains and develops its risk and capital management system to meet its ongoing internal risk and capital management needs and to comply with all legal and other regulatory (capital) requirements, including Basel III, and the regulations of the CNB, European Central Bank (ECB), European Banking Authority (EBA) and other relevant bodies.

Risk and Capital Management Organization

Main Principles of Risk and Capital Management Organization

The Group's risk and capital management organization is based on the principle of segregating risk origination and acceptance from risk monitoring and control. The risk and capital management and control functions are designed to be exercised independently of the front office functions. Nevertheless, the front office is engaged in risk and capital management and control functions and is responsible in the first instance for risk control in all risk and capital management areas. The aim of risk and capital management at the Group is to closely cooperate with the business in achieving an acceptable balance between return and risk, as opposed to focusing solely on minimizing risks.

Risk and capital management within the Group is centralized at the ČSOB level. Nevertheless, each subsidiary, associate and joint venture of ČSOB also has a risk control and management unit, the responsibilities and size of which are tailored to the requirements applicable to that subsidiary under the Group's risk and capital management strategy and policies. Any decisions taken by the Group are considered by the subsidiaries, associates and joint ventures of ČSOB as recommendations and require final approval by the appropriate decision making bodies of these subsidiaries, associates and joint ventures, as applicable.

The risk and capital management governance model that was implemented within the Group in 2011 is based on the following general principles:

- the business, including both sales and credit departments, should be responsible in the first instance for risk and capital management, and must systematically take into account risk and capital management considerations into all its decisions;
- risk and capital management, and risk reporting, should be performed consistently within the entire KBC Group, including the Group, and management incentives should be linked to risk and capital adjusted measures, and aligned consistently within the entire KBC Group;
- the risk and capital management governance structure should be an independent and vertically integrated structure aimed at ensuring that risk and capital management considerations are properly reflected in the business decisions within the Group;
- risk and capital management should closely cooperate with the business with the aim of achieving an acceptable balance between return and risk, as opposed to focusing only on minimising risks;
- the Board of Directors should determine the risk appetite of the Group within which the business has the right to take risks and beyond which the Chief risk officer (CRO) can intervene; and
- the risk reporting processes should be uniform and insightful to allow for the adoption of risk and capital management decisions at both strategic and implementation levels.

The principles described above establish a governance structure, within which:

(i) the Board of Directors is responsible for determining the risk appetite of the Group, and capital allocation within the Group, by establishing measurable risk and capital parameters, which must be followed in all business activities,

(ii) the Risk and Capital Oversight Committee (RCOC) is responsible for proposing the risk appetite and capital allocation to the Board of Directors, translating the approved risk appetite and capital allocation into numerical risk limits within its delegated authority, and regular monitoring of risk and capital against these limits,

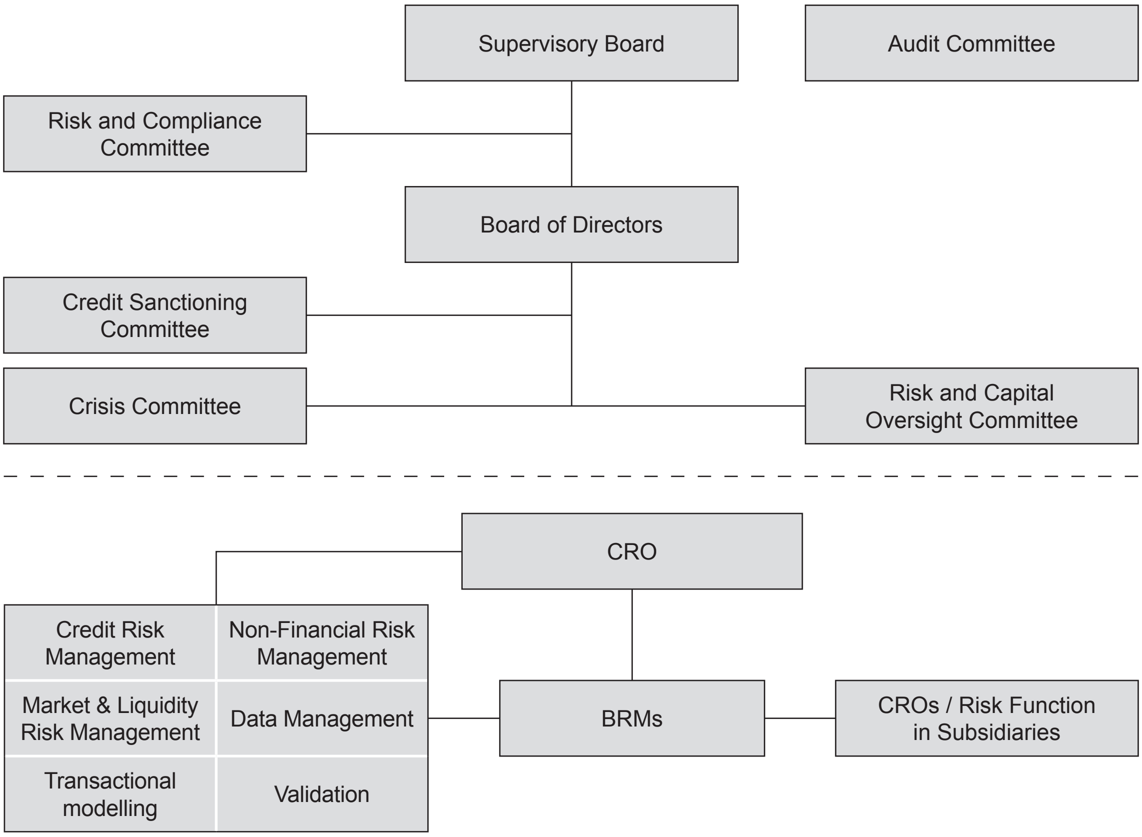
(iii) the CRO, together with the Risk Function, as described below, is responsible for designing the frameworks in which risk management should take place, for translating the risk limits into policies and for ensuring that monitoring systems are in place, and

(iv) the business is responsible for taking risks within the risk and capital allocation.

Risk and Capital Management Governance

Risk and capital governance in the Group is fully embedded in the governance of the KBC Group. In 2017, Transactional Modelling was newly incorporated into CRO zone.

The chart below depicts an overview of the principal bodies of the risk and capital governance model in the Group.



The Group operates a three-line of defense (LoD) risk management model whereby front office functions, risk management oversight and assurance roles are played by functions independent of one another. The model is characterised primarily by:

- the Board of Directors, assisted by the Audit Committee, Supervisory Board and its Committees,
- the Risk and Capital Oversight Committee,
- an independent Chief Risk Officer, supported by the independent Risk Function, and
- risk-aware business people, who act as the first line of defence ensuring that a risk control environment is established as part of day-to-day operations.

Supervisory Board

In its main role, the Supervisory Board oversees whether the governance of the Group is efficient, comprehensive and adequate, and regularly evaluates the findings obtained from this activity. Its oversight role consists in providing constructive challenge when developing the strategy of the Group; monitoring of the performance of the management function and the realisation of agreed goals and objectives, business and risk strategies; and ensuring the integrity of the financial information, effective risk management and internal controls (including proper segregation of duties within the Group).

The Supervisory Board regularly receives integrated risk and capital management reports and information prepared by the Risk Function, as described below.

The Supervisory Board:

(i) Oversees whether the system of risk governance is efficient, comprehensive and adequate;

(ii) Regularly discuss matters concerning the risks to which the Bank is or might be exposed;

(iii) Continuously oversees and assures itself of the fulfilment of the risk management strategy and of the operational control's reliability;

(iv) Critically and constructively participates in the evaluation of the management of risks;

(v) Comments on a proposal (of the KBC Group CRO) to entrust as well as dismiss a natural person with the ensuring of the performance of the risk management function, stipulates policies governing remuneration of that person and assesses the activities of the person.

Risk and Compliance Committee

The Supervisory Board established the Risk and Compliance Committee which is mainly responsible for advising the Supervisory Board on the Group's overall current and future risk profile, appetite and strategy, and for overseeing the implementation of that strategy.

The Committee regularly discusses risk management and compliance related matters and communicates with the Group's risk control function and Chief Risk Officer. In addition, the Risk and Compliance Committee assists the Supervisory Board in the establishment of sound remuneration policies and practices, examines whether incentives provided by the remuneration system take into consideration risk, capital, liquidity likelihood and timing of earnings.

The Committee reviews the activities, structure, independence, professionalism and expertise of Risk management.

The Committee regularly receives integrated risk and capital management reports and information prepared by the Risk Function, as described below.

Audit Committee

The Audit Committee, inter alia, monitors the effectiveness of the Group's internal control, internal audit, risk management systems, establishment of accounting policies by the institution and procedures in preparing the financial statements and consolidated financial statements of the Group.

With regards to external audit, the Committee oversees the Group's external auditors, monitors the process of mandatory audits of the financial statements and consolidated financial statements, assesses the independence of statutory auditors and the auditing firm(s), recommends for approval by the management body the appointment, compensation and appointment of the external auditors; review and approves the audit scope and frequency; review audit reports.

In addition to that the Committee checks that the management body in its management function takes necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulations and policies, and other problems identified by the auditors.

Board of Directors (BoD)

The Board of Directors has the overall responsibility for the Group, proposes its strategic direction within applicable legal and regulatory framework taking into account the institution's long-term financial interests and solvency; ensures the effective implementation of the strategy and is responsible for the day-to-day running of the Group.

The Board of Directors generally ensures that comprehensive and adequate internal control and risk governance system is established, good functioning and efficient, in its entirety and in parts. With regards to the risk management function, the Board of Directors:

(i) Ensures earmarking of adequate and sufficient capacities for management of significant risks, capital and liquidity management, internal models and validations/reviews of such models;

(ii) Approves and regularly evaluates the implementation of:

- Risk Management Charter,
- Risk Appetite of ČSOB,
- Result of Risk Scan,
- Risk Management Strategy,
- Risk Management Framework (including risk specific frameworks),
- Limit Book and Framework,
- Internal Capital Adequacy Assessment Process and Capital Adequacy Policy,
- Recovery and Resolution plan,
- Information Security Strategy;

(iii) Evaluates the overall functioning and efficiency of the internal control and governance system (Internal Control Assessment to ČSOB Supervisory Board), and ensures appropriate steps to rectify the potential identified shortcomings.

On the basis of monthly integrated risk management reports prepared by the Risk Function, the Board of Directors is also responsible for monitoring whether the Group's risk profile is in line with the Group's risk appetite, limits system and making decisions on risk and capital management issues that may be escalated to its attention by the CRO or the RCOC, as described below.

Risk and Capital Oversight Committee (RCOC)

The RCOC assists the Board of Directors in monitoring the Group's risk and capital management exposures against the limits set by the Board of Directors. The key responsibilities of the RCOC regarding risk and capital management matters are to:

(i) propose to the Board of Directors the Bank's Risk Appetite;

(ii) propose to the Board of Directors a framework of limits consistent with the Bank's Risk Appetite, within which Risk and Capital will be managed;

(iii) provide an integrated view on Risk exposure against Risk Appetite/Limits and identify/report on 'hidden risks' (including concentration); In the event of Risk exposure being in excess of limit(s), to recommend to the BoD material mitigating actions and decide on non-material mitigating actions to bring Risk exposure back in line;

(iv) periodically review limits and, as necessary, to recommend to the BoD material changes in limit (s) and to decide on non – material limit changes;

(v) monitor market context, solvency, liquidity, risk/return profile, balance sheet profile, maturity transformation and structural interest rate exposure;

(vi) monitor capital adequacy and usage of Regulatory and Economic Capital.

The RCOC is responsible for the whole ČSOB group. In case of subsidiaries or entities that have a separate legal structure, the decisions of the RCOC are to be considered as advices to the Management Board of those entities.

The RCOC reviews regular risk reports prepared by the Risk Function, which are then submitted to the Board of Directors, the Audit Committee and the Supervisory Board. These reports form the basis for the risk monitoring process. Further ad hoc reports may be prepared and submitted, where relevant. The CRO is the chairman and the CFO is the vice-chairman of the Committee.

Chief Risk Officer (CRO)

The Chief Risk Officer (CRO), who is a member of the Board of Directors, is in general responsible for the identification, assessment and reporting of risks arising within operations across all business and all risk types, and has a direct management responsibility for the following risk management functions / departments:

(i) Credit Risk Management;

(ii) Market and Liquidity Risk Management;

(iii) Non-financial Risk Management;

(iv) Validations;

(v) Data Management; and

(vi) Transactional Modelling.

The CRO:

(i) Ensures that risk management processes are effective and efficient, promotes a culture of risk aware business conduct and prudent risk management;

(ii) Ensures compliance with Group (KBC) and regulatory requirements in the field of risk management;

(iii) Recommends the need for action to address risk & capital issues raised in internal reports;

(iv) Inputs to corrective actions to address local underperformance versus targets and agree to final actions to ensure within risk playing field;

(v) Assess the rate and structure of risk undertaken and the impact thereof on the performance and stability;

(vi) Coordinates the field of continuity management for the business;

(vii) Provides risk and capital reporting to internal (senior management, Board of Directors, Risk and Compliance Committee, Subsidiaries) and external clients (KBC, CNB);

(viii) Presents information concerning the developments in the field of risk management to ČSOB and KBC management;

(ix) Advices on risk related matters to Management Board of subsidiaries within the Group that have a separate legal structure;

(x) Is accountable for clear delineation of accountabilities and responsibilities between 3 LoD.

The key strategic and governance responsibilities of the CRO are to:

(i) Recommend Risk Governance structure and roles;

(ii) Decide the structure of the Risk Function;

(iii) Contribute to the Risk Appetite and approves Business line's Risk Appetites;

(iv) Contribute to the corporate Strategy / strategic plans (including performance targets) development and agree to final Strategy to ensure within risk playing field;

(v) Recommend Risk and Capital Adequacy Policy;

(vi) Contribute to limits and delegation of authority setting within and below BoD delegation and give consent to final decision to ensure within Risk Appetite;

(vii) Contribute to capital and funding allocation and give consent to final allocation to ensure staying within Risk Appetite.

The CRO, in its role has following key execution activities:

(i) Recommend and decide on changes to the Risk Function owned frameworks and policies;

(ii) Decide on validation of transactional models for risk management;

(iii) Input to guidelines for portfolio and transactional model development;

(iv) Input or decide (in line with the delegation rules) on mitigating actions for limit overruns and agree to final decision to ensure staying within Risk Appetite;

(v) Recommend and/or decide ex-post actions to address compliance issues with risk frameworks;

(vi) Ensure the process of assessment and evaluation of the regulatory / internally determined capital adequacy and conduct stress testing;

(vii) Contribute to day to day business decisions as a trusted advisor;

(viii) Agree to risk taking decisions outside of the risk playing field with the right to call “time out”.

The CRO may suspend any decisions of any department or committee, or any business unit or sub-unit, affecting the risk or capital position of the Group by escalating it to the RCOC or the Board of Directors.

Risk Function

The Risk Function provides independent oversight of the management of risks inherent in the Group's activities. The function is generally responsible for ensuring that effective processes are in place for:

(i) Identifying current and emerging risks;

(ii) Developing risk assessment and measurement systems;

(iii) Establishing policies, practices and other control mechanisms to manage risks;

(iv) Developing risk tolerance limits for Senior Management and Board approval;

(v) Monitoring positions against approved risk tolerance limits; and

(vi) Reporting results of risk monitoring to Senior Management and the Board.

The Risk Function is represented by the following departments reporting to the CRO - Credit Risk Management, Market and Liquidity Risk Management, Non-financial Risk Management, Data Management, Validations and Transactional Modelling. The departments have the following roles:

Credit Risk Management, Market and Liquidity Risk Management, Non-financial Risk Management

Particular risk management departments are responsible for managing credit risk, market risk, liquidity risk and operational risk. The risk departments have the following roles and responsibilities:

(i) Define the risk management approach and methodology related to their specific risk type, in particular through ownership of the risk type specific framework and policies;

(ii) Define the risk measures that relate to the specific risk types;

(iii) Support ČSOB Group RCOC;

(iv) Support the CROs for all matters that relate to the specific risk types;

(v) Contribute to integrated processes (e.g. ICAAP/ORSA, stress testing);

(vi) Define and deliver the core reports for the specific risk types and deliver inputs for Integrated Risk Report;

(vii) Define and monitor a set of Limits (Primary & Secondary), Targets and indicators (e.g. Early Warning Signals) that cover the specific risk types;

(viii) Follow up on the status of risk and capital management for the specific risks throughout the ČSOB Group.

Data Management

Data Management is responsible for supporting all the other departments forming the Risk Function in data management and reporting. In particular:

(i) maintaining all ICT applications needed for the performance of risk and capital management;

(ii) designing the technical ICT architecture in cooperation with the ICT; and

(iii) performing activities aimed at ensuring the correct flow of data needed for proper risk and capital monitoring.

Data Management is responsible for risk data governance and also forms the link between the requirements of the Risk Function and ICT.

Central Credit risk and loss Measurement Validation

Central Credit risk and loss Measurement Validation focuses on reducing of model risk and seeks a group-wide consistency by providing a well-founded, intelligible and timely independent second opinion and methodological guidance on models for risk measurement and provisioning to their owners, decision bodies and modellers.

Transactional modelling

Transactional modelling being part of KBC Group Modelling Competence Centre is responsible for design and review of local credit risk (PD, EAD, LGD), incl. application scorecards, and local provisioning models. The unit further participates in implementation of local and group-wide models into credit decision process of all business segments and for the purpose of regulatory capital calculation.

Integrated risk management

Furthermore, specific team within the Risk Function covers overarching aspects of risk management. It's mandate is to provide an increased focus on holistic risk management and cross-risk oversight to further enhance our risk management. Key objectives are to:

(i) drive key strategic cross-risk initiatives and establish greater cohesion between defining portfolio strategy and governing execution, including regulatory adherence and recovery planning;

(ii) provide a strategic and forward-looking perspective on the key risk issues for discussion at senior levels within the Group (risk appetite, stress testing framework);

(iii) strengthen risk culture at the Group; and

(iv) foster the implementation of consistent risk management standards.

Integrated risk management is responsible for managing the process of measuring and monitoring risk on an integrated basis within the Group. In particular, Integrated risk management performs the ICAAP process (see ICAAP Process below), including the management of economic capital, and is responsible for integrated risk reporting (see Risk Monitoring and Reporting below). Integrated risk management also regularly provides reports to the supervisory section of the CNB.

Integrated risk management is also responsible for preparation of recovery plans and cooperates with regulator in preparation of resolution plan.

Delegation of responsibilities

The Board of Directors has delegated responsibilities to each of the RCOC and the CRO.

Usage of delegation authority:

- can always be overruled by a higher decision level;
- is always restricted in time:
  - (i) Either for a period explicitly mentioned in the Limit Book & Limit Framework
  - (ii) If no time period is specified, until the next formal limit review
- always needs to be formally recorded ("audit trail") and communicated to Risk Management and CRO.

The RCOC and the CRO may authorize transactions and approve risk limit exceptions described in limit book and limit book framework. The limit book and limit book framework is regularly approved by RCOC and Board of Directors.

Moreover, the CRO may submit to the Board of Directors, the Supervisory Board, the Risk and Compliance Committee and/or the Audit Committee issues and concerns related to the entire Group which the CRO considers to have an actual or potential material impact on the Group's risk parameters.

In addition to the risk and capital management activities performed at the Group level, each subsidiary of ČSOB also has a risk control and management unit, the responsibilities of which are tailored to the requirements applicable to the subsidiary, under the Group's risk and capital management policies.

Other Departments and Committees Participating in Risk and Capital Management

In addition to the Board of Directors, the Audit Committee, the Supervisory Board, the RCOC, the CRO and the Risk Function, the following other departments and committees are involved in day-to-day risk and capital management at the Group level:

Credit Departments

The Credit Departments are responsible for implementing and maintaining the individual credit processes within the frameworks designed by the Risk Function and the limits determined by the risk appetite and capital allocation approved by the Board of Directors.

The Credit Departments report either to a Credit Risk Manager or the CFO. The key responsibilities of the Credits Departments are to:

(i) approve individual credit applications;

(ii) approve contractual documentation concerning individual credits;

(iii) monitor credit behaviour of individual credits during their lifetime; and

(iv) manage the work-out process in respect of individual credits.

Asset and Liability Management Department (ALM Department)

The ALM Department is responsible for managing the assets and liabilities of the Group's investment portfolio within the frameworks designed by the Risk Function and the risk appetite and capital allocation approved by the Board of Directors. The ALM Department is also primarily responsible for managing the funding and liquidity position of the Group. The ALM Department reports to the CFO.

Internal Audit Department

The Internal Audit Department regularly audits / assesses risk and capital management processes throughout the Group examining both the adequacy of its risk and capital management procedures and the Group's compliance with the same. The Internal Audit Department discusses the results of its assessments with management, and reports its findings and recommendations to the Board of Directors and the Audit Committee. The Internal Audit Department reports to the CEO.

New and Active Product Processes (NAPPs)

Members of NAPP process are responsible for the approval of new products and their distribution and marketing, as well as for the regular review of existing products. Cross functional membership in NAPPs including control functions (the Risk Function, Finance Department, Tax Department, Legal Department and Compliance Department) seeks to ensure that no product may be offered to the Group's customers unless all significant risks have been analysed and mitigated and residual risks have been accepted. The Group pays special attention to protecting the Group against claims arising from the mis-selling of products. As a general rule, all products as well as all distribution channels must be covered by a NAPP.

Credit Sanctioning Committee (CSC)

The CSC is a committee with group-wide responsibility and authority to take decisions on individual credit applications falling within the delegated decision powers of the CSC. As such, it acts as the highest decision-making committee for the Group with respect to credit risk. The members of the CSC are the CFO, who is the CSC's chairman, and the head of the ČSOB credit and bad debts department, corporate advice and underwriting department, corporate and bank credits department, corporate specialised finance department and corporate and institutional banking department. The CSC reports to the Board of Directors.

Business Risk Meetings (BRMs)

Business Risk Meetings are established for business lines in the Group where business specific risk issues are regularly discussed. The CRO has sole decision right within the delegated decision authority which can always be escalated to the Board of Directors at the request of the Board of Directors' member responsible for that area.

Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP)

The Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR) require banks to have in place processes to assess and maintain adequate levels of internal capital and liquidity buffers

The ICAAP is seen as an integral part of the overall management and control system of the Group, by which ČSOB also adopts and uses reliable, effective and comprehensive strategies and procedures to:

- continually set and assess the need for internal capital; and
- plan and maintain internal capital resources, of the amount, structure and allocation to sufficiently cover the risks that ČSOB is or may be exposed to (internally set and maintained capital adequacy).

As part of the KBC group, ČSOB has adopted a unified KBC group ICAAP approach, approved by the top managements of both KBC and ČSOB, taking into account requirements of the home regulator (the Czech National Bank) as well as the host regulator (the European Central Bank).

Regularly, at least once a year, the Board of Directors evaluates the ICAAP, focusing on an overall assessment of whether the strategies and procedures used are reliable, effective, comprehensive and still proportionate to the nature, scale and complexity of the Group's activities. The Board of Directors also discusses and approves any ICAAP changes and modifications. Moreover, results of Internal Capital Model which is currently used for internal calculation of the ČSOB capital adequacy are quarterly reported to the Board of Directors.

When setting and assessing - on an ongoing basis - its internal capital needs, and planning and maintaining its internal capital resources, ČSOB uses an accounting-value approach, while taking into account quantitative and qualitative inputs and methods, including its own expert analyses, forecasts and scenarios proportionate to the nature, scale and complexity of its activities and the risks associated with them.

ICAAP is forward looking, i.e. it also takes into account the risks to which the Group will or may be exposed. Therefore, ČSOB also assesses and takes into account, under the ICAAP the following:

- the processes of planning, preparing and approving new activities, products or systems;
- other ongoing or anticipated material changes in its risk profile or in the external environment;
- effects of possible divergences from the anticipated developments, including the effects of possible extraordinary circumstances; and
- stress test results;

including the methods of reflecting these when planning and securing internal capital resources. The ICAAP strategic planning horizon is three years.

ICAAP and ILAAP address the following material risks to which the Group is or may be exposed:

- Credit and counterparty risk, (incl. concentration risk)
- Interest rate in banking book
- Market risk banking book (excl. interest rate)
- Market risk trading book
- Operational risk
- Business and strategic risk
- Funding and liquidity risk

Other risks are covered, under ICAAP processes, by qualitative measures in risk management, organisation of processes, control mechanisms, etc.

The amount of capital needed is calculated for the Group as a separate entity within the KBC group at a probability level of 99.9% for a one year period, taking into account relevant diversification effects. The internally defined capital resources must fully cover the total capital need and, if compliance with this condition was at risk, ČSOB, in cooperation with the KBC group, would take relevant remedial measures (increasing capital resources, reducing risk, etc.).

According to the relevant EBA Guidelines the Internal Liquidity Assessment Process (ILAAP) is a process to identify, measure, manage and monitor liquidity, implemented by the bank pursuant to the CRD IV. It discloses all the qualitative and quantitative information about the systems, processes and methodologies to measure and manage liquidity and funding risk, which is necessary to underpin the risk appetite and business strategy both in normal and stressed scenarios.

Risk measurement and reporting systems

The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worse case scenarios that would arise when extreme events that are unlikely to occur do, in fact, occur.

Monitoring and controlling of risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all businesses is examined and processed in order to analyse, control and identify risks when they arise. This information is presented and explained to the Board of Directors, the RCOC, and the CRO. The reports include aggregate credit exposure, credit metric forecasts, hold limit exceptions, Value at Risk (VaR), interest rate sensitivities, interest rate gaps, liquidity ratios and risk profile changes. Once a quarter, the Supervisory Board receives a comprehensive risk report designed to provide all information necessary to assess and conclude on the risks of the Group.

A daily report is provided to top management and all other relevant members of the Group on the use of market limits and analysis of VaR in the trading book. A weekly report is provided to top management and all other relevant members on interest rate sensitivities and liquidity in the non-trading book.

Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Group. The effectiveness of hedges is assessed by the Middle Office. The effectiveness of all hedge relationships is monitored by the unit quarterly. In situations of ineffectiveness, a new hedge relationship to mitigate risk on a continuous basis is established.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. To prevent and manage excessive risk concentration at both a relationship and industry level, the Group, for selected cases, uses credit risk transfer instruments (e.g. risk sharing participation, risk transfer guarantees, etc).

40.2 Credit risk

Credit risk is the risk of a potential loss expected to arise as a consequence of the non-payment or non-performance by an obligor (a borrower, guarantor, counterparty to a commercial transaction or issuer of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter is also referred to as country risk.

The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations. The Group monitors exposures in relation to these limits. The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. This includes also regular collateral revisions.

Since September 2012, the Group is allowed by both Belgian and Czech banking regulators to use the IRB Advanced approach for the capital calculations of its non-retail (Corporate, non-retail SME, Banks, Non-Banking financial institutions) as well as retail exposures. As a result, credit risk is measured, monitored and managed based on the principles of this approach.

For the non-retail exposure (Corporate, non-retail SME, Banks, Non-Banking financial institutions), counterparty risk (i.e. default risk) is managed based on statistical default prediction models that establish a rating (PD / Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default).

For the retail exposures, statistical models have been developed for PD, LGD and EAD. Contrary to the non-retail exposure, where risk factors are determined on an individual basis, risk factors are determined in Retail based on risk-homogenous sets of exposure (so-called pools).

The model results are used for the capital calculation and for credit decision purposes too.

The default is defined as a situation where at least one of the following conditions is met:

(i) it may be assumed that the customer will not fulfil its obligations in a proper and timely manner without the Group seeking to collect its outstanding receivable through credit protection;

(ii) at least one payment of the principal or interest and fees of any obligation of the customer towards the Group is more than 90 days past the due date.

At ČSOB Group, default status is determined to occur any time a forbearance measure-concession is granted: forbearance measures consist of concessions towards a borrower facing or about to face financial difficulties, which leave the borrower unable to comply with the original terms and conditions of a credit. For more, see the section “Forbearance measures”.

Non-retail exposure

Rating system: PD (Probability of Default)

The Group manages its non-retail credit exposure by establishing counterparty limits that are based on individually assigned internal ratings. These ratings are based on IRB Advanced compliant statistical rating models that take into account financial and non-financial data. The individual PD rating is scaled according to the KBC master scale, which has 12 grades going from PD 1 - the best rating to PD 12, which is the worst.

PD 1 to PD 9 represent the performing exposures.

PD 10 contains: (i) customers where the relevant Group credit decision authority has judged the exposure to be ‘unlikely to pay’ and none of the obligations are more than 90 days overdue; and (ii) restructured loans. After at least twelve months of performance, the restructured loan may be reclassified to the performing status; and (iii) previously restructured loans already classified as performing less than two years ago which become more than 30 days overdue.

PD 11 represents customers, who have been overdue for 90 days or more, but not subject to bankruptcy proceeds yet.

PD 12 represents customers, which are subject to bankruptcy proceeding or Group credit decision authority has judged the exposure to be ‘partly or fully lost’ without recourse to credit protection.

PD ratings are used not only for the measurement, monitoring and management of credit risk, but also to determine, among other things, the level at which a credit approval must be obtained, the required collateral and pricing.

The following table sets forth a breakdown of the Group's risk categories, including internal and external ratings, for non-retail exposure in 2018 and 2017:

2018

ČSOB risk categories for Non-retail exposure							
PD Scale	PD Rating	PD %	S&P's Rating	Stage	Performance	Impairment	Default
Normal	1-7	0.0-6.4	AAA - B	Stage 1/ Stage 2	Performing customers	Model based	Non-defaulted
Monitored	8-9	6.4-100	(B-) - C	Stage 1/ Stage 2	Performing customers	Model based	Non-defaulted
Uncertain	10	100	D	Stage 3	Non-performing customers	Model based/ Individually assessed	Defaulted
Doubtful	11	100	D	Stage 3	Non-performing customers	Model based/ Individually assessed	Defaulted
Irrecoverable	12	100	D	Stage 3	Non-performing customers	Model based/ Individually assessed	Defaulted

2017

ČSOB risk categories for Non-retail exposure						ČSOB and CNB risk categories	CNB risk categories
PD Scale	PD Rating	PD %	S&P's Rating	Performance	Impairment		
Normal	1-7	0.0-6.4	AAA - B	Performing customers	Collectively assessed	Non-defaulted	Standard
Asset Quality review (AQR)	8-9	6.4-100	(B-) - C	Performing customers	Collectively assessed	Non-defaulted	Watched
Uncertain	10	100	D	Non-performing customers	Individually impaired	Defaulted	Substandard
Uncertain	11	100	D	Non-performing customers	Individually impaired	Defaulted	Doubtful
Irrecoverable	12	100	D	Non-performing customers	Individually impaired	Defaulted	Loss

Individual Credit Processes

The individual approval, monitoring and work-out processes are subject to risk and capital management frameworks approved by the Group Risk Management (GRM) and/or the CRO but developed, maintained and implemented by the Credit Departments in the Group. These Credit Departments are also responsible for the implementation of these frameworks in the day-to-day operations of the credit processes and for assuring that individual risk acceptance remains within the limits set by the risk appetite statement.

Application Process

The loan or credit application process for non-retail credit exposures involves three steps. Firstly, the employee maintaining the overall relationship with the customer prepares a credit application containing the credit request, the reason for the application and an analysis of the risks (including a financial analysis). Secondly, a credit risk advisor operating independently from the business line, who reports to the Credit Department, provides a written non-binding advice. Thirdly, a decision is taken by the Credit Sanctioning Committee (CSC), the highest local decision taking body, or one of its sub-committees consisting of business line employees and employees in the Credit Department. The Committee adopts its decisions by consensus based on a draft decision formulated by the Chairman or Vice - Chairman.

Within the delegation framework set by the Group, the Credit Department can delegate the credit decision to the regional manager or senior relationship manager of a branch. Delegations are granted *ad personam*. The delegations are risk based and take into account the total exposure with respect to a customer or customer group.

All credit decisions must be taken according to the "four eyes principle", i.e. at least two persons with appropriate delegation authority need to be involved.

Individual Monitoring Process

An individual credit monitoring process is applicable to non-retail exposures (corporate, large non-retail SME). For small non-retail SME, an automated behavioural monitoring process is being used. Credit exposures with a rating between PD 1 – 8 (non-retail SME) / PD 1 – 9 (corporate) are reviewed by the business function with the support of monitoring applications. Credit exposures with a rating between PD 9 – 12 (non-retail SME) / PD 10 – 12 (corporate) are reviewed by the Bad Debt Department, which is a sub-department of the Credit Departments.

Regardless of the PD rating, a full credit application must be submitted to the applicable decision authority for a review at least once a year in accordance with the same application process as for the new exposures. Additionally, certain triggers lead to a more frequent review of credit applications. These triggers include breaches of contractual conditions (such as the breach of financial or non-financial covenants or the non-payment of fees, interest or principal), but also events that do not constitute a breach of contract such as a sudden unexpected change in management that could lead to a deterioration of the customer's financial situation.

In addition to the annual review process, commercial real estate finance, acquisition finance and project finance are subject to a quarterly review by the CSC, pursuant to which all major exposure is subject to a short review of its main credit risk characteristics. Based on the outcome of the general quarterly review, the CSC can take immediate action or request an early full review of the file.

Collective Monitoring Process

In addition to the required annual review process, a collective monitoring process is applied to non-retail SME customers. The monitoring of compliance by the customer with covenants specified in the relevant financing documentation is based on information provided by the customer in covenant compliance reports and financial statements. A breach of the internal thresholds and covenants specified in the financing documentation triggers the individual review process as described above.

Bad Debts Treatment

For both corporate and non-retail SME customers, the management of bad debts is the sole responsibility of the Bad Debt Department. The credit customer relationship is transferred to the Bad Debt Department when an exposure reaches a PD rating of 9 in the case of non-retail SME and PD rating of 10, in the case of corporate customers.

Retail exposure (Entrepreneurs, retail SMEs and Individuals)

Risk Categories

The following table sets forth a breakdown of the Group's risk categories for retail exposure in 2018 and 2017. Number of days past due is the principal criterion for the assessment of the quality of retail exposures:

2018 — ČSOB risk categories for Retail exposure

PD Scale	Days overdue	Stage	Performance	Impairment	Default
Normal	0 - 30	Stage 1/ Stage 2	Performing	Model based	Non-defaulted
Monitored	31 - 90	Stage 1/ Stage 2	Performing	Model based	Non-defaulted
Uncertain	91 - 180	Stage 3	Non-performing	Model based	Defaulted
Doubtful	181 - 360	Stage 3	Non-performing	Model based	Defaulted
Irrecoverable	360 and more	Stage 3	Non-performing	Model based	Defaulted

2017	ČSOB risk categories for Retail exposure			ČSOB and CNB risk categories	CNB risk categories
PD Scale	Days overdue	Performance	Impairment		
Normal	0 - 30	Performing	Collectively assessed	Non-defaulted	Standard
Asset Quality review (AQR)	31 - 90	Performing	Collectively assessed	Non-defaulted	Watched
Uncertain	91 - 180	Non-performing	Individually impaired	Defaulted	Substandard
Uncertain	181 - 360	Non-performing	Individually impaired	Defaulted	Doubtful
Irrecoverable	360 and more	Non-performing	Individually impaired	Defaulted	Loss

In addition, all restructured exposures fall initially within the non-performing category irrespective of whether or not they are overdue. After at least twelve months of performance the restructured exposures may be reclassified to the performing status.

Previously restructured exposures already classified as performing less than two years ago, can fall again into non-performing category when becoming more than 30 days overdue.

Application Process

The application process in the retail segment is based on the usage of application scorecards for new customers and behavioural scorecards for existing customers. For consumer finance products (personal unsecured loans, retail overdrafts and credit cards) decisions are fully automated based on scorecards in the vast majority of cases. Mortgage decisions are supported by scorecards but decision-taking is essentially manual.

The application process makes extensive use of several external credit bureau databases that include both positive and negative information.

Monitoring Process

The monitoring process in the retail segment is performed regularly by the relevant Credit Departments. It is based on aggregated data. It does not involve individual reviews and looks at the development of defaults and probability of default within different sub-portfolios and development of Credit Cost Ratios within the different sub-portfolios. The development of the mortgage portfolio is monitored also on the basis of pool migration (i.e. migration between different risk pools).

Collection Process

The collection process in retail consists of two major phases: early collection and late collection. Early collection is generally based on a rapid succession of reminders (via a call centre or automated written notices) starting when any payment is three days overdue and may involve the restructuring of the loan. Late collection is focused on legal proceedings and the recovery of collateral. In addition, mortgage collection also uses field collection for customers whose payments are less than 180 days overdue and which precedes late collection. Collection units within the Group are monitored by the Risk Function.

Derivative financial instruments

Positive fair values arising from financial derivative instruments entered into by the Group, such as foreign exchange derivatives and interest rate swaps, give rise to potential future claims resulting from counterparty default and are therefore treated for credit risk purposes in the same way as credit exposures.

Credit-related commitments risk

The Group provides guarantees and letters of credit on behalf of its customers, as a result of which the Group may be required to make payments on such customers' behalf. Such payments are subsequently required to be reimbursed to ČSOB by the customer based on the terms of the underlying credit documentation. These guarantees expose the Group to similar risks as loans and such risks are managed using the same credit risks control processes and policies.

The following two main commitment risks are treated as off-balance sheet within the Group:

(i) *Undrawn but Committed Exposure*. This exposure arises when the Group has a legal commitment to provide a borrower with a facility or credit when asked and such facility or credit has not yet been drawn. This type of exposure comprises to a large extent of short-term exposure, where the Group's commitment has a duration equal to or shorter than one year.

(ii) *Off-Balance Sheet Products*. This exposure consists of bank guarantees and/or letters of credit. Off-balance sheet products are granted predominantly in the corporate segment and often consist of bid, performance or advance payment bonds for domestic construction companies.

Commitment risks expose the Group to similar risks as loans and such risks are monitored and managed using the same credit risk control processes and policies.

The Group manages credit risk in three major portfolios: Credit portfolio, Investment portfolio and Trading portfolio. Besides these there is a credit exposure connected with settlement activities (correspondent banking, settlement of receivables generated within system of electronic toll, which ČSOB administers for the Czech Government - e-Toll), where the risk is limited as counterparties are either highly rated banks, government institutions or entities with guarantees by highly rated banks.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2018. The maximum exposure is shown as gross without taking account of any collateral and other credit enhancements.

IFRS 9 (CZKm)	Credits	Investment	Trading	Other assets	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 16)	728	29,044	-	-	29,772
Financial assets held for trading (Note: 17)	-	187	19,679	-	19,866
Financial assets held for trading pledged as collateral	-	-	1,676	-	1,676
Non-trading financial assets mandatorily at fair value through profit or loss	-	643	-	-	643
Financial assets FVOCI (Note: 18)	1,705	13,128	-	-	14,833
Financial assets FVOCI pledged as collateral	781	2,505	-	-	3,286
Financial assets AC	612,352	607,444	-	3,637	1,223,433
Financial assets AC pledged as collateral	1,006	44,275	-	-	45,281
Fair value adjustments of the hedged items in portfolio hedge	-	(3,905)	-	-	(3,905)
Derivatives used for hedging	-	9,376	-	-	9,376
Other assets (Note: 25)	-	-	-	1,514	1,514
Total	616,572	702,697	21,355	5,151	1,345,775
Contingent liabilities (Note: 35)	41,165	-	-	323	41,488
Commitments – irrevocable (Note: 35)	126,899	-	-	-	126,899
Total	168,064	-	-	323	168,387
Total credit risk exposure	**784,636**	**702,697**	**21,355**	**5,474**	**1,514,162**

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2017. The maximum exposure is shown as gross without taking account of any collateral and other credit enhancements.

IAS 39 (CZKm)	Credits	Investment	Trading	Other assets	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 16)	-	43,849	-	905	44,754
Financial assets held for trading (Note: 17)	-	233	16,003	-	16,236
Financial assets held for trading pledged as collateral	-	-	2,097	-	2,097
Available-for-sale financial assets (Note: 18)	563	28,459	-	-	29,022
Available-for-sale financial assets pledged as collateral	1,772	4,075	-	-	5,847
Loans and receivables	581,906	477,479	-	2,816	1,062,201
Held-to-maturity investments	834	85,770	-	-	86,604
Held-to-maturity investments pledged as collateral	-	29,017	-	-	29,017
Fair value adjustments of the hedged items in portfolio hedge	-	(4,298)	-	-	(4,298)
Derivatives used for hedging	-	9,113	-	-	9,113
Other assets (Note: 25)	-	-	-	1,397	1,397
Total	585,075	673,697	18,100	5,118	1,281,990
Contingent liabilities (Note: 35)	33,513	-	-	323	33,836
Commitments – irrevocable (Note: 35)	125,443	-	-	-	125,443
Total	158,956	-	-	323	159,279
Total credit risk exposure	**744,031**	**673,697**	**18,100**	**5,441**	**1,441,269**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Set out below is an analysis of the maximum exposure to credit risk of the Group before and after taking into account the collateral held:

	2018 IFRS 9			2017 IAS 39		
(CZKm)	Gross maximum exposure	Financial effect of collateral	Net maximum exposure	Gross maximum exposure	Financial effect of collateral	Net maximum exposure
ASSETS						
Cash, balances with central banks and other demand deposits (Note: 16)	29,772	-	29,772	44,754	-	44,754
Financial assets held for trading (incl. assets pledged as collateral)	21,542	975	20,567	18,333	1,584	16,749
Financial derivatives	15,358	975	14,383	12,457	1,584	10,873
Financial assets other than derivatives	6,184	-	6,184	5,876	-	5,876
Non-trading financial assets mandatorily at fair value through profit or loss	643	-	643	-	-	-
Available-for-sale financial assets (incl. assets pledged as collateral)	-	-	-	34,869	-	34,869
Financial assets FVOCI (incl. assets pledged as collateral) (Note: 18)	18,119	-	18,119	-	-	-
Loans and receivables	-	-	-	1,062,201	879,131	183,070
Held-to-maturity investments (incl. assets pledged as collateral)	-	-	-	115,621	-	115,621
Financial assets AC (incl. assets pledged as collateral)	1,268,714	945,462	323,252	-	-	-
of which non-performing assets	*7,462*	*4,120*	*3,342*	-	-	-
Fair value adjustments of the hedged items in portfolio hedge	(3,905)	-	(3,905)	(4,298)	-	(4,298)
Derivatives used for hedging	9,376	304	9,072	9,113	601	8,512
Other assets (Note: 25)	1,514	-	1,514	1,397	-	1,397
Total	1,345,775	946,741	399,034	1,281,990	881,316	400,674
Contingent liabilities and Commitments – irrevocable (Note: 35)	168,387	45,054	123,333	159,279	44,556	114,723
of which non-performing exposures	*1,692*	*755*	*937*	-	-	-
Total credit risk exposure	**1,514,162**	**991,795**	**522,367**	**1,441,269**	**925,872**	**515,397**

Financial effect of collateral represents a fair value of collateral received by the Group against a credit exposure limited to the outstanding amount of the exposure.

The credit portfolio is structured according to the type of the business the Group enters into:

2018 IFRS 9 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Mortgage loans	301,104	-	28,106	**329,210**	(1,644)	(70)	**327,496**
Consumer loans	31,369	1	10,934	**42,304**	(1,191)	(17)	**41,096**
SME	88,133	4,030	36,116	**128,279**	(3,483)	(36)	**124,760**
Leasing	40,094	-	-	**40,094**	(547)	-	**39,547**
Corporate	157,167	37,192	51,891	**246,250**	(2,157)	(165)	**243,928**
Factoring	6,688	-	-	**6,688**	(357)	-	**6,331**
Other	1,419	72	14	**1,505**	(23)	(4)	**1,478**
Total credits	**625,974**	**41,295**	**127,061**	**794,330**	**(9,402)**	**(292)**	**784,636**

2017 IAS 39 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Mortgage loans	282,379	-	25,802	**308,181**	(1,938)	-	**306,243**
Consumer loans	28,062	3	10,573	**38,638**	(900)	(11)	**37,727**
SME	86,224	3,704	32,594	**122,522**	(3,631)	(98)	**118,793**
Leasing	40,161	-	1,510	**41,671**	(422)	-	**41,249**
Corporate	150,587	30,119	55,042	**235,748**	(1,744)	(345)	**233,659**
Factoring	6,661	-	-	**6,661**	(373)	-	**6,288**
Other	32	70	5	**107**	(23)	(12)	**72**
Total credits	**594,106**	**33,896**	**125,526**	**753,528**	**(9,031)**	**(466)**	**744,031**

The following tables show a reconciliation of the allowances for impairment losses on credit portfolio for 2017 and 2018 by classes of financial instruments and by individual and collective impairment for 2017:

(CZKm)	Mortgage loans	Consumer loans	SME	Leasing	Corporate	Factoring	Other	Total
At 1 January 2017 (IAS 39)	**2,562**	**1,043**	**3,674**	**538**	**1,851**	**371**	**27**	**10,066**
Net increase in allowances for credit losses (Note: 13)	(45)	(137)	218	(82)	(58)	3	(5)	(106)
(Write-offs) / Recoveries	(579)	(6)	(257)	(34)	(22)	(1)	1	(898)
Foreign currency translation	-	-	(4)	-	(27)	-	-	(31)
At 31 December 2017 (IAS 39)	**1,938**	**900**	**3,631**	**422**	**1,744**	**373**	**23**	**9,031**
Impact of transition to IFRS 9	185	329	78	85	87	(8)	8	764
of which reserved interest	-	*137*	*279*	-	-	-	-	*416*
At 1 January 2018 (IFRS 9)	2,123	1,229	3,709	507	1,831	365	31	9,795
Stage 1								
At 1 January 2018	**80**	**135**	**170**	**92**	**92**	**10**	**8**	**587**
Origination and acquisition	23	80	69	49	71	-	-	292
Change in credit risk not leading to stage transfers	(26)	(27)	(14)	(22)	(17)	-	(7)	(113)
Change in credit risk leading to stage transfer	(1)	(6)	(12)	(3)	(6)	-	-	(28)
Modification without derecognition	-	-	-	-	-	-	-	-
Derecognition	(5)	(33)	(17)	(10)	-	-	-	(65)
Write-offs	-	-	-	-	-	-	-	-
Foreign currency translation	-	-	-	-	-	-	-	-
At 31 December 2018	**71**	**149**	**196**	**106**	**140**	**10**	**1**	**673**
Stage 2								
At 1 January 2018	**211**	**339**	**383**	**139**	**69**	**217**	**-**	**1,358**
Origination and acquisition	31	57	32	16	43	-	-	179
Change in credit risk not leading to stage transfers	(29)	2	(2)	(16)	7	(2)	-	(40)
Change in credit risk leading to stage transfer	(27)	(9)	41	(37)	(3)	(5)	-	(40)
Modification without derecognition	(5)	(2)	(14)	-	-	-	-	(21)
Derecognition	(16)	(38)	(34)	(9)	-	-	-	(97)
Write-offs	-	-	-	-	-	-	-	-
Foreign currency translation	-	(49)	-	-	(40)	-	-	(89)
At 31 December 2018	**165**	**300**	**406**	**93**	**76**	**210**	**-**	**1,250**

(CZKm)	Mortgage loans	Consumer loans	SME	Leasing	Corporate	Factoring	Other	Total
Stage 3								
At 1 January 2018	**1,832**	**752**	**3,024**	**269**	**1,653**	**138**	**23**	**7,691**
Origination and acquisition	3	28	54	17	214	-	74	390
Change in credit risk not leading to stage transfers	95	22	(78)	37	(309)	(1)	-	(234)
Change in credit risk leading to stage transfer	18	228	347	76	428	13	-	1,110
Modification without derecognition	27	-	76	11	-	-	-	114
Derecognition	(71)	(31)	(152)	(27)	-	-	-	(281)
Write-offs	(496)	(258)	(424)	(46)	(52)	(13)	(75)	(1,364)
Foreign currency translation	-	(2)	(10)	-	(6)	-	-	(18)
At 31 December 2018	**1,408**	**739**	**2,837**	**337**	**1,928**	**137**	**22**	**7,408**
POCI								
At 1 January 2018	**-**	**3**	**132**	**7**	**17**	**-**	**-**	**159**
Origination and acquisition	-	-	-	-	-	-	-	-
Change in credit risk not leading to stage transfers	-	1	(33)	1	-	-	-	(31)
Change in credit risk leading to stage transfer	-	-	(2)	-	-	-	-	(2)
Modification without derecognition	-	-	-	-	-	-	-	-
Derecognition	-	-	(20)	(5)	-	-	-	(25)
Write-offs	-	(1)	(33)	8	(4)	-	-	(30)
Foreign currency translation	-	-	-	-	-	-	-	-
At 31 December 2018	**-**	**3**	**44**	**11**	**13**	**-**	**-**	**71**

In 2018, the most significant changes in gross carrying amount of credit exposures that have an impact on ECL allowance include: origination and acquisition of new assets, changes in credit risk leading to transfers between stages (Note: 19), derecognition of loans and write-offs.

IAS 39 (CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2017	**9,010**	**1,056**	**10,066**
Net Increase in allowances for credit losses (Note: 13)	59	(165)	(106)
(Write-offs) / Recoveries	(898)	-	(898)
Transfers	(31)	31	-
Foreign currency translation	(31)	-	(31)
At 31 December 2017	**8,109**	**922**	**9,031**

An industry sector analysis of the Group's Credit portfolio, before taking into account any collateral held or other credit enhancements, is as follows:

	2018 IFRS 9		2017 IAS 39	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Private persons	369,700	46.5	342,069	45.4
Distribution	65,995	8.3	60,978	8.1
Services	64,240	8.1	62,898	8.3
Commercial Real Estate	54,821	6.9	49,111	6.5
Automotive	44,002	5.5	39,321	5.2
Building and Construction	38,119	4.8	36,313	4.8
Machinery and Heavy Equipment	16,546	2.1	17,811	2.4
Metals	14,785	1.9	14,620	1.9
Finance and Insurance	14,404	1.8	11,368	1.5
Authorities	14,225	1.8	12,239	1.6
Oil, Gas and other Fuels	13,910	1.8	15,849	2.1
Electricity	12,916	1.6	13,979	1.9
Other sectors	70,667	8.9	76,972	10.3
Total	**794,330**	**100.0**	**753,528**	**100.0**

The investment portfolio is structured according to the type of the instrument.

2018 IFRS 9 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	142,196	-	-	(1)	**142,195**
Loans and receivables within investment portfolio	521,895	-	-	-	**521,895**
Derivatives used for hedging	9,376	-	-	-	**9,376**
Derivatives held for trading	187	-	-	-	**187**
Cash, balances with central banks and other demand deposits	29,044	-	-	-	**29,044**
Total investment	**702,698**	**-**	**-**	**(1)**	**702,697**

2017 IAS 39 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	147,324	-	-	(2)	**147,322**
Loans and receivables within investment portfolio	473,180	-	-	-	**473,180**
Derivatives used for hedging	9,113	-	-	-	**9,113**
Derivatives held for trading	233	-	-	-	**233**
Cash, balances with central banks and other demand deposits	43,849	-	-	-	**43,849**
Total investment	**673,699**	**-**	**-**	**(2)**	**673,697**

The investment portfolio is monitored from a counterparty sector point of view:

(CZKm)	2018 IFRS 9 Granted exposure (CZKm)	2018 IFRS 9 Percentage of total exposure	2017 IAS 39 Granted exposure (CZKm)	2017 IAS 39 Percentage of total exposure
Central banks	549,225	78.2	518,313	76.9
General government	140,100	19.9	143,847	21.3
Credit institutions	13,181	1.8	11,335	1.7
Corporate	191	0.1	202	0.1
Total investment	**702,697**	**100.0**	**673,697**	**100.0**

The trading portfolio is structured according to the type of the instrument.

2018 IFRS 9 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Debt securities	6,174	-	-	**6,174**
Loans and advances	10	-	-	**10**
Derivatives held for trading	15,171	-	-	**15,171**
Total trading portfolio	**21,355**	**-**	**-**	**21,355**

2017 IAS 39 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Debt securities	5,837	-	-	**5,837**
Loans and advances	39	-	-	**39**
Derivatives held for trading	12,224	-	-	**12,224**
Total trading portfolio	**18,100**	**-**	**-**	**18,100**

The trading portfolio is monitored from a counterparty sector point of view:

Sector	2018 IFRS 9 Granted exposure (CZKm)	2018 IFRS 9 Percentage of total exposure	2017 IAS 39 Granted exposure (CZKm)	2017 IAS 39 Percentage of total exposure
General government	4,901	23.0	3,144	17.4
Credit institutions	13,147	61.5	12,461	68.8
Corporate	3,307	15.5	2,495	13.8
Total trading portfolio	**21,355**	**100.0**	**18,100**	**100.0**

Risk concentrations of the maximum exposure to credit risk

The concentration of risk is managed by geographical region, industry and by client/counterparty. The Group's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

	2018 IFRS 9		2017 IAS 39	
(CZKm)	Total risk	of which General government	Total risk	of which General government
Czech Republic	1,426,979	135,845	1,358,976	136,912
Slovak Republic	15,593	6,958	17,197	7,126
Belgium	15,693	557	13,240	993
Italy	1,640	-	2,263	-
Hungary	1,116	-	1,113	-
Spain	768	-	132	-
Greece	6	-	13	-
Other Europe	41,631	8,646	42,299	8,859
Other	10,736	-	6,036	-
Total	**1,514,162**	**152,006**	**1,441,269**	**153,890**

Client concentration is monitored on the level of individual portfolios. In the credit portfolio the exposure towards groups of economically connected subjects are monitored:

	2018 IFRS 9		2017 IAS 39	
Client	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
1 largest client	9,972	1.3	8,048	1.1
10 largest clients	61,154	7.7	56,384	7.5
25 largest clients	100,081	12.6	98,616	13.1

The largest exposures to single clients in the investment and trading portfolio as at 31 December 2018 and 31 December 2017 were:

	2018 IFRS 9		2017 IAS 39	
Client	Granted exposure (CZKm)	% of total investment portfolio	Granted exposure (CZKm)	% of total investment portfolio
Investment portfolio				
Czech Ministry of Finance (S&P's rating AA)	123,198	17.5	126,872	18.8
CNB	547,607	77.9	514,015	76.3
Trading portfolio				
Czech Ministry of Finance (S&P's Rating AA)	4,901	23.0	3,144	17.4
KBC Bank	6,064	28.4	3,952	21.8

Exposures to counter parties by risk rating class in the investment and trading portfolio as at 31 December 2018 and 31 December 2017 were:

Rating (S&P)	2018 IFRS 9 Granted exposure (CZKm)	2018 IFRS 9 % of total portfolio	2017 IAS 39 Granted exposure (CZKm)	2017 IAS 39 % of total portfolio
Investment portfolio				
AAA up to and including A-	702,321	99.9	665,514	98.7
BBB+ up to and including BB-	259	0.1	8,113	1.2
Below BB-	-	-	-	-
Unrated	117	-	70	0.1
Total	**702,697**	**100.0**	**673,697**	**100.0**
Trading portfolio				
AAA up to and including A-	13,308	62.3	12,000	66.3
BBB+ up to and including BB-	3,972	18.6	3,525	19.5
Below BB-	-	-	-	-
Unrated	4,075	19.1	2,575	14.2
Total	**21,355**	**100.0**	**18,100**	**100.0**

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, pledges over real estate properties, trade receivables and inventory;
- For retail lending, pledges over residential properties are used for mortgage financing.

The Group continuously monitors the market value of all collateral, monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses and requests additional collateral in accordance with the underlying agreement when necessary. The amount of collateral reported for an individual receivable does not exceed the carrying amount of the receivable.

Within concluding derivatives transaction to hedge counterparty's risk the Group uses Master netting agreements and collateralisation annex (i.e. CSA or its equivalents).

Impairment assessment (applicable since 1 January 2018)

The Group complies with the IFRS 9 accounting standard which became effective as of 1 January 2018. As a result, the portfolio categorisation changed compared to previous years and impairment calculation methodology moved from incurred loss model to expected credit loss model.

The portfolio can be divided into three stages while the main considerations for stage allocation include whether there has been a significant increase in credit risk since initial recognition, any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, worsening of their credibility reflected by credit rating downgrades or infringement of the original terms of the contract.

A symmetric Group-wide 5-tier waterfall staging approach was developed to assess whether there has been a significant increase in credit risk since initial recognition triggering transfer to stage 2. The five tiers are following:

1. Increase of internal rating (mapped to Basel probability of default) by 2 notches or more since initial recognition, for Retail exposures 400% increase of probability of default being equivalent of 2 notches;
2. The exposure is forborne;
3. The exposure is more than 30 days past due;
4. The internal PD rating is 9 or its equivalent for Retail exposures;
5. Collective assessment – manual expert judgement based on forward looking information not captured by PD models such as social, political, regional, economic conditions.

A default event triggers transfer directly to stage 3.

The Group takes the advantage of low credit risk exemption for its debt securities in the Treasury and ALM portfolios, i.e. all such exposures internally rated PD1 - PD3 stay in stage 1.

The accounting standard introduced also staging rules for purchased or originated credit impaired (so called POCI) assets which upon cure event move from stage 3 to stage 2, but may never transfer to stage 1. This concerns also modified financial assets in case the modification resulted into derecognition of the original asset and recognition of a new forborne asset.

The expected credit loss (impairment) is calculated on 12-month basis for stage 1 and on lifetime basis for stage 2 and stage 3.

Various IFRS 9 models were developed within the Group for certain combinations of products and types of counterparty to arrive at the impairment as a sum of discounted products of IFRS 9 Probability of default (PD), Exposure at default (EAD), and Loss given default (LGD) adjusted for survival factor across the 12 months or lifetime to maturity for stage 1 or stage 2 and stage 3, respectively. The final impairment is a weighted sum of calculated impairments resulting from three different macroeconomic scenarios.

A sensitivity analysis on the impact of these multiple economic scenarios on IFRS 9 ECL, performed by calculating the difference between the outcome of the probability-weighted scenario (which is recognised) and the base scenario - gives a scenario-weighted ECL at year-end 2018 that is 0% to 0.4% higher than the base scenario, depending on entity level. If we take just the portfolios for which statistical macroeconomic variables are included in the model, the range rises to 0% - 2.6%. Different macroeconomic factors are taken into consideration and the Group applies three scenarios to evaluate a range of possible outcomes. The macroeconomic variables include GDP growth, the unemployment rate, policy interest rates, the exchange rate, government bond yields, house prices and inflation.

Management has the possibility to reflect its expertise in the final result of the impairment numbers in the exceptional case that the model-based calculation does not result in relevant and reliable impairment amounts based on available forward looking information.

Financial guarantees, letters of credit and undrawn limits are assessed and provisions are made for them in a similar manner as allowances for loans and other receivables.

Impairment assessment (applicable until 31 December 2017)

The main considerations for credit impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, worsening of their credibility reflected by credit rating downgrades or infringement of the original terms of the contract. The Group addresses impairment in two areas: specific impairments and impairments incurred but not reported (IBNR).

Specific impairments are applied to individual assets where there is registered objective evidence of default. All defaulted exposure requires an impairment test – when a client becomes defaulted, it is considered to be impaired and thus specific impairment has to be accounted for. IBNR are applied for asset groups that based on statistical evidence contain probably already impaired assets, but have not been yet individually recognised.

Specific impairment (Individual assessment)

The Group determines allowances appropriate for loans with outstanding amounts above a predefined materiality threshold where there is registered objective evidence of default on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, the availability of other financial support, liquidation value of collateral, and the timing of the expected cash flows. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. For insignificant exposures with registered objective evidence of default, a portfolio approach for deriving the impairment allowance is applied using statistical methods and models.

IBNR (Collective assessment)

Collective allowances are applied for loans and advances where there has not yet been recognised objective evidence of impairment and they reflect impairment that is likely to be present in the group of assets. Collective allowances are assessed based on statistical estimates and evaluated at each reporting period.

Collective allowances are estimated by taking into consideration:

(i) historical losses in the portfolio;

(ii) current economic conditions;

(iii) the approximate delay between the time a loss is likely to have been incurred and the time it will be identified (emergence period).

The local management is responsible for deciding on the length of the emergence period. In 2014, the Group used a uniform emergence period of four months, which was confirmed by the back-testing. In 2015, the emergence period has been extended to 6 – 8 months for some of the segments based on the latest back-testing results and in 2016 further changes have been made for other segments, prolonging the emergence period also to 8 months. The emergence period extension resulted in 2016 and 2015 an increase of the collective impairment provision of CZK 160 m (2015: CZK 390 m). The back-testing methodology was refined in 2016 and 2015 following the updated Group policy on determining the emergence period and its back-testing. All 2016 emergence periods have been reconfirmed for 2017.

Financial guarantees, letters of credit and undrawn limits are assessed and provisions are made for them in a similar manner as allowances for loans and other receivables.

Quality of credit portfolio

The Group sorts exposures into five categories for the purpose of credit risk management. The table below shows the credit quality by class of asset for loan-related statement of financial position lines (in gross amounts), based on the Group's credit rating system as at 31 December 2018 and 2017:

Credit portfolio

IFRS 9	2018					Total
	Non-defaulted assets		Defaulted assets			
(CZKm)	Normal	Monitored	Uncertain	Doubtful	Irrecoverable	
Mortgage loans	289,169	8,118	1,094	259	2,464	301,104
Consumer loans	27,891	2,440	123	140	776	31,370
SME	77,768	9,986	1,641	253	2,515	92,163
Leasing	35,570	3,602	-	480	442	40,094
Corporate	176,409	12,218	4,156	73	1,503	194,359
Factoring	5,329	1,192	-	57	110	6,688
Other	1,385	9	4	1	92	1,491
Total	**613,521**	**37,565**	**7,018**	**1,263**	**7,902**	**667,269**

IAS 39 (CZKm)	2017 Collectively assessed assets Normal	AQR	Individually impaired assets Uncertain *(Substandard)*	Uncertain *(Doubtful)*	Irrecoverable	Total
Mortgage loans	275,831	1,893	1,001	368	3,286	282,379
Consumer loans	26,973	153	27	196	716	28,065
SME	83,527	1,858	1,454	275	2,814	89,928
Leasing	38,697	691	-	370	403	40,161
Corporate	169,159	7,921	2,164	114	1,348	180,706
Factoring	5,883	-	654	-	124	6,661
Other	1	9	-	1	91	102
Total	**600,071**	**12,525**	**5,300**	**1,324**	**8,782**	**628,002**

Investment portfolio

IFRS 9 (CZKm)	2018 Non-defaulted assets Normal	Monitored	Defaulted assets Irrecoverable	Total
Debt securities	141,865	330	-	142,195
Loans and receivables within investment portfolio	521,895	-	-	521,895
Derivatives used for hedging	9,376	-	-	9,376
Derivative contracts held for trading	187	-	-	187
Cash, balances with central banks and other demand deposits	29,044	-	-	29,044
Total	**702,367**	**330**	**-**	**702,697**

IAS 39 (CZKm)	2017 Collectively assessed assets Normal	AQR	Individually impaired assets Irrecoverable	Total
Debt securities	146,993	329	-	147,322
Loans and receivables within investment portfolio	473,180	-	-	473,180
Derivatives used for hedging	9,113	-	-	9,113
Derivative contracts held for trading	233	-	-	233
Cash, balances with central banks and other demand deposits	43,849	-	-	43,849
Total	**673,368**	**329**	**-**	**673,697**

Trading portfolio

IFRS 9 (CZKm)	2018 Non-defaulted assets Normal	Defaulted assets Irrecoverable	Total
Debt securities	6,174	-	6,174
Loans and advances	10	-	10
Derivative contracts held for trading	15,171	-	15,171
Total	**21,355**	**-**	**21,355**

IAS 39 (CZKm)	2017 Collectively assessed assets Normal	2017 Individually impaired assets Irrecoverable	2017 Total
Debt securities	5,837	-	5,837
Loans and advances	39	-	39
Derivative contracts held for trading	12,224	-	12,224
Total	**18,100**	**-**	**18,100**

The table below shows a credit quality analysis of gross exposures of performing financial assets in the Credit portfolio:

(CZKm)	2018 IFRS 9 Neither past due nor defaulted	2018 IFRS 9 Past due (< 30 days) but not defaulted	2018 IFRS 9 Past due (> 30 days) but not defaulted	2017 IAS 39 Neither past due nor individually impaired	2017 IAS 39 Past due (< 30 days) but not individually impaired	2017 IAS 39 Past due (> 30 days) but not individually impaired
Mortgage loans	290,110	6,171	1,006	270,028	6,376	1,320
Consumer loans	29,618	594	118	26,393	627	103
SME	83,419	305	74	80,966	769	64
Leasing	37,493	1,467	212	39,290	84	14
Corporate	152,536	32	7	148,315	-	-
Factoring	6,521	-	-	5,883	-	-
Other	1,392	-	-	9	-	-
Total	**601,089**	**8,569**	**1,417**	**570,884**	**7,856**	**1,501**

Performing assets reported within Neither past due nor defaulted / individually impaired gross exposures consist of Normal risk category assets based on the Group's credit rating system.

There were no past due but not impaired assets in the Investment and Trading portfolios.

Gross amounts of non-performing financial assets included in the credit portfolio and the related impairment are as follows:

(CZKm)	2018 IFRS 9 Gross amount	2018 IFRS 9 Impairment	2017 IAS 39 Gross amount	2017 IAS 39 Impairment
Mortgage loans	3,817	(1,408)	4,655	(1,728)
Consumer loans	1,039	(740)	937	(718)
SME	4,409	(2,878)	4,543	(3,342)
Leasing	922	(347)	773	(327)
Corporate	5,732	(2,058)	3,626	(1,982)
Factoring	167	(137)	778	(353)
Other	97	(26)	93	(35)
Total	**16,183**	**(7,594)**	**15,405**	**(8,485)**

There are no individually impaired financial assets included in the investment portfolio.

Forbearance measures

Forbearance measures consist of concessions towards a borrower facing or about to face financial difficulties, which leave the borrower unable to comply with the original terms and conditions of a credit. Contracts for which forbearance measures have been taken and for which the exit criteria are not fulfilled are referred to as "Forborne credits". Such an approach enables the Group to control and limit potential future losses stemming from troubled credits.

Following the conservative approach of the local regulator, default status occurs any time a forbearance measure-concession is granted. The minimum period for assignment of the 'Forborne tag' is 36 months: this period consists of 12 months of the default status, and 24 months of what is referred to as the 'probation period'. In addition, any time more than 30 days past due are observed at an individual receivable during the 'probation period', the receivable is re-classified as defaulted and the 36-month period is re-set.

Outstanding gross amounts and gross amounts of forborne exposures included in the credit portfolio and the related impairment and collateral and financial guarantees as at 31 December 2018 and 2017 are as follows:

	2018				
		Forborne exposures			
IFRS 9 (CZKm)	Outstanding gross amount	Total exposure	Percentage of outstanding gross amount (%)	Total impairment	Collateral and financial guarantees
Corporate	157,167	1,547	1.0	516	574
SME	88,133	1,013	1.1	565	177
Mortgage loans	301,104	1,695	0.6	131	1,564
Leasing	40,094	464	1.2	88	241
Other	39,476	108	0.3	52	1
Total	**625,974**	**4,827**	**0.8**	**1,352**	**2,557**

	2017				
		Forborne exposures			
IAS 39 (CZKm)	Outstanding gross amount	Exposure of collectively and individually assessed assets	Percentage of outstanding gross amount (%)	Individual and collective impairment	Collateral and financial guarantees
Corporate	150,587	2,528	1.7	683	1,173
SME	86,224	998	1.2	637	179
Mortgage loans	282,379	2,001	0.7	221	1,782
Leasing	40,161	461	1.1	99	189
Other	34,755	130	0.4	61	3
Total	**594,106**	**6,118**	**1.0**	**1,701**	**3,326**

Detail analysis of forborne exposures included in the credit portfolio and the related impairment as at 31 December 2018 and 2017 are as follows:

	2018				
IFRS 9 (CZKm)	Non-defaulted exposure	Of which past due	Defaulted exposure	Impairment of defaulted exposure	Impairment of non-defaulted exposure
Corporate	952	-	595	478	37
SME	60	2	954	562	3
Mortgage loans	678	112	1,017	127	4
Leasing	103	4	361	88	-
Other	25	2	83	51	1
Total	**1,818**	**120**	**3,010**	**1,306**	**45**

IAS 39 (CZKm)	2017 Exposure of collectively assessed assets	Of which past due but not individually impaired assets	Exposure of individually impaired assets	Individual impairment	Collective impairment
Corporate	1,693	-	835	679	4
SME	69	13	928	635	2
Mortgage loans	895	148	1,106	163	58
Leasing	104	-	357	99	-
Other	47	11	84	60	1
Total	**2,808**	**172**	**3,310**	**1,636**	**65**

The following table shows a reconciliation of gross amounts of forborne exposures for 2018 and 2017 by classes of financial instruments:

(CZKm)	Corporate	SME	Mortgage loans	Leasing	Other	Total
At 1 January 2017 (IAS 39)	**2,713**	**1,168**	**2,323**	**383**	**226**	**6,813**
Loans which have become forborne	12	284	411	390	24	1,121
Loans which are no longer considered to be forborne	-	(167)	(311)	(210)	(42)	(730)
Increase of exposure	9	1	-	-	-	10
Decrease of exposure	(206)	(287)	(427)	(103)	(78)	(1,101)
Other movements	-	(1)	5	1	-	5
At 31 December 2017 (IAS 39)	**2,528**	**998**	**2,001**	**461**	**130**	**6,118**
Loans which have become forborne	-	337	418	203	31	989
Loans which are no longer considered to be forborne	-	(70)	(361)	(45)	(16)	(492)
Increase of exposure	2	22	-	-	5	29
Decrease of exposure	(983)	(274)	(366)	(155)	(42)	(1,820)
Other movements	-	-	3	-	-	3
At 31 December 2018 (IFRS 9)	**1,547**	**1,013**	**1,695**	**464**	**108**	**4,827**

The following table shows a reconciliation of impairments of forborne exposure for 2018 and 2017 by classes of financial instruments:

(CZKm)	Corporate	SME	Mortgage loans	Leasing	Other	Total
At 1 January 2017 (IAS 39)	**720**	**626**	**293**	**82**	**83**	**1,804**
Loans which have become forborne	12	155	38	54	10	269
Loans which are no longer considered to be forborne	-	(49)	(12)	(22)	(2)	(85)
Increase of exposure	4	62	-	-	11	77
Decrease of exposure	(53)	(157)	(112)	(15)	(41)	(378)
Other movements	-	-	14	-	-	14
At 31 December 2017 (IAS 39)	**683**	**637**	**221**	**99**	**61**	**1,701**
Impact of transition to IFRS 9	(4)	(46)	-	(9)	-	(59)
At 1 January 2018 (IFRS 9)	**679**	**591**	**221**	**90**	**61**	**1,642**
Loans which have become forborne	-	126	28	13	13	180
Loans which are no longer considered to be forborne	-	(22)	(21)	-	-	(43)
Increase of exposure	37	33	27	10	8	115
Decrease of exposure	(200)	(163)	(124)	(27)	(30)	(544)
Other movements	-	-	-	2	-	2
At 31 December 2018 (IFRS 9)	**516**	**565**	**131**	**88**	**52**	**1,352**

40.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without normal business operations being disrupted. To limit this risk, the Group pays significant attention to both operational and strategic liquidity management.

Operational Liquidity Management

The aim of operational liquidity management is to ensure the smooth processing of the Group's current payment obligations in CZK as well as in other currencies while minimizing associated cost. Operational liquidity is based on cash flow projections with an outlook of up to ten working days for CZK and one day for other currencies.

Funding Management

The actual development of liquidity might vary from ALM's liquidity prediction. The Group can address an adverse liquidity development in several ways. Most typically, the Group would adjust its investment policy, i.e. decrease the percentage of liabilities reinvested in cash form and use the liquidity from maturing bonds for other purposes. In the event of a more sudden decrease of liquidity, the Group can borrow via repo operations on the market or use regulatory repo facilities (in the CNB or ECB). The capacity and readiness to withstand adverse liquidity development is regularly reviewed by the means of stress tests.

Starting from October 2015, the Group reports on Liquidity Coverage Ratio (LCR), which compares available liquidity buffers to expected net cash outflows within the 30 day horizon under gravely stressed conditions.

The LCR during 2018 and 2017 was as follows:

(%)	2018	2017
31 March	139,7	145.9
30 June	134.9	145.4
30 September	137.5	147.7
31 December	136.5	146.4

The LCR ratio is regularly monitored and reported to the top management of the Group.

Strategic Liquidity Management

The aim of strategic liquidity management is to provide sufficient funding for the Group's business activities in the medium- and long-term horizon. For strategic liquidity management, the Group uses the net-stable-funding-ratio (NSFR) which is defined as a ratio of available stable funding (numerator) to required stable funding (denominator). The strategy of the Group is to maintain the value of the NSFR well above one. That means the Group aims to maintain matched funding, i.e. to ensure that long-term assets are funded by stable liabilities (contractually or statistically), while short-term liabilities are used for the funding of assets that are short-term and/or liquid.

The NSFR is monitored on a monthly basis and it is regularly reported to the top management of the Group.

The NSFR during 2018 and 2017 was as follows:

(%)	2018	2017
31 March	147.7	143.5
30 June	150.7	145.9
30 September	166.7	149.5
31 December	161.4	146.0

In addition to internally defined limits, the Group must also comply with a regulatory limit on the basis of mandatory minimum reserve deposited with CNB. The limit presently equals to 2% of customer deposits.

Analysis of financial liabilities by remaining contractual maturity

The tables below summarise the contractual maturity profile of the Group's financial liabilities based on the contractual undiscounted repayment obligations (outflows / inflows shown as negative / positive figures).

The following table sets out the financial liabilities of the Group by remaining contractual maturity as at 31 December 2018:

IFRS 9 (CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	**Total**
Financial liabilities					
Financial liabilities held for trading other than financial derivatives	-	(13,225)	(4,842)	-	(18,067)
Financial liabilities designated at fair value through profit or loss	-	(12,105)	(12,358)	(2,844)	(27,307)
Financial liabilities at amortised cost	(761,053)	(404,092)	(36,506)	(19,564)	(1,221,215)
Fair value adjustments of the hedged items in portfolio hedge	3,062	-	-	-	3,062
Other liabilities (Note: 28)	-	(4,510)	-	-	(4,510)
Contractual cash flows excluding derivatives	**(757,991)**	**(433,932)**	**(53,706)**	**(22,408)**	**(1,268,037)**
Net settled derivatives	-	(4,972)	(13,544)	(5,172)	(23,688)
Trading derivatives	-	(2,920)	(7,753)	(2,418)	(13,091)
Hedging derivatives	-	(2,052)	(5,791)	(2,754)	(10,597)
Gross settled derivatives	-	(3,860)	(1,827)	(457)	(6,144)
Trading derivatives	-	(3,845)	(1,315)	(450)	(5,610)
Inflows	-	*526,481*	*67,331*	*5,694*	*599,506*
Outflows	-	*(530,326)*	*(68,646)*	*(6,144)*	*(605,116)*
Hedging derivatives	-	(15)	(512)	(7)	(534)
Inflows	-	*261*	*13,917*	*1,052*	*15,230*
Outflows	-	*(276)*	*(14,429)*	*(1,059)*	*(15,764)*
Contractual cash flows from derivatives	**-**	**(8,832)**	**(15,371)**	**(5,629)**	**(29,832)**
Contractual cash flows from financial liabilities	**(757,991)**	**(442,764)**	**(69,077)**	**(28,037)**	**(1,297,869)**
Loan commitments – irrevocable (note 35)	(127,061)	-	-	-	(127,061)
Loan commitments – revocable (note 35)	(54,754)	-	-	-	(54,754)
Financial guarantees (note 35)	(38,260)	-	-	-	(38,260)
Other commitments (note 35)	(3,358)	-	-	-	(3,358)
Contractual cash flows from contingent liabilities	**(223,433)**	**-**	**-**	**-**	**(223,433)**

The following table sets out the financial liabilities of the Group by remaining contractual maturity as at 31 December 2017:

IAS 39 (CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	**Total**
Financial liabilities					
Financial liabilities held for trading other than financial derivatives	-	(15,435)	(5,463)	(189)	(21,087)
Financial liabilities designated at fair value through profit or loss	-	(13)	(8,099)	(2,176)	(10,288)
Financial liabilities at amortised cost	(760,056)	(361,987)	(43,200)	(2,092)	(1,167,335)
Fair value adjustments of the hedged items in portfolio hedge	3,803	-	-	-	3,803
Other liabilities (Note: 28)	-	(4,938)	-	-	(4,938)
Contractual cash flows excluding derivatives	**(756,253)**	**(382,373)**	**(56,762)**	**(4,457)**	**(1,199,845)**
Net settled derivatives	-	(4,118)	(10,654)	(5,811)	(20,583)
Trading derivatives	-	(2,187)	(5,171)	(1,903)	(9,261)
Hedging derivatives	-	(1,931)	(5,483)	(3,908)	(11,322)
Gross settled derivatives	-	(4,007)	(2,792)	(267)	(7,066)
Trading derivatives	-	(3,877)	(2,557)	(267)	(6,701)
Inflows	-	*232,789*	*79,260*	*6,646*	*318,695*
Outflows	-	*(236,666)*	*(81,817)*	*(6,913)*	*(325,396)*
Hedging derivatives	-	(130)	(235)	-	(365)
Inflows	-	*2,833*	*7,668*	*555*	*11,056*
Outflows	-	*(2,963)*	*(7,903)*	*(555)*	*(11,421)*
Contractual cash flows from derivatives	**-**	**(8,125)**	**(13,446)**	**(6,078)**	**(27,649)**
Contractual cash flows from financial liabilities	**(756,253)**	**(390,498)**	**(70,208)**	**(10,535)**	**(1,227,494)**
Loan commitments – irrevocable (note 35)	(125,527)	-	-	-	(125,527)
Loan commitments – revocable (note 35)	(52,272)	-	-	-	(52,272)
Financial guarantees (note 35)	(32,879)	-	-	-	(32,879)
Other commitments (note 35)	(1,340)	-	-	-	(1,340)
Contractual cash flows from contingent liabilities	**(212,018)**	**-**	**-**	**-**	**(212,018)**

For net settled derivatives, disclosed amounts are calculated based on assumption, that fair value will be evenly settled each year up to maturity date.

The maturity of contingent liabilities and commitments is on demand. This represents the undiscounted cash flows of the Group's contingent liabilities and commitments on the basis of their earliest possible contractual maturity. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The liquidity risk of the Group is not managed based on the remaining contractual maturities of the financial instruments, as such the Group's expected cash flows on these instruments vary significantly from this analysis (Note: 34). For example, undrawn loan commitments are not expected to be drawn down immediately.

40.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a historic VaR methodology that reflects the interdependency between risk variables. The secondary measure for risk management is Basis Point Value (BPV) sensitivity. Non-trading positions are managed and monitored using BPV sensitivity analysis.

Market risk – Trading

The Board of Directors has set limits on the level of risk that may be accepted. The Group applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon assumptions for various changes in market conditions. VaR is a method used to measure financial risk by estimating a potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Group uses a full linear VaR model for interest rate and foreign exchange rate risk. These calculations are based on historic scenarios derived from a two-year history. The Group has no net position in FX options, nor any position in equity. A nominal technical limit for reminder products, in particular interest rate options; commodity derivatives and structured bonds. Positions in these products are not allowed to be material as back-to-back approach is required.

Standard VaR calculations are supplemented by a sophisticated system of stress tests. They consist of examples of extreme, but plausible events on the financial markets to test their impact on the market value of positions currently held by the Group. The Group analyses scenarios, dependent and independent of the Group’s position. Also, real historical scenarios are evaluated on a regular basis.

To enhance the system of risk management, the Group also uses other methods of risk monitoring, such as interest rate sensitivity BPV, and stop-loss limits.

Objectives and limitations of the VaR methodology

The Group uses the historical VaR methodology to measure and monitor interest rate and foreign exchange rate risks in the trading book observing the relevant Basel II standards. The accuracy of estimated results is verified through back-testing.

VaR assumptions

When measuring risks, the Group applies VaR assumptions to estimate potential losses at a 99% confidence level that is not expected to be exceeded if the current market risk positions were to be held unchanged for 10 days. The use of a 99% confidence level means that, within a ten-day horizon, losses exceeding the VaR figure should occur, on average, not more than once every 100 days. The Group uses historical daily changes in market variables to assess possible changes in the market value of the trading portfolio based on historical data from the past 500 days.

Since VaR is an integral part of the Group's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by the management.

The VaR model is back tested on a daily basis. Daily VaR (1 day holding period) is compared with theoretic profit or loss from holding previous day position. Daily VaR is also compared with the actual profit or loss made by the trading book.

The Group holds regulatory approval to use an internal VaR model for the calculation of capital requirements for interest rate and foreign exchange risks.

The Group calculate a Stress VaR to fulfil CRR/CRD IV requirements for market risk capital. A one year historic stress period is used for determining of stress scenarios. All other assumptions are identical to the standard VaR measurement.

The tables below show potential gains / (losses) analysed using VaR 10D 99% model in 2018 and 2017:

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2018	682	3	4	689
Average during the period	817	3	(3)	817
Highest	1,122	37	(38)	1,121
Lowest	503	1	7	511

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2017	674	4	3	681
Average during the period	487	5	(5)	487
Highest	793	21	(20)	794
Lowest	122	(2)	2	122

Market risk – Investment portfolio

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on the BPV sensitivity. The Board of Directors has set secondary limits on interest rate gaps for stipulated periods. Positions are monitored on a weekly basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's statement of income and equity.

The sensitivity of the statement of income is calculated by revaluing financial assets designated at fair value through profit or loss for the effects of the assumed changes in interest rates. The sensitivity of the statement of income is analysed by the maturity of the asset. The total sensitivity of the statement of income is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity also to non-parallel changes.

The sensitivity of equity is calculated by revaluing Financial assets at fair value through other comprehensive income / Available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash-flow hedges, for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by the maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity also to non-parallel changes.

The Group's investment portfolio consists of predominantly linear interest rate sensitive products.

The table below shows the sensitivity of the statement of income and other comprehensive income (before tax) due to revaluation of assets and liabilities that are measured at fair value on recurring basis as at 31 December 2018:

		Sensitivity of other comprehensive income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(8.6)	3.4	11.2	(126.8)	(120.8)
EUR	+ 10	0.1	0.1	(0.6)	(21.4)	(21.8)
USD	+ 10	0.0	0.0	0.0	0.0	0.0
CZK	- 10	8.6	(3.4)	(11.2)	126.8	120.8
EUR	- 10	(0.1)	(0.1)	0.6	21.4	21.8
USD	- 10	0.0	0.0	0.0	0.0	0.0

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	0.5	1.4	1.9	3.6	7.4
EUR	+ 10	0.6	0.0	15.5	1.0	17.1
USD	+ 10	0.2	0.0	0.0	0.0	0.2
CZK	- 10	(0.5)	(1.4)	(1.9)	(3.6)	(7.4)
EUR	- 10	(0.6)	0.0	(15.5)	(1.0)	(17.1)
USD	- 10	(0.2)	0.0	0.0	0.0	(0.2)

The table below shows the sensitivity of the statement of income and other comprehensive income (before tax) due to revaluation of assets and liabilities that are measured at fair value on recurring basis as at 31 December 2017:

		Sensitivity of other comprehensive income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	11.8	5.1	(27.4)	(43.5)	(54.0)
EUR	+ 10	0.7	-	(26.3)	(14.8)	(40.4)
USD	+ 10	(0.1)	-	(4.4)	(0.1)	(4.6)
CZK	- 10	(11.8)	(5.1)	27.4	43.5	54.0
EUR	- 10	(0.7)	-	26.3	14.8	40.4
USD	- 10	0.1	-	4.4	0.1	4.6

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(19.2)	0.5	121.2	16.7	119.2
EUR	+ 10	(0.1)	0.2	2.6	-	2.7
USD	+ 10	-	(0.1)	(0.9)	-	(1.0)
CZK	- 10	19.2	(0.5)	(121.2)	(16.7)	(119.2)
EUR	- 10	0.1	(0.2)	(2.6)	-	(2.7)
USD	- 10	-	0.1	0.9	-	1.0

Currency risk

Currency risk is the risk that the value of a financial instrument would fluctuate due to changes in foreign exchange rates. The Group adopted a strategy under which the banking book has no open positions in foreign currencies. Positions are monitored on a daily basis and hedging strategies are used to close such positions. Minimum technical residual open positions in foreign currencies are allowed; the Group sets limits for these positions. The technical currency position is added to the currency position of the trading book position and reported in aggregate.

The table below shows the foreign currency risk sensitivity of the statement of income (before tax) as at 31 December 2018 and 2017:

	2018			2017		
(CZKm)	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR
EUR	18	1	(1)	7	-	-

Sensitivity of the statement of income to currencies other than EUR is not significant.

Equity price risk

Equity price risk is the risk that the fair values of equities will decrease as a result of changes in the levels of equity indices and in the value of individual stocks. Investment equity price risk exposure arises from the Group's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments included in Financial assets at fair value through other comprehensive income at 31 December 2018) due to a reasonably possible change in equity indices (before tax), with all other variables held constant, is as follows:

(CZKm)	Change in equity price (%)	Effect on equity
Visa Inc. quotation	- 10	(41)
	+ 10	41

The effect on equity (as a result of a change in the fair value of equity instruments included in Available-for-sale financial assets at 31 December 2017) due to a reasonably possible change in equity indices (before tax), with all other variables held constant, was as follows:

(CZKm)	Change in equity price (%)	Effect on equity
Visa Inc. quotation	- 10	(33)
	+ 10	33

Prepayment risk

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Prepayment risk is regularly monitored and assessed in the Group. Convenient tools for prepayment risk limitation are applied in the area of mortgage loans particularly.

40.5 Operational risk

The Group defines operational risk in line with Basel III as the risk of loss resulting from inadequate or failed internal procedures, people and systems, or from external events. Operational risks include legal, compliance and tax risks. The impact of incidents on the Group's reputation is taken into consideration when assessing the Group's vulnerability in respect of operational risk incidents.

Principles of Operational Risk Management

Operational risk management starts with the identification of operational risks having materialized within the Group, as well as an assessment of the Group's vulnerability in respect of potential risks that have not materialised yet. Operational risk management focuses primarily on the key risks and the most risky areas for potential losses. The assessment involves ranking the risks and risk events in terms of their severity and anticipated frequency. The assessment is followed by the decision of an accountable manager, i.e. acceptance of risk or its mitigation by implementing appropriate control measures and/or risk transferring to the 3rd parties and/or risk insurance. Risk events that cannot be prevented may be also mitigated by business continuity arrangements.

Operational Risk Management Governance

The basic objective is to make operational risk management a natural part of the decision-making in business units. Operational risk management governance is promoted by the CRO and the Risk Function.

Non-financial Risk Management Department (NFRD)

The NFRD is responsible for reporting in the non-financial risk management area, including operational risk management. This includes coordination, implementation of methodology, assurance of independent control, advisory to business units and training. NFRD covers also business continuity and information security areas. Other risks related to operational risk are coordinated by special units, including the Compliance Unit, Legal Unit and Tax Unit.

Local Operational Risk Managers (the "LORMs")

LORMs are first line support for business managers in respect of non-financial risks (also responsible for first-line business continuity and information security agendas). Beside frequent contacts, regular meetings of LORMs are organised by the NFRD every quarter for training and exchange of information.

Crisis Management

Apart from the regular operational risk management infrastructure, the Group has also established a crisis management infrastructure. Major incidents within the Group are resolved by the Crisis Management Committee with the involvement of the Board of Director members. Additionally, the Group has in place a procedure for resolving local incidents. This procedure is used for more explicit and structured situations, i.e. not complex crises.

Building Blocks of Operational Risk Management

Loss Data Collection

Loss events are registered into a loss database, which contains a full description of cases involving a higher level of loss. The quality of loss data is monitored on a daily basis, and data is reconciled regularly.

Deep Dive

The Deep Dive (formerly Detailed Risk Scan) aims to identify and quantify operational risks in products, activities, processes and systems. The risks are subsequently either accepted or mitigated via action plans. It consists of workshops organised and facilitated by the LORM, where business representatives and control function representatives discuss operational risks faced in order to reach a consensus on the adequate risk response (risk acceptance or mitigation).

Process of Change Management

Besides above mentioned NAPP addressing product changes, Process of Change Management dealing with non-product changes is also used. Each material change must be analysed and identified risks are further managed according to valid rules.

Risk Scan

Every year, before the risk appetite statement is defined, the Group executes a risk scan identifying and assessing its top risks. All material risk types are explicitly considered, but it is not necessary that a top risk is ultimately withheld for every risk type. The Risk Scan is executed and reported based on the KBC Group Risk Scan Guidance.

The prime responsibility for the identification and assessment of the top risks lies with the business. Input for the risk scan can be derived from several sources, including the main risks identified in the Internal Control Statement, audit recommendations, existing claims, economic forecasts and so on. The Risk Function facilitates the process. This may include gathering business input and documenting the conclusions of the risk scan. The business may call upon the Risk Function for assistance with the identification and assessment of the top risks as well. In any case, the Risk Function challenges the assessment details.

The results of the risk scan, as well as the risk response thereto (acceptance, non-acceptance, mitigating actions), can lead to changes to the existing business plans. Furthermore, they are used as input for the definition of risk appetite in the strategic planning process.

Group Key Controls, Zero Tolerances and Local Risk and Control Assessment (GKC ZT)

The Group Key Controls and Zero Tolerances are top down basic control objectives used to mitigate key & killer non-financial risks (including risks to reputation) that are inherent to the processes of the business entities. Each GKC contain the key & killer operational risks related to the involved business process.

Besides Group Key Controls and Zero Tolerances, local approach called Local Risk and Control Assessment aims to identify new key risks and controls and/or revise GKC risks and controls to have one local view of risk exposure per process.

Risk assessment and its approval

All operational risks must be assessed according to Uniform Risk Scale consisting of 4 levels, where financial limits and also non-financial criteria are taken into account. Risk is then approved by respective managerial level based on its impact.

Action plans

Action plans are activities set up by 1st LoD that mitigate risk. Action plans are reported by LORMs to NFRD on a Q basis. By using risk based approach, NFRD checks selected action plans when they are proposed for closing by 1st LoD.

Key Risk Indicators

Key risk indicators are measurable metrics or indicators used to track the exposure to loss or other difficulties. Key risk indicators are used for informing the management of the current level of risk exposure and/or the effectiveness of the controls in place. Key risk indicators also underpin overall risk profile which is set on the level of subsidiary and selected business units of the Group.

41. CAPITAL

Capital Adequacy

Capital adequacy measures the financial strength and stability of an institution. It compares the amount of the capital held by a financial institution to the risk of possible decline in value of assets on its statement of financial position.

Capital adequacy (or solvency) risk is the risk that the capital base of the Group might fall below an acceptable level. In practice, this entails checking solvency against the minimum regulatory and in-house solvency ratios and its active steering.

Capital targets and structure

Regarding the capital targets and structure, the Group fully follows the KBC Group Capital Adequacy Policy stating that fully owned subsidiaries shall hold the regulatory minimum capital (all capital in excess of the regulatory minimum must be held at the Group level).

For the purpose of the ICAAP process, available capital of the Pillar II in the Group coincides with the Common equity Tier 1 capital under Pillar I.

Managing solvency

The Group reports its solvency calculated on the basis of IFRS balances, taking into account all relevant regulatory requirements. Solvency targets based on external regulatory capital requirements were met throughout 2018 and 2017 with adequate buffers above the regulatory minimum standards, underpinning the very strong capital position of the Group.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

In accordance with Basel lll, Pillar 2 requirements, the Group has an Internal Capital Adequacy Assessment Process (ICAAP) in place. The ICAAP examines both the current and future capital situation. To assess the latter situation, a four-year forecast is drawn up for required and available capital, both regulatory and economic, according to a basic scenario that takes account of anticipated internal and external growth, and according to various likely alternative scenarios. The Group uses also other instruments as required by Pillar 2 mainly in the area of capital planning, stress testing and risk strategies.

The Basel lll agreement and corresponding European CRD IV Directive and Regulation introduced new, more stringent capital requirements for financial institutions. According to these requirements, the legal minimum tier-1 ratio increased to 6.0% (with a common equity ratio of 4.5%). On top of this, a capital conservation buffer, and an extra charge for systemic risks of banks were applied. In addition, a countercyclical buffer (to be determined by the national regulatory authority) was introduced in 2017 and has been gradually increasing since. The Group incorporated major changes / ratios into the regular management of the risk and capital positions.

The Group manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital instruments.

Within the ICAAP approach the capital economic model (ICM – internal capital model) has been developed in KBC Bank in cooperation with the Group. The model is more risk sensitive and built naturally in way that allows decomposition of the undergone credit risk to various categories (like default risk, migration risk, single-name risk, sector and region concentration and diversifications) . Model was presented to the regulators and approved. The Group plans to roll out the internal model also for the purpose of the pricing and various business analyses to support business decisions.

For the purposes of the capital management in 2018 and 2017, the Bank was granted the ČNB permission to include a part of the interim profit of the Group to the Common Equity Tier 1 before taking a formal decision confirming the final net profit of the Group for the year. As a consequence of the approval, the ČSOB Tier 1 capital increased by CZK Nil as at 31 December 2018 and CZK 1,205 m as at 31 December 2017.

The following table shows the capital, capital requirements and CAD ratio calculated under Basel lll on 31 December 2018, 1 January 2018 reflecting adoption of IFRS 9 and status prior adoption of IFRS 9 on 31 December 2017 for the Group.

(CZKm)	31 Dec 2018 IFRS 9	1 Jan 2018 IFRS 9	31 Dec 2017 IAS 39
Tier 1 capital	69,148	68,956	69,098
Tier 2 capital	-	-	-
Total capital	**69,148**	**68,956**	**69,098**
Regulatory capital requirements	30,660	32,209	32,182
Risk weighted assets	**383,254**	**402,611**	**402,278**
Capital adequacy ratio	18.04%	17.13%	17.18%

CONSOLIDATED FINANCIAL STATEMENTS

SEPARATE FINANCIAL STATEMENTS

SEPARATE STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

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

(CZKm)	Note	2018 IFRS 9	2017 IAS 39
Interest income calculated using the effective interest rate method	4	28,722	20,515
Other similar income	4	724	497
Interest expense calculated using the effective interest rate method	5	(6,638)	(2,850)
Other similar expense	5	(1,127)	(462)
Net interest income		**21,681**	**17,700**
Fee and commission income	6	9,919	9,775
Fee and commission expense	6	(3,608)	(3,652)
Net fee and commission income		**6,311**	**6,123**
Dividend income	13	4,124	3,217
Net gains from financial instruments at fair value through profit or loss and foreign exchange	7	2,377	3,300
Net realised gains on available-for-sale financial assets		-	455
Net realised gains on financial instruments at fair value through other comprehensive income		-	-
Other net income	8	1,243	1,581
Operating income		**35,736**	**32,376**
Staff expenses	9	(7,365)	(6,651)
General administrative expenses	10	(6,966)	(6,397)
Depreciation and amortisation	20, 21	(1,171)	(1,139)
Operating expenses		**(15,502)**	**(14,187)**
Impairment losses	11	**(279)**	**(456)**
on loans and receivables		-	(255)
on held-to-maturity investments		-	(2)
on available-for-sale financial assets		-	(1)
on financial assets at amortised cost and at fair value through other comprehensive income (OCI)		(327)	-
on other financial and non-financial assets		48	(198)
Profit before tax		**19,955**	**17,733**
Income tax expense	12	(2,636)	(2,377)
Profit for the year		**17,319**	**15,356**

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

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

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

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

(CZKm)	Note	2018 IFRS 9	2017 IAS 39
Profit for the year		**17,319**	**15,356**
Other comprehensive income – to be reclassified to the statement of income			
Net loss on cash flow hedges		(584)	(1,816)
Net loss on available-for-sale financial assets		-	(588)
Net loss on financial debt instruments at fair value through other comprehensive income		(414)	-
Income tax benefit relating to components of other comprehensive income		190	452
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	29	**(808)**	**(1,952)**
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		87	-
Income tax expense relating to components of other comprehensive income		(11)	-
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	29	**76**	**-**
Total comprehensive income for the year, net of tax		**16,587**	**13,404**

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

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

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

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

(CZKm)	Note	2018 IFRS 9	2017 IAS 39
ASSETS			
Cash, balances with central banks and other demand deposits	14	36,126	53,191
Financial assets held for trading	15	22,651	17,674
Financial assets held for trading pledged as collateral	15	1,676	2,097
Financial assets designated at fair value through profit or loss	15	-	3,376
Non-trading financial assets mandatorily at fair value through profit or loss	15	643	-
Available-for-sale financial assets	16	-	48,777
Available-for-sale financial assets pledged as collateral	16	-	5,847
Financial assets at fair value through other comprehensive income	16	37,838	-
Financial assets at fair value through other comprehensive income pledged as collateral	16	3,286	-
Held-to-maturity investments	16	-	86,604
Held-to-maturity investments pledged as collateral	16	-	29,017
Loans and receivables	17	-	974,013
Financial assets at amortised cost	17	1,132,355	-
Financial assets at amortised cost pledged as collateral	17	45,281	-
Fair value adjustments of the hedged items in portfolio hedge		(3,082)	(3,483)
Investments in subsidiaries, associates and joint ventures	18	54,652	49,992
Derivatives used for hedging	19	8,441	8,448
Deferred tax assets	12	74	46
Property and equipment	20	5,322	5,245
Goodwill and other intangible assets	21	5,429	5,295
Non-current assets held-for-sale	22	38	-
Other assets	23	1,205	926
Total assets		**1,351,935**	**1,287,065**
LIABILITIES AND EQUITY			
Financial liabilities held for trading	24	35,544	36,660
Financial liabilities designated at fair value through profit or loss	24	26,065	9,498
Financial liabilities at amortised cost	25	1,194,384	1,145,888
Fair value adjustments of the hedged items in portfolio hedge		(3,062)	(3,803)
Derivatives used for hedging	19	10,015	10,473
Current tax liabilities		441	266
Other liabilities	26	3,593	3,439
Provisions	27	530	864
Total liabilities		**1,267,510**	**1,203,285**
Share capital	28	5,855	5,855
Share premium		20,093	20,093
Statutory reserve		18,687	18,687
Retained earnings		39,055	37,280
Available-for-sale reserve	28	-	1,368
Revaluation reserve from financial assets at fair value through other comprehensive income	28	711	-
Cash flow hedge reserve	28	24	497
Total equity		**84,425**	**83,780**
Total liabilities and equity		**1,351,935**	**1,287,065**

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 notes are an integral part of these separate financial statements.

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

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

(CZKm)	Share capital (Note: 28)	Share premium	Statutory reserve[1)]	Retained earnings	Other reserves (Note: 28)	Total Equity
At 1 January 2017	**5,855**	**20,093**	**18,687**	**32,895**	**3,817**	**81,347**
Profit for the year	-	-	-	15,356	-	15,356
Other comprehensive income for the year (Note: 29)	-	-	-	-	(1,952)	(1,952)
Total comprehensive income for the year	-	-	-	15,356	(1,952)	13,404
Merger with subsidiaries Centrum Radlická and Patria Online (Note: 18)	-	-	-	(824)	-	(824)
Dividends paid (Note: 13)	-	-	-	(10,147)	-	(10,147)
At 31 December 2017	**5,855**	**20,093**	**18,687**	**37,280**	**1,865**	**83,780**
Impact of transition to IFRS 9 (Note: 2.5)	-	-	-	(163)	(398)	(561)
At 1 January 2018	**5,855**	**20,093**	**18,687**	**37,117**	**1,467**	**83,219**
Profit for the year	-	-	-	17,319	-	17,319
Other comprehensive income for the year (Note: 29)	-	-	-	-	(732)	(732)
Total comprehensive income for the year	-	-	-	17,319	(732)	16,587
Equity investments disposed	-	-	-	(25)	-	(25)
Dividends paid (Note: 13)	-	-	-	(15,356)	-	(15,356)
At 31 December 2018	**5,855**	**20,093**	**18,687**	**39,055**	**735**	**84,425**

(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 notes are an integral part of these separate financial statements.

These separate financial statements were approved for issue by the Board of Directors and signed on its behalf on 18 April 2019 by:

John Arthur Hollows
Chairman of the Board of Directors

Jiří Vévoda
Member of the Board of Directors

SEPARATE STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

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

(CZKm)	Note	2018 IFRS 9	2017 IAS 39
OPERATING ACTIVITIES			
Profit before tax		**19,955**	**17,733**
Adjustments for:			
Interest income	4	(29,446)	(21,012)
Interest expense	5	7,765	3,312
Dividend income	13	(4,124)	(3,217)
Non-cash items included in profit before tax	31	1,855	(1,260)
Net gains from investing activities		(30)	(129)
Cash flow used in operations before changes in operating assets, liabilities, income tax paid, interest paid and received and dividend received		**(4,025)**	**(4,573)**
Change in operating assets	31	(32,600)	(16,568)
Change in operating liabilities	31	23,004	100,413
Income tax paid		(2,368)	(2,675)
Interest paid		(7,765)	(3,312)
Interest received		30,831	22,855
Dividend received	13	4,124	3,217
Net cash flows from operating activities		**11,201**	**99,357**
INVESTING ACTIVITIES			
Purchase of held-to-maturity investments		-	(572)
Acquisition and equity increase of subsidiary, associate and joint venture companies		(4,692)	(7,052)
Maturity / disposal of investment securities		-	15,739
Purchase of property, equipment and intangible assets		(1,459)	(1,600)
Proceeds from sale and equity decrease of subsidiary, associate and joint venture companies		-	276
Proceeds from disposal of property, equipment, intangible assets and assets held-for-sale		18	89
Net cash flows (used in) / from investing activities		**(6,133)**	**6,880**
FINANCING ACTIVITIES			
Repayment of bonds		(500)	-
Dividends paid	13	(15,356)	(10,147)
Net cash flows used in financing activities		**(15,856)**	**(10,147)**
Net (decrease) / increase in cash and cash equivalents		**(10,788)**	**96,090**
Cash and cash equivalents at the beginning of the year	31	184,105	88,015
Net (decrease) / increase in cash and cash equivalents		(10,788)	96,090
Cash and cash equivalents at the end of the year	31	**173,317**	**184,105**

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

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

NOTES TO THE SEPARATE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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

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. The parent company of the Bank is KBC Bank NV (KBC Bank), which is controlled by the KBC Group NV (KBC Group).

The Bank is operating in the Czech Republic. It is a universal bank offering to its clients a wide range of banking products and services, including the products and services of the entire ČSOB Group. The main activities services of the ČSOB include: accepting deposits from the public, providing loans, investing in securities on the Bank´s own account, 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. Furthermore, 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.

2. ACCOUNTING POLICIES

The accounting policies and methods of computation described in Note 2.4 (first set of policies) are adjusted to include the adoption of IFRS 9, and re-designed. The second set of the accounting policies (Note: 2.4), reflecting IAS 39 rules, are applicable to the comparative figures and are fully consistent with the policies disclosed in the Bank'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 financial statements have been prepared and approved by the Board of Directors of the Bank. In addition, the financial statements are subject to approval at the General Meeting of shareholders.

The separate financial statements have been prepared under the historical cost convention, except for available-for-sale investments (IAS 39), financial assets at fair value through other comprehensive income (IFRS 9), 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 separate financial statements are presented in millions of Czech Crowns (CZKm) which is the Bank's presentation currency. The preparation of separate financial statements is required by the Act on Accounting. Simultaneously, the Bank also prepares consolidated financial statements of the ČSOB Group in accordance with the International Financial Reporting Standards as adopted by the European Union (EU IFRS).

Statement of compliance

The separate financial statements of ČSOB have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

2.2 Significant accounting judgements and estimates

While applying the Bank 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: 30)

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: 38.2)

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 Bank 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
- an 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.

Business model assessment

Classification of financial assets is driven by the business model. Management applies judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity.

Assessment whether cash flows are solely payments of principal and interest ("SPPI")

Judgement is required to determine whether a financial asset's cash flows are solely payments of principal and interest as only features representing basic lending agreement are in line with the SPPI test. Judgement is required to assess whether risks and volatility of contractual cash flows are related to basic lending agreement. Among the features that require judgements were, for example, modification of time value of money, change of timing or amount, such as early settlement or prepayment.

Goodwill impairment (Note: 21)

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 Bank at which the goodwill is monitored for internal management purposes. Identifying a cash-generating unit as well as determining its recoverable amount requires judgement.

Impairment of investment in subsidiaries (Note: 18)

Investments in subsidiaries are reviewed for impairment indicators at least annually. In cases where impairment indicators are identified, investment is tested for impairment by comparing the recoverable amount with the investment carrying amount. Determining and assessing of the impairment indicators as well as determining the recoverable amount requires judgment.

Assessment of the nature of interest in Group entities

The Bank 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 Bank'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 financial statements of the Bank are consistent with those used in the Bank'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 Bank, 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 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 Bank 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 Bank has decided not to early adopt them. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect the Bank financial statements.

Prepayment Features with Negative Compensation (Amendments to IFRS 9) is effective for periods beginning on or after 1 January 2019 and endorsed by the EU. 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.

IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019 and endorsed by the EU. 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. Expected impact of IFRS 16 on the statement of financial position is shown in Note 33.

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 and endorsed by the EU. 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 and has not yet been endorsed by the EU. 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.

Definition of a Business (Amendment to IFRS 3) is effective for periods on or after 1 January 2020 and has not yet been endorsed by the EU. The amendment offers guidance how to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. Business is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

Definition of Material (Amendments to IAS 1 and IAS 8) is effective for periods on or after 1 January 2020 and has not yet been endorsed by the EU. The amendment defines that information is material if omitting, misstating or obscuring it could influence decisions that the users of financial statements make on the basis of financial statements. Materiality depends on the nature or magnitude of information, or both.

Amendments to References to the Conceptual Framework in IFRS Standards are effective for periods on or after 1 January 2020 and has not yet been endorsed by the EU.

IFRIC 23 Uncertainty over Income Tax Treatments is effective for periods on or after 1 January 2019 and endorsed by the EU. 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 and have not yet been endorsed by the EU.

2.4 Summary of significant accounting policies

Effective from 1 January 2018

The principal accounting policies applied in the preparation of the financial information as for the current period (year ended 31 December 2018) of these separate financial statements are set out below.

(1) Foreign currency translation

Items included in the financial statements of each of the Bank'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 derivatives that provide an effective hedge in the cash flow hedge of currency risk which are deferred in OCI 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 through OCI reserve in equity until the assets are derecognised, and then they are transferred to retained earnings.

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) Investments in subsidiaries, associates and jointly controlled entities

A subsidiary is an entity which is controlled by the Bank (parent entity). The Bank controls an investee when the Bank 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.

Associates are all entities over which the Bank has significant influence but not 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. A contractual arrangement between the venturers establishes joint control over the economic activity of the entity. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in subsidiaries, associates and joint ventures are carried at cost less any provision for impairment. Dividends received from investments in subsidiaries, associates and joint ventures are recorded in Dividend income.

(3) Financial instruments - recognition and derecognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank 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 Bank 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 Bank 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 Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Bank 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 Bank assesses whether the new terms are substantially different from 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 Bank assesses that the terms are not substantially different then the transaction is accounted for as financial asset modification. The Bank 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 Other income 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. For modified financial assets an assessment of whether there has been a significant increase in credit risk is based on comparing the PD at the reporting date (modified terms) and PD at initial recognition (unmodified terms). The significant increase in credit risk indicators (below) are used to determine whether the expected credit losses would be lifetime or 12-month expected credit losses. More information on forbearance measures can be found in 38.2 Credit risk.

A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires. The Bank derecognises the original financial liability and recognise a new one when the new terms are substantially different. In assessing whether terms are different, the Bank 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 Bank derecognises the original financial liability and recognises a new one at fair value. Even if the difference is less than 10% the Bank 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 Bank 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 Bank ("settlement date"). The date on which the Bank becomes a party to the contractual provisions of a financial asset purchase or the Bank 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.

(4) 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 Bank Asset Liability Management department uses for decreasing the interest rate risk of the Bank, and thus lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

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

In the case when a stand alone derivative does not qualify as a hedging derivative, it is classified as a trading derivative.

- *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 nominal interest rate. 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*

Financial assets mandatorily at fair value through profit or loss are classified also 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)*

Financial assets designated at fair value through profit or loss 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 nominal interest rate.

(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.

Uncollectible loan is written off after all the necessary procedures for collecting the loan have been completed and the amount of the loss has been determined. A loan is deemed uncollectible when there are no reasonable expectations of recovering the asset and all of the criteria are fulfilled:

- the loan is classified as Irrecoverable;
- the gross carrying amount of the loan is reduced through 100% ECL;
- the debtor does not exist or best case recovery from the receivable is considered to be immaterial.

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 Bank 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 Bank 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 Bank'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 Bank 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 Bank considers:

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

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets which could occur when the Bank begins or ceases to perform an activity that is significant to its operations (e.g.: when the Bank 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 is applicable to long-term, strategic investments. 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 Bank 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 are disposed of. The only exception applies to the dividend income which is recognised in the income statement under the line item "Dividend Income".

Classification and measurement – financial liabilities

The Bank 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 Bank Asset Liability Management department uses for reducing the interest rate risk of the Bank, and thus lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

In the case when the stand-alone derivative does not qualify as a hedging derivative, it is classified as a trading derivative.

- 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 nominal interest rate. 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 Bank for the following reasons:

- Managed on a FV basis: The Bank 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 nominal interest rate.

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 Bank 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 Bank 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.

(5) 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 Bank. 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.

(6) 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 Bank including the discount rate, liquidity and credit spreads and estimates of future cash flows.

(7) Impairment of financial assets

Definition of default

The Bank 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 Bank 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 Bank 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 Bank 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 (SICR) 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 Bank 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 Bank 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 Bank makes the assessment on a facility level at each reporting period. Financial instruments for which the internal credit rating at reporting date corresponds to a PD9, including those which were originated in that rating, are automatically assigned to Stage2. For these financial instruments, the internal credit rating at reporting date is not compared to the internal credit rating at initial recognition. For pooled portfolios, this corresponds to an internal credit rating of 12.8% and higher (i.e. the lower bound of the PD9 category).
- Management assessment: Finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

If the triggers do not 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 cause of the transfer ceases to exist.

Multi-Tier Approach - Loan portfolio

For the loan portfolio the Bank uses a five-tier approach. This MTA is a waterfall approach, i.e. if after assessing the first Tier, does not 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 Bank makes the assessment on a facility level at each reporting period. Financial instruments for which the internal credit rating at reporting date corresponds to a PD9, including those which were originated in that rating, are automatically assigned to Stage 2. For these financial instruments, the internal credit rating at reporting date is not compared to the internal credit rating at initial recognition. For pooled portfolios, this corresponds to an internal credit rating of 12.8% and higher (i.e. the lower bound of the PD9 category).
- 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 Bank 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 Bank 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 Bank 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 cause of the transfer ceases to exist.

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

- The Bank removes the conservatism which is required by the regulator for Basel models
- The Bank 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 Bank applies forward looking macroeconomic information in the models.

The Bank 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 Bank’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 Bank 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. The extension of the expected maturity beyond the contractual maturity for credit revolving facilities is based on the Bank's credit risk management actions done on the particular products basis. These credit risk management actions provide relevant indications to estimate the maturity of such products and which are further used in estimation of ECL.

The ECL for loan commitments and guarantees are presented as provisions in the statement of financial position. If a financial asset contains both a loan (a drawn component) and an undrawn loan commitment, the ECL is determined for both the drawn and undrawn part. The entire ECL amount is presented within Impairment losses.

Purchased or Originated Credit Impaired (POCI) assets

The Bank 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 Bank 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.

(8) Impairment of non-financial assets

The Bank 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 Bank 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 Bank 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.

(9) Hedge accounting

The Bank decided 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 Bank uses instruments, designated as hedging instruments as cash flow hedges or fair value hedges to manage the Bank'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 Bank'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 Bank achieves offsetting changes in cash flows between 80% and 125% for the risk being hedged.

The Bank 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.

(10) 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.

(11) 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) Bank as a lessee

The leases entered into by the Bank 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) Bank as a lessor

Leases, in which the Bank does not transfer substantially, all the risks and benefits of ownership of the asset, are classified as operating leases. The Bank 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 is included in Other net income.

(12) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank 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 Bank 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 purchased 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 financial assets at fair value through OCI and hedging derivatives are also recognised in the caption using the effective interest rate method.

(ii) Fee and commission income

Most net fee and commission income relates to the services that the Bank provides to its customers. For the recognition of revenue, the Bank identifies the contract and defines the performance obligations in the transaction. Revenue is recognised only when the Bank has satisfied the performance obligation.

Fees and commissions that are not an integral part of the effective interest rate are generally recognised on a straight line basis as the services have been rendered, when a client simultaneously receives and consumes benefits provided (recurring account maintenance fees or custody fees, for example).

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 at a point in time, when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction.

Payment services (incl. network income), where the Bank charges customers for certain current account transactions, domestic or foreign payments, payment services provided through ATMs, etc., are usually settled when the actual transaction is carried out, enabling the relevant fee to be recognised directly at that time.

Recognition of management advisory and service fees is based on the applicable service contracts. Asset management fees relating to investment funds are accrued over the period for which the service is provided and only to the extent, where a significant reversal of revenue is not probable.

Distribution fee income, such as commissions from sales of insurance products, are based on the applicable contract and revenue is recognised when the performance obligation is satisfied.

The Bank operates a customer loyalty programme through which retail customers can accumulate points and the points can be used to claim discounts on products or services. The promise to provide discount to the customer is a separate performance obligation. A liability is recognised for the points expected to be redeemed. Revenue from the awarded points is recognised when the points are redeemed or when they expire.

(iii) Dividend income

Income is recognised when the Bank'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.

(13) 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, balances with central banks loans and advances to credit institutions and central banks (measured at amortised cost) 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 Bank as cash equivalents.

(14) Property and equipment

Property and equipment includes Bank 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

Business combination are generally reflected in separate financial statements only if the Bank acquires business that doesn't represent separate legal entity.

The acquisition method of accounting is used to account for business by the Bank that are not under common control as the Bank was. 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 Bank 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 entity.

(16) Intangible assets

Intangible assets include software, licences 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 Bank 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

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 Bank 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.

Bank contributes 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 Bank 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 Bank records a net deferred tax asset under Deferred tax assets and a net deferred tax liability under Deferred tax liabilities.

(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 Bank 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 there on are excluded from these financial statements, as they are not assets of the Bank.

(23) Operating segments

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

Effective until 31 December 2017

The principal accounting policies applied in the preparation of these financial information as for the comparative period (year ended 31 December 2017) of these separate financial statements are set out below.

(1) Foreign currency translation

Items included in the financial statements of the Bank are initially measured using the currency of the primary economic environment in which the Bank 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 available-for-sale financial assets are included in the fair value revaluation recognised in equity until the assets are derecognised or impaired.

(2) Investments in subsidiaries, associates and jointly controlled entities

A subsidiary is an entity which is controlled by the Bank (parent entity). The Bank controls an investee when the Bank 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.

Associates are all entities over which the Bank has significant influence but not 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. A contractual arrangement between the venturers establishes joint control over the economic activity of the entity. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Investments in subsidiaries, associates and joint ventures are carried at cost less any provision for impairment. Dividends received from investments in subsidiaries, associates and joint ventures are recorded in Dividend income.

(3) Financial instruments - recognition and derecognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank 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 Bank 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 Bank 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 Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where the Bank has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement. A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

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 Bank 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 Bank ("settlement date"). The date on which the Bank becomes a party to the contractual provisions of a financial asset purchase or the Bank 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 available-for-sale financial assets, 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 Available-for-sale reserve, respectively. On the settlement date, a respective financial asset or liability is recognised in or derecognised from the statement of financial position.

(4) Financial instruments - initial recognition and subsequent measurement

The classification of financial instruments depends on the purpose for which the financial instruments were acquired and their 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 or issue.

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

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

Financial assets or financial liabilities held for trading consist of derivatives held for trading and financial instruments other than derivatives 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 Bank Asset Liability Management department uses for decreasing the interest rate risk of the Bank, and thus lowering net interest income volatility, i.e. for hedging purposes from an economic point of view.

The Bank occasionally purchases or issues financial instruments containing embedded derivatives. An embedded derivative is separated from the host contract and carried at fair value if the economic characteristics of the derivative are not closely related to the economic characteristics of the host contract and the hybrid instrument is not classified as at fair value through profit or loss. If a separated derivative does not qualify as a hedging derivative, it is designated as a trading derivative. To the extent that the Bank cannot reliably identify and measure the embedded derivative, the entire contract 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 or 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 income or expense is recorded in Net interest income using the effective interest rate method. Dividends received are recorded in Dividend income. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term.

- *Financial instruments designated at fair value through profit or loss*

Financial assets and financial liabilities designated at fair value through profit or loss on initial recognition are classified in this category when the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities, or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and 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 income or expense is recorded in Net interest income using the effective interest rate method.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell or reclassify other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest rate method, less any allowance for impairment. 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.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Bank has no intention of trading the financial asset.

After initial measurement, loans and receivables are measured at amortised cost using the effective interest rate method, less any allowance for impairment, 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.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and receivables.

After initial measurement, available-for-sale financial assets are measured at fair value. Unrealised gains and losses are recognised directly in equity in the Available-for-sale reserve on an after-tax basis, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of income. When an available-for-sale asset is disposed of, the unrealised gain or loss recorded in the Available-for-sale reserve is reclassified to Net realised gains / losses on available-for-sale financial assets. Interest income arising from available-for-sale assets, calculated using the effective interest rate method is recorded separately in Net interest income. Dividends received from available-for-sale equity shares are recorded in Dividend income.

(v) Financial liabilities at amortised cost

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

After initial measurement, those financial liabilities 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.

(vi) '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 Bank 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.

(5) 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 Bank. 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 Loans and receivables. The difference between the purchase and resale price is recorded as Interest income and is accrued over the life of the agreement.

(6) 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 (ie an exit price). Financial instruments classified as financial assets and financial liabilities at fair value through profit or loss or available-for-sale 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 Bank including the discount rate, liquidity and credit spreads and estimates of future cash flows.

(7) Impairment of financial assets

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets that can be reliably estimated. Objective evidence that a financial asset or a group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Bank would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

(i) Assets carried at amortised cost

The Bank assesses objective evidence of impairment individually or collectively for financial assets at amortised cost. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period. The assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recorded in the statement of income.

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.

(ii) Renegotiated loans

Where possible, the Bank 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.

(iii) Financial assets carried at fair value

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of a debt instrument classified as available-for-sale, the assessment of impairment is based on the same criteria as financial assets carried at amortised cost. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. A significant decline is considered to be a 30% decline in the fair value. A prolonged decline is considered to be a decline of one year or longer. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of income - is removed from equity and recognised in the statement of income. Impairment losses recognised in the statement of income on equity instruments are not reversed through the statement of income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of income, the impairment loss is reversed through the statement of income.

(8) Impairment of non-financial assets

The policy is consistent with the one applied in the current period.

(9) Hedge accounting

The Bank uses instruments, designated as hedging instruments as cash flow hedges or fair value hedges to manage the Bank'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 Bank'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 Bank achieves offsetting changes in cash flows between 80% and 125% for the risk being hedged.

The Bank 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 available-for-sale financial asset 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.

(10) Offsetting financial instruments

The policy is consistent with the one applied in the current period.

(11) Reclassification of financial assets

The Bank does not reclassify any financial assets into or out of the Financial assets designated at fair value through profit or loss after initial recognition.

If a non-derivative financial asset at fair value through profit or loss is no longer held for selling or repurchasing it can only be reclassified in rare circumstances.

The Bank can also reclassify, under certain circumstances, financial assets out of Available-for-sale. A financial asset classified as Available-for-sale that would have met the definition of loans and receivables may be reclassified out of the Available-for-sale category to the loans and receivables category if the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. A financial asset classified as Available-for-sale that would have met the definition of held-to-maturity investment may be reclassified out of the Available-for-sale category to the held-to-maturity investment category if the Bank has the intention and ability to hold the financial asset until maturity.

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the Available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised in the statement of income over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flow is also amortised over the remaining life of the asset using the effective interest rate.

Sales and reclassifications from the Held-to-maturity portfolio without the risk of triggering tainting rules are possible only in limited circumstances, such as when it concerns an insignificant amount of instruments or instruments that are so close to maturity that the changes in the market interest rates would not significantly change their fair value. Further, no tainting rules are applied if the sales or reclassifications are attributable to an isolated event that is beyond the Bank's control (i.e. significant deterioration in the issuer's creditworthiness or changes in tax, statutory or regulatory requirements) or if the sales occur after collecting a substantial amount of the instrument's principal.

However, if sales or reclassifications from the Held-to-maturity portfolio do not fulfil the above limits, any remaining investments have to be reclassified as available-for-sale. Furthermore, no financial assets can be classified as Held-to-maturity for the following two years.

(12) Leasing

The policy is consistent with the one applied in the current period.

(13) Recognition of income and expenses

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

a. Interest income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded using the effective interest rate method.

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 Bank 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 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.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

b. 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 accrued over the period for which the service is provided. Commissions from sales of insurance products are recognised based on the applicable contract and accrued over the contractual period.

c. Dividend income

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

d. 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.

(14) Cash and cash equivalents

The policy is consistent with the one applied in the current period.

(15) Property and equipment

The policy is consistent with the one applied in the current period.

(16) Business combinations and Goodwill

The policy is consistent with the one applied in the current period.

(17) Intangible assets

The policy is consistent with the one applied in the current period.

(18) Financial guarantees

In the ordinary course of business, the Bank 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 best estimates of expenditure required to settle any financial obligation arising as a result of the guarantee and are presented in Provisions. 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.

(19) Employee retirement benefits

The policy is consistent with the one applied in the current period.

(20) Provisions

Provisions are recognised when the Bank 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.

(21) 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 available-for-sale securities, 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 Bank records a net deferred tax asset under Deferred tax assets and a net deferred tax liability under Deferred tax liabilities.

(22) Share capital and reserves

The policy is consistent with the one applied in the current period.

(23) Fiduciary activities

The policy is consistent with the one applied in the current period.

(24) Operating segments

The policy is consistent with the one applied in the current period.

2.5 Comparative balances

Until 31 December 2017, the Bank measured its financial assets and liabilities according to accounting standard IAS 39. On 1 January 2018, a new standard IFRS 9 on the classification and measurement of financial instruments was implemented. As a result, statement of financial position of the Bank significantly changed. The accounting policies, as described in note 2.4, have been adjusted and redesigned to reflect IFRS 9 requirements.

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

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

- Financial assets held for trading, as reported according to IAS 39, 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 the equity of the Bank;
- Available-for-sale assets in the amount of CZK 38,143 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 the equity;
- The remaining part of the portfolio of Available-for-sale assets in the amount of CZK 16,481 m was reclassified to the category of Financial assets at amortised cost. Unrealised gains / losses related to these assets were reversed and adjusted the other comprehensive income. The main reason for the transfer from the Available-for-sale portfolio to the category of Financial assets at amortised cost was to reduce a volatility of regulatory capital;
- Financial assets previously classified as Financial assets designated at fair value through profit or loss in the amount of CZK 3,376 m were shifted to the category of Financial assets at fair value through other comprehensive income. Unrealised gains / losses related to these assets were reversed from retained earnings and recognised in other comprehensive income. The main reason for the transfer from the Financial assets designated at fair value through profit or loss to the category of Financial assets at fair value through other comprehensive income was to reduce a volatility of statement of 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 and Loans and receivables, was reversed and adjusted other comprehensive income;
- IFRS 9, phase I did not impact carrying amount of financial liabilities of the Bank.

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 equity as a decrease of retained earnings.

IFRS 9, Phase II impacted financial instruments reported under the following categories of the 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. As impairments on FVOCI debt instruments shall not reduce the instruments’ carrying amount, the ECL with the opposite sign was shifted to OCI reserves. Thus, there is no impact on the carrying amount of these assets, nor on the equity;
- Financial assets at amortised cost;
- Other assets;
- Provisions for loans commitments and guarantees.

A reconciliation of the separated statement of financial position items as at 31 December 2017 reported based on IAS 39 and at 1 January 2018 based on IFRS 9, incl. split of the transition change between the impact of remeasurement due to reclassification (Phase I) and of remeasurement due to impairment (Phase II), is as follows:

(CZKm)	31-12-2017	Phase I	Phase II	01-01-2018
ASSETS				
Cash, balances with central banks and other demand deposits	53,191	-	-	53,191
Financial assets held for trading	17,674	-	-	17,674
Financial assets held for trading pledged as collateral	2,097	-	-	2,097
Financial assets designated at fair value through profit or loss	3,376	(3,376)	-	-
Available-for-sale financial assets	48,777	(48,777)	-	-
Available-for-sale financial assets pledged as collateral	5,847	(5,847)	-	-
Financial assets at fair value through other comprehensive	-	39,838	-	39,838
Financial assets at fair value through other comprehensive income pledged as collateral	-	1,681	-	1,681
Held-to-maturity investments	86,604	(86,604)	-	-
Held-to-maturity investments pledged as collateral	29,017	(29,017)	-	-
Loans and receivables	974,013	(974,013)	-	-
Financial assets at amortised cost	-	1,072,560	(198)	1,072,362
Financial assets at amortised cost pledged as collateral	-	33,182	-	33,182
Fair value adjustments of the hedged items in portfolio hedge	(3,483)	-	-	(3,483)
Investments in subsidiaries, associates and joint ventures	49,992	-	-	49,992
Derivatives used for hedging	8,448	-	-	8,448
Deferred tax assets	46	46	55	147
Property and equipment	5,245	-	-	5,245
Goodwill and other intangible assets	5,295	-	-	5,295
Other assets	926		(81)	845
Total assets	**1,287,065**	**(327)**	**(224)**	**1,286,514**
LIABILITIES AND EQUITY				
Financial liabilities held for trading	36,660	-	-	36,660
Financial liabilities designated at fair value through profit or	9,498	-	-	9,498
Financial liabilities at amortised cost	1,145,888	-	-	1,145,888
Fair value adjustments of the hedged items in portfolio hedge	(3,803)	-	-	(3,803)
Derivatives used for hedging	10,473	-	-	10,473
Current tax liabilities	266	1	-	267
Other liabilities	3,439	-	-	3,439
Provisions	864	-	9	873
Total liabilities	**1,203,285**	**1**	**9**	**1,203,295**
Share capital	5,855	-	-	5,855
Share premium	20,093	-	-	20,093
Statutory reserve	18,687	-	-	18,687
Retained earnings	37,280	78	(241)	37,117
Available-for-sale reserve	1,368	(1,368)	-	-
Revaluation reserve from financial assets at fair value through other comprehensive income	-	962	8	970
Cash flow hedge reserve	497	-	-	497
Total equity	**83,780**	**(328)**	**(233)**	**83,219**
Total liabilities and equity	**1,287,065**	**(327)**	**(224)**	**1,286,514**

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

	Cash, balances with central banks and other demand deposits	Financial assets held for trading (incl. pledged assets)	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets (incl. pledged assets)	Held-to-maturity investments (incl. pledged assets)	Loans and receivables	Total
Assets and liabilities as at 31 December 2017 (carrying amount before IFRS 9 application)	53,191	19,771	3,376	54,624	115,621	974,013	
Cash, balances with central banks and other demand deposits							
At amount classified before IFRS 9 application	53,191	-	-	-	-	-	53,191
Remeasurement due to reclassification	-	-	-	-	-	-	-
At amount according to IFRS 9 on 1 January 2018	**53,191**	**-**	**-**	**-**	**-**	**-**	**53,191**
Financial assets held for trading							
At amount classified before IFRS 9 application	-	19,771	-	-	-	-	19,771
Remeasurement due to reclassification	-	-	-	-	-	-	-
At amount according to IFRS 9 on 1 January 2018	**-**	**19,771**	**-**	**-**	**-**	**-**	**19,771**
Financial assets FVOCI – debt securities							
At amount classified before IFRS 9 application	-	-	3,376	37,689	-	-	41,065
Remeasurement due to reclassification	-	-	-	-	-	-	-
At amount according to IFRS 9 on 1 January 2018	**-**	**-**	**3,376**	**37,689**	**-**	**-**	**41,065**
Financial assets FVOCI – equity securities							
At amount classified before IFRS 9 application	-	-	-	454	-	-	454
Remeasurement due to reclassification	-	-	-	-	-	-	-
At amount according to IFRS 9 on 1 January 2018	**-**	**-**	**-**	**454**	**-**	**-**	**454**
Financial assets at amortised cost – debt securities							
At amount classified before IFRS 9 application	-	-	-	16,481	115,621	225,167	357,269
Remeasurement due to reclassification	-	-	-	(500)	(238)	365	(373)
Remeasurement due to impairment	-	-	-	-	(24)	(65)	(89)
At amount according to IFRS 9 on 1 January 2018	**-**	**-**	**-**	**15,981**	**115,359**	**225,467**	**356,807**
Financial assets at amortised cost – loans and advances							
At amount classified before IFRS 9 application	-	-	-	-	-	748,846	748,846
Remeasurement due to reclassification	-	-	-	-	-	-	-
Remeasurement due to impairment	-	-	-	-	-	(109)	(109)
At amount according to IFRS 9 on 1 January 2018	**-**	**-**	**-**	**-**	**-**	**748,737**	**748,737**

A reconciliation of the selected items of equity as at 31 December 2017 as reported according to IAS 39 and at 1 January 2018 according to IFRS 9 is provided below:

(CZKm)	Retained earnings	Available-for-sale reserve	Revaluation reserve from financial assets at fair value through OCI
At 31 December 2017 (IAS 39)	**37,280**	**1,368**	**-**
Debt securities reclassified from Available-for-sale assets to the category of Financial assets FVOCI	-	(949)	949
Debt securities reclassified from Available-for-sale assets to the category of Financial assets AC	-	(500)	-
Debt securities reclassified from Financial assets designated at fair value through profit or loss	56	-	(56)
Frozen reserve related to the debt securities historically reclassified from Available-for-sale assets to Held-to-maturity investments and Loans and receivables	-	127	-
ECL booked on Financial assets FVOCI	(8)	-	8
ECL booked on Financial assets AC	(198)	-	-
ECL booked on Other assets	(81)		
ECL booked on Credit commitments and guarantees	(9)	-	-
Equity securities reclassified from Available-for-sale assets to the category of Financial assets FVOCI	-	(46)	46
Reversal of accumulated impairment losses on equity securities	57	-	(57)
Tax impact of IFRS 9 transition adjustments	20	-	80
At 1 January 2018 (IFRS 9)	**37,117**	**-**	**970**

Reclassification

In 2018, the ČSOB Group and the KBC Group have decided to change presentation of some items within the structure of the financial statements. In the statement of income, 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 2017, network income in the amount of CZK 1,016 m was shifted from Net gains from financial instruments at fair value through profit or loss to Net fee and commission income since the new presentation better reflects the business reality.

A reconciliation of the selected items of the separate statement of income for the year ended 31 December 2017 is provided in the table below:

(CZKm)	As reported	Network income	Reclassified
Fee and commission income	8,759	1,016	9,775
Net gains from financial instruments at fair value through profit or loss and foreign exchange	4,316	(1,016)	3,300

Presentation of interest income and interest expense in separate statement of income was changed as a result of IFRS 9 adoption.

3. SEGMENT INFORMATION

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

The Bank has four reportable segments, as described below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Bank's management and internal reporting (controlling) structure. For each of the strategic business units, the Bank'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 Bank 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, mortgages 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). Net fee and commission income of this segment contains payment services, administration of credits, network income, distribution and other fees.

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 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). Net fee and commission income of this segment contains payment services, administration of credits, network income, securities, custody, retail service fees, distribution and other fees.

Financial markets: This segment contains investment products and services to institutional investors and intermediaries and fund management activities and trading included in dealing services. Net fee and commission income of this segment contains securities and custody fees and asset management income fees and commissions to agents.

Group Centre: The Group Centre segment consists of positions and results of Asset Liability Management (ALM), the results of the reinvestment of free equity of the Bank, dividends from subsidiaries, associates and joint ventures and items not directly attributable to other segments. Net fee and commission income of this segment contains payment services and other fees.

Comparative figures in the statement of income for 2017 have been reclassified following the change of reporting Network income (Note: 2.5).

Segment reporting information by customer segments for 2018 (IFRS 9)

(CZKm)	Retail	Relationship services	Financial markets	Group Centre	Total
Statement of income					
Net interest income	7,917	8,535	2,093	3,136	21,681
Net fee and commission income	2,957	3,067	215	72	6,311
Dividend income	-	-	-	4,124	4,124
Net gains from financial instruments at fair value through profit or loss	63	1,418	571	325	2,377
Net realised gains on financial assets at fair value through OCI	-	-	-	-	-
Other net income	50	13	7	1,173	1,243
Operating income	**10,987**	**13,033**	**2,886**	**8,830**	**35,736**
of which:					
External operating income	*5,040*	*10,188*	*2,886*	*17,622*	*35,736*
Intersegment operating income	*5,947*	*2,845*	*-*	*(8,792)*	*-*
Depreciation and amortisation	(22)	(2)	-	(1,147)	(1,171)
Other operating expenses	(7,000)	(3,915)	(277)	(3,139)	(14,331)
Operating expenses	**(7,022)**	**(3,917)**	**(277)**	**(4,286)**	**(15,502)**
Impairment losses	38	(465)	-	148	(279)
Profit before tax	**4,003**	**8,651**	**2,609**	**4,692**	**19,955**
Income tax expense	(773)	(1,660)	(495)	292	(2,636)
Segment profit	**3,230**	**6,991**	**2,114**	**4,984**	**17,319**
Assets and liabilities					
Segment assets	30,979	244,825	38,781	1,037,312	1,351,897
Non-current assets held-for-sale	-	-	-	38	38
Total assets	**30,979**	**244,825**	**38,781**	**1,037,350**	**1,351,935**
Total liabilities	**411,922**	**381,255**	**62,719**	**411,614**	**1,267,510**
Capital expenditure	**233**	**18**	**-**	**1,208**	**1,459**

Segment reporting information by customer segments for 2017 (IAS 39)

(CZKm)	Retail	Relationship services	Financial markets	Group Centre	Total
Statement of income					
Net interest income	7,089	7,726	329	2,556	17,700
Net fee and commission income	2,604	3,045	358	116	6,123
Dividend income	-	-	-	3,217	3,217
Net gains from financial instruments at fair value through profit or loss	69	1,428	2,553	(750)	3,300
Net realised gains on available-for-sale financial assets	-	-	-	455	455
Other net income	44	1	4	1,532	1,581
Operating income	**9,806**	**12,200**	**3,244**	**7,126**	**32,376**
of which:					
External operating income	*4,664*	*9,885*	*3,244*	*14,583*	*32,376*
Intersegment operating income	*5,142*	*2,315*	*-*	*(7,457)*	*-*
Depreciation and amortisation	(25)	(2)	-	(1,112)	(1,139)
Other operating expenses	(6,604)	(3,603)	(249)	(2,592)	(13,048)
Operating expenses	**(6,629)**	**(3,605)**	**(249)**	**(3,704)**	**(14,187)**
Impairment losses	135	(402)	-	(189)	(456)
Profit before tax	**3,312**	**8,193**	**2,995**	**3,233**	**17,733**
Income tax expense	(629)	(1,557)	(569)	378	(2,377)
Segment profit	**2,683**	**6,636**	**2,426**	**3,611**	**15,356**
Assets and liabilities					
Segment assets	27,665	237,072	46,617	975,711	1,287,065
Non-current assets held-for-sale	-	-	-	-	-
Total assets	**27,665**	**237,072**	**46,617**	**975,711**	**1,287,065**
Total liabilities	**388,544**	**388,431**	**47,210**	**379,100**	**1,203,285**
Capital expenditure	**317**	**4**	**-**	**1,279**	**1,600**

Interest income and interest expense are not presented separately since the Bank 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 Bank operates predominantly in the Czech Republic.

4. INTEREST INCOME

(CZKm)	2018 IFRS 9	2017 IAS 39
Interest income on financial instruments calculated using effective interest rate method		
Cash balances with central banks and other demand deposits	181	88
Financial assets at amortised cost, incl. assets pledged as collateral		
Credit institutions	12,213	-
Other than credit institutions	12,756	-
Loans and receivables		
Credit institutions	-	3,790
Other than credit institutions	-	7,629
Financial assets at fair value through other comprehensive income, incl. assets pledged as collateral	885	-
Available-for-sale financial assets incl. assets pledged as collateral	-	1,489
Held-to-maturity investments incl. assets pledged as collateral	-	4,428
Derivatives used for hedging (Note: 7)	1,818	1,905
Negative interest from financial liabilities measured at amortised cost	869	1,186
	28,722	20,515
Interest income on other financial instruments		
Financial assets held for trading incl. assets pledged as collateral (Note: 7)	395	229
Financial assets designated at fair value through profit or loss (Note: 7)	-	58
Derivatives used as economic hedges (Note: 7)	319	195
Negative interest from financial liabilities measured at fair value (Note: 7)	10	15
	724	497
Interest income	**29,446**	**21,012**

5. INTEREST EXPENSE

(CZKm)	2018 IFRS 9	2017 IAS 39
Interest expense on financial instruments calculated using effective interest rate method		
Financial liabilities at amortised cost		
Central banks	43	3
Credit institutions	1,594	818
Other than credit institutions	3,621	900
Debt instruments in issue	1,055	115
Discount amortisation on other provisions (Note: 27)	17	3
Derivatives used for hedging (Note: 7)	308	839
	6,638	2,678
Interest expense on other financial instruments		
Financial liabilities held for trading (Note: 7)	484	445
Financial liabilities designated at fair value through profit or loss (Note: 7)	107	43
Derivatives used as economic hedges (Note: 7)	536	139
Negative interest from financial assets measured at fair value (Note: 7)	-	7
	1,127	634
Interest expense	**7,765**	**3,312**

6. NET FEE AND COMMISSION INCOME

(CZKm)	2018 IFRS 9	2017 IAS 39
Fee and commission income		
Payment services	5,553	5,459
Administration of credits	1,175	1,218
Network income	995	1,016
Collective investments	861	823
Distribution	642	564
Custody	199	202
Securities	152	176
Asset management	46	45
Other	296	272
	9,919	**9,775**
Fee and commission expense		
Payment services	2,485	2,072
Retail service fees	385	963
Distribution	200	149
Commissions to agents	107	83
Other	431	385
	3,608	**3,652**
Net fee and commission income	**6,311**	**6,123**

As from 2018, the financial information has been prepared in accordance with IFRS 9, without affecting net fee and commission income. The impact of implementing IFRS 15 is negligible.

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 caption Retail service fees in notes Net fee and commission income and in General administrative expenses (Note: 10).

7. 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, 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 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 Bank:

(CZKm)	2018 IFRS 9	2017 IAS 39
Net gains from financial instruments at fair value through profit or loss and foreign exchange - as reported	**2,377**	**3,300**
Net interest income (Notes: 4, 5)	1,107	928
	3,484	**4,228**
Financial instruments held for trading and derivatives used for hedging		
Interest rate contracts	1,931	(126)
Foreign exchange	(279)	11,676
Equity contracts	(899)	349
Commodity contracts	13	10
	766	11,909
Non-trading financial instruments mandatorily at fair value through profit or loss		
Non-trading financial assets mandatorily at fair value through profit or loss	646	-
Financial instruments designated at fair value through profit or loss		
Financial assets designated at fair value through profit or loss	-	(31)
Financial liabilities designated at fair value through profit or loss	764	22
	764	(9)
Foreign exchange differences	1,308	(7,672)
Financial instruments at fair value through profit or loss and foreign exchange	**3,484**	**4,228**

8. OTHER NET INCOME

(CZKm)	2018 IFRS 9	2017 IAS 39
ICT services	720	661
Net operating leasing and rental income	81	81
Services provided to Československá obchodná banka, a.s. (ČSOB SK) (excluding income from ICT services)	44	51
Net gain on disposal of investments measured at amortised cost	30	130
Net increase in provisions for legal issues and other losses	4	(3)
Net gain on disposal of non-current assets held-for-sale	-	3
Other	364	658
	1,243	**1,581**

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

9. STAFF EXPENSES

(CZKm)	2018 IFRS 9	2017 IAS 39
Wages and salaries	5,176	4,745
Salaries and other short-term benefits of top management	105	91
Social security charges	1,697	1,591
of which pension security charges (obligatory)	*1,035*	*971*
Pension (voluntary) and similar expenses	164	132
Net increase in provisions for Restructuring programme	96	-
Other	127	92
	7,365	**6,651**

Number of Bank personnel

The number (in full-time equivalents) of Bank personnel was 7,091 at 31 December 2018 (31 December 2017: 7,150).

Management bonus scheme

Included within Salaries and other short-term benefits of top management are base salaries, annual bonuses and other short-term benefits of the Members of the Board of Directors. Salaries and remuneration of the Members of the Board of Directors, as well as the remuneration principles and structure, are subject to the approval of the Supervisory Board.

A bonus scheme of the Bank follows the changes in legislation in previous years. Half of the bonus is provided in a non-cash instrument, so called “Virtual investment certificate” (VIC). VIC is linked to the Economic Value Added of Group which captures both finance and risk aspects. Another half of the bonus is paid in cash. The payment of half of the bonus (both cash and non-cash portion) is deferred for up to the next five years following the initial assignment of the benefit.

Retirement benefits

The Bank provides its employees (including top management) with a voluntary defined contribution retirement scheme. Participating employees can contribute 1% or 2% of their salaries to pension companies approved by the Ministry of Finance of the Czech Republic (MF CZ), with an additional contribution of the Bank of 2% or 3% of their salaries, respectively.

Termination benefits

Employees dismissed by their employer according to Czech employment law are entitled to termination benefits equal to or less than three times the employee’s monthly average salary. Additional termination benefits are granted to employees who were employed between 10-15 years (2 times the month’s average salary), 15-20 years (2.5 times the month’s average salary), 20-25 years (3 times the month’s average salary), 25-30 years (4 times the month’s average salary), 30-35 years (5 times the month’s average salary) and over 35 years (6 times the month’s average salary).

In the case of contract termination, the members of the Board of Directors are entitled to receive an amount of 0 to 12 monthly salaries as termination benefits (according to conditions of individual contracts). The compensation amounted to CZK 8 m in 2018 (2017: CZK Nil).

10. GENERAL ADMINISTRATIVE EXPENSES

(CZKm)	2018 IFRS 9	2017 IAS 39
Information technologies	2,509	2,321
Marketing	577	588
Retail service fees	502	232
Rental expenses on land and buildings – minimum lease payments	496	504
Other building expenses	458	451
Contribution to the Single Resolution Mechanism	456	440
Professional fees	441	444
Communication	346	342
Deposit insurance premium and contribution to the Securities Traders Guarantee Fund	198	177
Travel and transportation	183	181
Payment cards and electronic banking	163	211
Administration	157	168
Training	80	72
Insurance	47	41
Car expenses	39	43
Other	314	182
	6,966	**6,397**

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 under Retail service fees in notes Net fee and commission income (Note: 7) and in General administrative expenses changed.

11. IMPAIRMENT LOSSES

(CZKm)	2018 IFRS 9	2017 IAS 39
Impairment of financial assets at amortised cost - loans and advances (Notes: 31, 38.2)	(620)	-
Impairment of financial assets at amortised cost - debt securities (Notes: 31, 38.2)	38	-
Impairment of loans and receivables (Notes: 17, 31, 38.2)	-	(18)
Provisions for loan commitments and guarantees (Notes: 27, 31)	252	(237)
Impairment of financial assets at fair value through OCI	3	-
Impairment of available-for-sale financial assets(Notes: 16, 31)	-	(1)
Net impairment of investments in subsidiaries, associates and joint ventures (Notes: 18, 31)	-	(3)
Impairment of property and equipment (Notes: 20, 31)	(22)	(6)
Impairment of held-to-maturity investments (Notes: 22, 31)	-	(2)
Impairment of other assets (Notes: 31)	70	1
Impairment of intangible assets (Notes: 20, 31)	-	(190)
	(279)	**(456)**

12. INCOME TAX

The components of income tax expense for the years ended 31 December 2018 and 2017 are as follows:

(CZKm)	2018 IFRS 9	2017 IAS 39
Current tax expense	2,687	2,225
Net provisions for tax disputes	(156)	7
Previous year over accrual of current tax	(146)	(24)
Deferred tax expense relating to the origination and reversal of temporary differences	251	169
	2,636	**2,377**

A reconciliation between the tax expense and the accounting profit multiplied by the domestic tax rate for the years ended 31 December 2018 and 2017 is as follows:

(CZKm)	2018 IFRS 9	2017 IAS 39
Profit before taxation	19,955	17,733
Applicable tax rates	19%	19%
Taxation at applicable tax rates	3,791	3,369
Net provisions for tax disputes	(156)	7
Previous year over accrual of current tax	(146)	(24)
Tax effect of non-taxable income	(1,369)	(1,227)
Tax effect of non-deductible expenses	515	252
	2,636	**2,377**

The applicable tax rate for 2018 was 19% (2017: 19%).

Included in non-taxable income are tax-free interest income and dividend income.

Deferred income taxes are calculated on all temporary differences under the liability method using the income tax rate of 19%.

The movement on the deferred income tax account is as follows:

(CZKm)	2018 IFRS 9	2017 IAS 39
Impact of transition to IFRS 9	100	-
At 1 January	**146**	**(308)**
Statement of income	(251)	(169)
Financial assets FVOCI (Note: 29)		
Fair value remeasurement	67	-
Transfer to net profit	1	-
Available-for-sale securities (Note: 29)		
Fair value remeasurement	-	2
Transfer to net profit	-	110
Cash-flow hedges (Note: 29)		
Fair value remeasurement	(6)	185
Transfer to net profit (Note: 19)	117	155
Other – acquisition of business under common control (Note: 18)	-	71
At 31 December	**74**	**46**

Deferred tax assets / (liability) are attributable to the following items:

(CZKm)	2018 IFRS 9	2017 IAS 39
Deferred tax assets / (liability)		
Employee benefits	274	257
Temporary difference resulting from tax depreciation	183	220
Temporary difference resulting from tax depreciation related to acquisition of ICT function	123	124
Provisions	82	133
Legal claim	76	124
Impairment losses on debt securities	11	-
Impairment losses on tangible and intangible assets	5	40
Impairment losses on loans and advances at amortised cost	4	-
Temporary difference resulting from tax depreciation related to merger with Centrum Radlická (Note: 18)	-	71
Loans and receivables - bonds reclassified from Available-for-sale securities (Note: 16)	-	69
Impairment losses on financial investments	-	26
Held-to-maturity investments - bonds reclassified from Available-for-sale securities (Note: 16)	-	(45)
Available-for-sale securities	-	(344)
Cash-flow hedging derivatives	(6)	(123)
Debt securities at fair value through other comprehensive income	(173)	-
Amortisation of goodwill	(511)	(511)
Other temporary differences	6	5
	74	**46**

The deferred tax (charge) / benefit in the statement of income comprises of the following temporary differences:

(CZKm)	2018 IFRS 9	2017 IAS 39
Employee benefits	17	(8)
Impairment losses on loans and advances at amortised cost	2	(132)
Amortisation of goodwill	-	(33)
Temporary difference resulting from tax depreciation related to acquisition of ICT function	(1)	(10)
Impairment losses on debt securities	(7)	-
Impairment losses on financial investments	(26)	-
Impairment losses on tangible and intangible assets	(35)	23
Temporary difference resulting from tax depreciation	(37)	40
Legal claim	(48)	(78)
Provisions	(50)	36
Temporary difference resulting from tax depreciation related to merger with Centrum Radlická (Note: 18)	(71)	-
Other temporary differences	5	(7)
	(251)	**(169)**

The Bank’s management believes it is probable that the Bank will fully realise its gross deferred income tax assets based upon the Bank’s current and expected future level of taxable profits and the expected offset from gross deferred income tax liabilities.

13. DIVIDENDS PAID AND RECEIVED

Dividends paid

Dividends paid are not accounted for until they have been ratified by a resolution of the sole shareholder on a profit distribution. The decision of a profit allocation for 2018 has not been taken before the date of issue of the financial statements.

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 10,147 m.

Dividends received

The following table shows a dividend received by the companies for 2018 and 2017:

(CZKm)	2018 IFRS 9	2017 IAS 39
Hypoteční banka, a.s.	2,828	1,800
Českomoravská stavební spořitelna, a.s.	574	647
ČSOB Leasing, a.s.	468	421
ČSOB Penzijní společnost, a. s., a member of the ČSOB group	134	142
ČSOB Factoring, a.s.	98	81
ČSOB Advisory, a.s.	8	4
První certifikační autorita, a.s.	5	5
Visa Inc.	3	2
Patria Corporate Finance, a. s.	2	-
CBCB - Czech Banking Credit Bureau, a.s.	2	2
ČSOB Pojišťovna, a. s., a member of the ČSOB holding	2	2
Bankovní informační technologie, s.r.o.	-	46
Patria Finance, a.s.	-	38
Patria Online, a.s.	-	27
	4,124	**3,217**

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

(CZKm)	2018 IFRS 9	2017 IAS 39
Cash (Note: 31)	8,833	9,742
Mandatory minimum reserves (Note: 31, 32, 38.2)	7,365	12,823
Other balances with central banks (Notes: 31, 32, 38.2)	19,199	29,718
Other demand deposits in credit institutions (Notes: 31, 32, 38.2)	729	908
	36,126	**53,191**

The Czech National Bank (CNB) pays interest on the mandatory minimum reserve balances based on the official CNB two-week repo rate. The Bank 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 Bank.

Other balances with central banks contain overnight loans provided to central bank in the amount of CZK 15,000 m at 31 December 2018 (31 December 2017: CZK 27,250 m).

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2018 IFRS 9	2017 IAS 39
Financial assets held for trading		
Debt instruments		
General government	3,225	1,047
Credit institutions	2,005	2,691
Corporate	122	430
Derivative contracts (Note: 19)		
Trading derivatives	15,237	12,224
Derivatives used as economic hedges	2,062	1,282
	22,651	**17,674**
Financial assets held for trading pledged as collateral		
Debt instruments		
General government	1,676	2,097
	1,676	**2,097**
Non-trading financial assets mandatorily at fair value through profit or loss		
Loans and advances		
Credit institutions	643	-
	643	**-**
Financial assets designated at fair value through profit or loss		
Debt instruments		
Credit institutions	-	3,376
	-	**3,376**
Financial assets at fair value through profit or loss	**24,970**	**23,147**

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 transaction or securities lending, the transferee has a right to sell or repledge the collateral.

Included in Financial assets designated at fair value through profit or loss were debt securities recorded at fair value to reduce the accounting mismatch that would otherwise arise from measuring these assets or recognising the gains and losses from them on a different basis.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(CZKm)	2018 IFRS 9	2017 IAS 39
Financial assets at fair value through other comprehensive income		
Debt securities classified as stage 1		
General government	12,738	-
Credit institutions	24,389	-
Corporate	184	-
Equity securities		
Corporate	533	-
Gross carrying amount	37,844	-
Allowance for impairment losses	(6)	-
	37,838	**-**
Financial assets at fair value through other comprehensive income pledged as collateral		
Debt securities classified as stage 1		
General government	3,286	-
	3,286	**-**
Available-for-sale financial assets		
Debt securities		
General government	-	27,356
Credit institutions	-	20,549
Corporate	-	418
Equity securities		
Corporate	-	454
	-	**48,777**
Available-for-sale financial assets pledged as collateral		
Debt securities		
General government	-	3,893
Credit institutions	-	1,954
	-	**5,847**

Debt securities classified in Stage 1 are assessed as low credit risk financial instruments.

Included within Financial assets at fair value through other comprehensive income pledged as collateral in repo transactions in the amount of CZK 3,286 m (2017: Available-for-sale financial assets pledged as collateral of CZK 5,550 m) or securities lending in the amount of CZK Nil (2017: Available-for-sale financial assets pledged as collateral of 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.

As part of the IFRS 9 transition procedure, a number of debt securities were transferred from the Financial assets designated at fair value through profit or loss to the category of Financial assets at fair value through other comprehensive income (Note: 2.5). Unrealised losses from the bonds at the date of the transfer in the amount of CZK 57 m were reclassified from the retained earnings to revaluation reserve from financial assets at fair value through other comprehensive income.

Set out below is a set of information relating to the Bank's financial instruments reclassified from the Financial assets designated at fair value through profit or loss to the Financial assets at fair value through other comprehensive income:

(CZKm)	2018 IFRS 9
Fair value	3,540
Net gain (before tax) that would have been recognised in the Statement of income after the date of reclassification if the Bank had not reclassified the assets	128
Interest income (before tax) recorded on reclassified assets after date of reclassification	60
Anticipated average EIR over the remaining life of the assets	1.8

The following table shows a reconciliation of the cumulative impairment losses on available-for-sale financial assets for 2017:

(CZKm)	Available-for-sale financial assets Equity securities	Total
At 1 January 2017	50	50
Increase	1	1
Merger with subsidiaries Centrum Radlická and Patria Online (Note: 18)	30	30
Utilisation	(24)	(24)
At 31 December 2017	**57**	**57**

According to IFRS 9, equity instruments measured at fair value through OCI are not subject to impairment. As part of the IFRS 9 first-time application ('transition') procedure in the Bank, cumulative impairment losses in the amount of CZK 57 m as at 31 December 2017 were converted to accumulated changes of fair value and transferred from Retained earnings to OCI.

17. FINANCIAL ASSETS AT AMORTISED COST

(CZKm)	2018 IFRS 9 Stage 1	Stage 2	Stage 3	POCI	Total
Financial assets at amortised cost					
Debt securities					
General government	80,893	-	-	-	80,893
Credit institutions	231,970	-	-	-	231,970
Other legal entities	15,232	331	-	-	15,563
Debt securities – gross carrying amount	328,095	331	-	-	328,426
Allowance for impairment losses	(53)	(1)	-	-	(54)
	328,042	**330**	**-**	**-**	**328,372**
Loans and advances					
Central banks	521,042	-	-	-	521,042
General government	6,535	216	5	-	6,756
Credit institutions	7,215	134	-	-	7,349
Other legal entities	198,121	18,982	8,598	129	225,830
Private individuals	45,150	3,352	1,358	21	49,881
Loans and advances – gross carrying amount	778,063	22,684	9,961	150	810,858
Allowance for impairment losses	(492)	(807)	(5,516)	(60)	(6,875)
	777,571	**21,877**	**4,445**	**90**	**803,983**
Total financial assets at amortised cost	**1,105,613**	**22,207**	**4,445**	**90**	**1,132,355**
Financial assets at amortised cost pledged as collateral					
Debt securities					
General government	43,315	-	-	-	43,315
Credit institutions	1,966	-	-	-	1,966
Debt securities – gross carrying amount	45,281	-	-	-	45,281
Allowance for impairment losses	-	-	-	-	-
Total financial assets at amortised cost pledged as collateral	**45,281**	**-**	**-**	**-**	**45,281**

Debt securities classified in Stage 1 are assessed as low credit risk financial instruments.

The following table shows the gross carrying amount of those financial assets which are in a different impairment stage at 31 December 2018 than they were at the beginning of the financial year or their initial recognition:

(CZKm)	Transfers between stages 1 and 2		Transfers between stages 2 and 3		Transfers between stages 1 and 3	
	From stage 1 to stage 2	From stage 2 to stage 1	From stage 2 to stage 3	From stage 3 to stage 2	From stage 1 to stage 3	From stage 3 to stage 1
Loans and advances						-
General government	147	71	-	10	-	-
Credit institutions	-	421	-	-	-	-
Other legal entities	6,182	3,276	478	228	3,555	111
Private individuals	1,637	1,850	257	55	202	4
Total	**7,966**	**5,618**	**735**	**293**	**3,757**	**115**

(CZKm)	2017 IAS 39		
	Held-to-maturity investments	Loans and receivables	Total
Financial assets at amortised cost			
Debt securities			
General government	84,455	160	84,615
Credit institutions	1,317	212,089	213,406
Other legal entities	834	12,919	13,753
Debt securities – gross carrying amount	86,606	225,168	311,774
Allowance for impairment losses	(2)	(1)	(3)
	86,604	**225,167**	**311,771**
Loans and advances			
Central banks	-	475,047	475,047
General government	-	5,697	5,697
Credit institutions	-	5,561	5,561
Other legal entities	-	221,749	221,749
Private individuals	-	47,088	47,088
Loans and advances – gross carrying amount	-	755,142	755,142
Allowance for impairment losses	-	(6,296)	(6,296)
	-	**748,846**	**748,846**
Total financial assets at amortised cost	**86,604**	**974,013**	**1,060,617**
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 521,042 m at 31 December 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 26,166 m (2017: Held-to-maturity investments pledged as collateral of CZK 15,753 m) or securities lending in the amount of CZK 19,115 m (2017: Held-to-maturity-investments pledged as collateral of 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.

Financial assets at amortised cost contain debt securities of CZK 17,035 m (2017: Held-to-maturity investments of CZK 15,514 m) pledged as collateral of term deposits and financial guarantees.

In June 2013, a part of the portfolio of debt sovereign bonds was transferred from 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, 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 Bank. Accordingly, carrying amount of the transferred bonds was adjusted.

In July and August 2013, a part of the portfolio of mortgage bonds was transferred from the Available-for-sale financial assets to the portfolio of Loans and receivables. Unrealised losses 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, the remaining unamortised balance of the negative frozen reserve in the amount of CZK 365 m (Note: 2.5) was reversed from the equity of the Bank. Accordingly, carrying amount of the transferred bonds was adjusted.

Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments that were reclassified from the Available-for-sale financial assets:

	2017	
(CZKm)	Carrying value	Fair value
Financial assets		
Held-to-maturity investments	6,268	6,758
Loans and receivables	61,232	57,496

The following table shows the total fair value gain or loss in Statement of other comprehensive income that would have been recognised during 2017 if the Bank had not reclassified financial assets from Available-for-sale. This disclosure is provided for information purposes only; it does not reflect what has been recorded in the financial statements:

(CZKm)	Debt sovereign bonds	Mortgage bonds	Total
Net gain / (loss) on Available-for-sale assets (before tax)	(354)	(370)	(724)

The following table shows the net profit or loss recorded on reclassified assets in 2017:

(CZKm)	Debt sovereign bonds	Mortgage bonds	Total
Interest income (before tax)	250	548	798

The following table shows the expected undiscounted cash recoveries, as assessed at the date of reclassification and anticipated average effective interest rate (EIR) over the remaining life of the assets:

(CZKm)	Debt sovereign bonds	Mortgage bonds	Total
Expected undiscounted cash recoveries, as assessed at the date of reclassification	15,135	86,007	101,142
Anticipated average EIR over the remaining life of the assets	3.5%	2.0%	

As part of the IFRS 9 transition procedure, a number of debt securities were transferred from the Available-for-sale financial assets to the category of Financial assets at amortised cost (Note: 2.5). Unrealised gains from the bonds at the date of the transfer in the amount of CZK 498 m were reversed from the equity of the Bank and, accordingly, carrying amount of the transferred bonds was adjusted.

Set out below is a set of information relating to the Bank's financial instruments reclassified from the Available-for-sale financial assets to the Financial assets at amortised cost:

(CZKm)	2018 IFRS 9
Carrying value	16,222
Fair value	16,537
Net gain (before tax) that would have been recognised in the Statement of other comprehensive income after the date of reclassification if the Bank had not reclassified the assets	40

18. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Direct ownership of the Bank (%) in significant subsidiaries, associates and joint ventures was as follows:

		2018		2017	
Name	Abbreviation	(%)	Carrying amount	(%)	Carrying amount
Subsidiaries					
Bankovní informační technologie, s.r.o.	BANIT	100.00	60	100.00	60
Centrum Radlická a.s.	Centrum Radlická	-	-	-	-
ČSOB Advisory, a.s.	ČSOB Advisory	100.00	1,458	100.00	1,458
ČSOB Factoring, a.s.	ČSOB Factoring	100.00	1,375	100.00	1,275
ČSOB Leasing, a.s.	ČSOB Leasing	100.00	8,000	100.00	8,000
ČSOB Penzijní společnost, a. s., a member of the ČSOB group	ČSOB PS	100.00	1,475	100.00	1,475
ČSOB Property fund, a.s.	ČSOB Property fund	-	-	-	-
Hypoteční banka, a.s.	Hypoteční banka	100.00	38,629	100.00	35,129
Patria Corporate Finance, a.s.	Patria CF	100.00	16	100.00	16
Patria Finance, a.s.	Patria Finance	100.00	225	100.00	225
Patria Online, a.s.	Patria Online	-	-	-	-
Radlice Rozvojová, a.s.	Radlice Rozvojová	100.00	1,521	100.00	786
Ušetřeno.cz, s.r.o.	Ušetřeno	100.00	325	-	-
Joint venture					
Českomoravská stavební spořitelna, a.s.	ČMSS	55.00	1,540	55.00	1,540
Associate					
ČSOB Asset Management, a.s., investment company	ČSOB AM	40.08	19	40.08	19
ČSOB Pojišťovna, a. s., a member of the ČSOB holding	ČSOB Pojišťovna	0.24	9	0.24	9
			54,652		**49,992**

All companies are incorporated in the Czech Republic.

In April 2018, ČSOB purchased 100% share in entity “Ušetřeno.cz”. The investment is a new interest of the Bank and represents the largest services comparator website in the Czech Republic. Entity is controlled by the Bank and have been fully consolidated since 1 April 2018. The acquisition cost in the amount of CZK 325 m consists of cash paid of CZK 177 m and of estimated fair value of contractual future cash outflows (‘earn-out’) of CZK 148 m, recognised in Other liabilities. Balance of the earn-out payment depends on the business performance of the company in next 4 years.

In March 2018, the Bank increased its investment in Radlice Rozvojová by CZK 375 m through an additional charge apart from the registered capital of the company.

In April 2018, the Bank increased its investment in Hypoteční banka by CZK 3,500 m through an additional charge apart from the registered capital of the company.

In August 2018, the Bank increased its investment in ČSOB Factoring by CZK 100 m through an additional charge apart from the registered capital of the company.

In September 2018, the Bank increased its investment in Radlice Rozvojová by CZK 450 m through an additional charge apart from the registered capital of the company.

In December 2018, the Bank decreased its investment in Radlice Rozvojová by CZK 90 m through the redemption of other capital funds of the company.

Merger of the companies ČSOB, Centrum Radlická and Patria Online

On 17 May 2017, the Board of Directors agreed on the intention to merge the ČSOB, a. s. (as a successor company) with its fully controlled subsidiaries Centrum Radlická, a.s. and Patria Online, a.s. (companies that cease to exist). The merger was finalised on 1 December 2017 when the local merger was entered into the Register of Companies.

The transaction was assessed as a business combination of companies under common control. Business combinations of companies under common control are not in scope of the IFRS 3 - Business combinations or any other standard.

Such a combination is reported in the separate financial statements of the Bank using the predecessor amount method with the effective date of the merger on 1 December 2017. Based on the accounting policies of the Bank and according to the predecessor amount method, assets and liabilities of Centrum Radlická and Patria Online are acquired by the Bank at their carrying amounts as reported by the merged companies.

As a result of the merger, an investment of the Bank in its subsidiaries Centrum Radlická in the amount of CZK 2,309 m and Patria Online in the amount of CZK 955 m was derecognised. On the other hand, Patria CF and Patria Finance, formerly subsidiaries of Patria Online, were recognised as new direct investments of the Bank in the amount of CZK 16 m, and CZK 225 m respectively.

The difference between the investments in subsidiaries and carrying amount of the merged assets and liabilities reached the amount of CZK 824 m and was recognised in the Bank’s Equity.

Set out below is an analysis of financial effect of the merger on the financial statements of the Bank as at 31 December 2017:

Assets acquired and liabilities assumed

(CZKm)	Centrum Radlická	Patria Online	Eliminations of Centrum Radlická	Eliminations of Patria Online	1 December 2017
ASSETS					
Cash, balances with central banks and other demand deposits	92	16	(92)	(16)	-
Available-for-sale financial assets	-	18	-	-	18
Share in Group companies	-	271	(2,309)	(955)	(2,993)
Deferred tax assets (Note: 12)	71	-	-	-	71
Property and equipment (Note: 20)	2,070	-	-	-	2,070
Goodwill and other intangible assets (Note: 21)	1	-	-	-	1
Other assets	-	2	(16)	-	(14)
Total assets	**2,234**	**307**	**(2,417)**	**(971)**	**(847)**
LIABILITIES					
Financial liabilities at amortised cost	-	-	(92)	(16)	(108)
Current tax liabilities	10	-	-	-	10
Other liabilities	53	38	(16)	-	75
Total liabilities	**63**	**38**	**(108)**	**(16)**	**(23)**
Total identifiable net assets	**2,171**	**269**	**(2,309)**	**(955)**	**(824)**

In April 2017, the Bank increased its investment in Hypoteční banka by CZK 4,000 m through an additional charge apart from the registered capital of the company.

In June 2017, the Bank increased its investment in ČSOB Leasing by CZK 900 m through an additional charge apart from the registered capital of the company.

In June 2017, the Bank increased its investment in ČSOB Factoring by CZK 130 m through an additional charge apart from the registered capital of the company.

In June 2017, the Bank increased its investment in Centrum Radlická by CZK 1,600 m through an additional charge apart from the registered capital of the company.

In December 2017, the Bank increased its investment in Radlice Rozvojová by CZK 420 m through an additional charge apart from the registered capital of the company.

Additional payments for the squeeze-out of minority interest in Hypoteční banka in 2017 resulted in an increase of the carrying amount of the interest of CZK 2 m.

Based on the Agreement on the exercise of voting rights, the Bank is entitled to a total of 40% of the voting rights in ČSOB Pojišťovna. Thus, ČSOB Pojišťovna is still assessed to be an associated company of the Bank.

Based on the Agreement on the exercise of voting rights, the Bank was entitled to a total of 95.67% of the voting rights in its subsidiary ČSOB Property fund in 2016. In December 2017, the Bank liquidated ČSOB Property Fund as a result of the earlier decision of the Bank to terminate its real estate activities. Liquidation balance received amounted to CZK 276 m.

Based on the company statutes, the Bank controls ČMSS jointly with the owner of the remaining 45%. Therefore, the entity is classified as a joint venture.

Ownership in other companies corresponds with the share of voting rights.

At 31 December 2017 and 2018, the Bank considered the value of interests in certain subsidiaries to be impaired.

In 2017, the value of interests in ČSOB Property fund was impaired as a result of a decrease in projected discounted cash flows. As a result, a provision for an impairment loss of CZK 3 m, has been recognised. In December 2017, the whole amount of accumulated impairment loss was settled following the liquidation of the company.

In 2017, the whole amount of accumulated impairment loss of the Bank's interest in Patria Online was settled as a result of the merger with ČSOB.

The Bank's management believes that there is no other indication of impairment in the value of its investments in subsidiaries, associates and joint ventures.

The following table shows a reconciliation of the impairment losses on investment in subsidiaries, associates and joint ventures for 2017 and 2018:

(CZKm)	ČSOB Property fund	Patria Online	Total
At 1 January 2017	**246**	**225**	**471**
Increase (Note: 11)	3	-	3
Utilisation	(249)	-	(249)
Merger ČSOB with Patria Online	-	(225)	(225)
At 31 December 2017	**-**	**-**	**-**
Increase (Note: 11)	-	-	-
At 31 December 2018	**-**	**-**	**-**

19. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative instruments are utilised by the Bank for trading and hedging purposes. Derivative instruments include swaps, forwards and option contracts. A swap agreement is a contract between two parties to exchange cash flows based on specified underlying notional amounts, assets and/or indices. Forward contracts are agreements to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined future date and rate or price. An option contract is an agreement that conveys to the purchaser the right, but not the obligation, to buy or sell a quantity of a financial instrument, index, currency or commodity at a predetermined rate or price at a time or during a period in the future.

Credit risk associated with derivative financial instruments

By using derivative instruments, the Bank is exposed to credit risk in the event of non-performance by counterparties in respect of derivative instruments. If a counterparty fails to perform, credit risk is equal to the positive fair value of the derivatives with that counterparty. When the fair value of a derivative is positive, the Bank bears the risk of loss; conversely, when the fair value of a derivative is negative, the counterparty bears the risk of loss (or credit risk). The Bank minimises credit risk through credit approvals, limits and monitoring procedures. Furthermore, the Bank obtains collateral where appropriate and uses bilateral master netting arrangements.

All derivatives are traded over-the-counter.

The maximum credit risk on the Bank's outstanding non-credit derivatives is measured as the cost of replacing their cash flows with positive fair value if the counterparties default, less the effects of bilateral netting arrangements and collateral held. The Bank's actual credit exposures are less than the positive fair value amounts shown in the derivative tables below as netting arrangements and collateral have not been considered.

Trading derivatives

The Bank's trading activities primarily involve providing various derivative products to its customers and managing trading positions for its own account. Trading derivatives also include those derivatives which are used for asset and liability management (ALM) purposes to manage the interest rate position of the Banking Book (positions managed by ALM) and which do not meet the criteria of hedge accounting; still they are used as natural or economic hedges.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding derivative trading positions as at 31 December 2018 and 2017 are set out in the table below. The contract or notional amounts represent the volume of outstanding transactions at a point in time; they do not represent the potential for gain or loss associated with the market risk or credit risk of such transactions.

Trading positions

	2018 IFRS 9			2017 IAS 39		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	825,234	10,441	10,923	574,520	7,558	8,066
Forwards	23,586	2	4	49,994	1	13
Options	25,254	56	23	25,045	64	36
	874,074	**10,499**	**10,950**	**649,559**	**7,623**	**8,115**
Foreign exchange contracts						
Swaps / Forwards	778,950	3,014	2,180	374,585	2,137	3,921
Cross currency interest rate swaps	98,984	690	673	73,241	894	556
Options	90,435	734	740	106,668	1,024	1,046
	968,369	**4,438**	**3,593**	**554,494**	**4,055**	**5,523**
Equity contracts						
Swaps	6,600	5	698	5,124	110	67
Options	8,568	137	53	6,304	297	30
	15,168	**142**	**751**	**11,428**	**407**	**97**
Commodity contracts						
Swaps / Options	2,917	158	151	2,719	139	133
Total trading derivatives (Notes: 15, 24)	**1,860,528**	**15,237**	**15,445**	**1,218,200**	**12,224**	**13,868**

Positions of ALM – economic hedges

	2018 IFRS 9			2017 IAS 39		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Interest rate related contracts						
Swaps	186,764	1,900	2,369	182,999	1,095	2,064
Foreign exchange contracts						
Cross currency interest rate swaps	4,274	162	-	4,573	187	-
Total derivatives used as economic hedges (Notes: 15, 24)	**191,038**	**2,062**	**2,369**	**187,572**	**1,282**	**2,064**

Hedging derivatives

The Bank's ALM function utilises derivative interest rate contracts in the management of the Bank's interest rate risk arising from non-trading or ALM activities, which are contained in the Bank's Banking Book. Interest rate risk arises when interest-sensitive assets have different maturities or repricing characteristics than the corresponding interest-sensitive liabilities. The Bank's objective for managing interest rate risk in the Banking Book is to reduce the structural interest rate risk within each currency and, thus, the volatility of net interest margins. Derivative strategies used to achieve this objective involve either swapping currency interest rate exposures or modifying repricing characteristics of certain interest-sensitive assets or liabilities so that the changes in interest rates do not have a significant adverse effect on the net interest margins and cash flows of the Banking Book. Bank policies to achieve these strategies currently require the use of both cash flow hedges and fair value hedges.

In CSOB, an effectiveness of hedge accounting relationship is measured by a comparison of cumulative changes in net present value of a hedging derivative and cumulative changes in net present value of a "hypothetical" derivative. Hypothetical derivative is not a real transaction. It is a virtual financial derivative representing a hedged item and hedged risk. Besides, the Bank is testing whether the total amount of hedging derivatives does not exceed the volume of financial instruments eligible for hedging.

The hedging ineffectiveness results from the different floating rate repricing frequencies in hedging and hypothetical derivatives having an impact on their valuation.

Cash flow hedging derivatives

Most of the hedging derivatives are CZK single currency interest rate swaps. The Bank uses these instruments to hedge floating interest income from expected reverse repo operations with the Czech National Bank earning the 14-day interest repo rate. The hedging swap contracts are arranged to swap the floating interest rate 3M PRIBOR or 6M PRIBOR paid by the Bank and the fixed interest rate the Bank receives. The hedging construction is effective due to the strong correlation between the 14-day interest repo rate and 3M or 6M PRIBOR.

The Bank also uses single currency interest rate swaps

- to hedge the interest rate risk arising from changes in external interest rates on a group of non-retail client current accounts (the variability in the interest paid on the client deposits is effectively hedged by the fixed rate payer/floating rate receiver swaps).
- to convert floating-rate client loans to fixed rates.

Cross currency interest rate swaps are used to hedge currency risk resulting from interest income accrued on foreign currency investment debt securities. These fixed and floating interest earning securities are included in Financial assets at amortised cost (2017: Available-for-sale financial assets and in Held-to-maturity investments) of the Bank's statement of financial position.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding cash flow hedging derivatives as at 31 December 2018 and 2017 are set out as follows:

	2018 IAS 39			2017 IAS 39		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Cash flow hedges						
Single currency interest rate swaps	88,133	1,846	1,268	104,802	2,793	1,716
Cross currency interest rate swaps	8,322	226	507	11,008	243	481
Total hedging derivatives	**96,455**	**2,072**	**1,775**	**115,810**	**3,036**	**2,197**

In 2018, a loss of CZK 31 m was recognised in the statement of income due to hedge ineffectiveness from single currency interest rate swaps cash flow hedges (2017: gain of CZK 50 m).

In 2018, the discontinuation of hedge accounting (due to sales of / impairment on underlying hedged bonds or retrospective hedge effectiveness test failure) resulted in a reclassification of the associated cumulative losses of CZK 2 m from equity to the statement of income (2017: gains of CZK 13 m). The gains / losses are included in Net gains from financial instruments at fair value through profit or loss.

The following table contains details of the hedged financial instruments as at 31 December 2018 covered by the Bank's hedging strategies:

	2018 IAS 39		
	Cash flow hedge reserve		Change in fair value of hedged item for ineffectiveness assessment
(CZKm)	Continuing hedges	Discontinued hedges	
Cash flow hedges	(114)	144	(31)

Net gains and losses on cash flow hedges reclassified to the statement of income are as follows:

(CZKm)	2018 IAS 39	2017 IAS 39
Interest income (Note: 29)	643	752
Net (losses) / gains from financial instruments at fair value through profit or loss (Note: 29)	(33)	63
Taxation (Note: 12)	(117)	(155)
Net gains	**493**	**660**

Since the cash flows from the hedging interest rate swaps are variable and difficult to predict, the Bank uses the remaining contractual maturity analysis of the hedging derivatives notional amounts instead of the expected future cash flows from the hedged items. As the objective of the hedging structure is to achieve fixed interest income, the information of the hedging swaps notional amounts remaining maturity is more relevant. Cash flows from hedged items are expected to occur in the same periods as the remaining maturity of cash flows from hedging derivatives.

The following table shows the notional amounts of hedging derivatives by remaining contractual maturity at 31 December 2018 and 2017:

	2018 IAS 39		2017 IAS 39
(CZKm)	Single currency interest rate swaps	Cross currency interest rate swaps	Interest rate swaps
Less than 3 months	4,136	-	3,313
More than 3 months but not more than 6 months	3,090	-	5,652
More than 6 months but not more than 1 year	7,272	114	11,873
More than 1 year but not more than 2 years	50,656	2,974	14,697
More than 2 years but not more than 5 years	22,779	5,234	55,740
More than 5 years	200	-	24,535
	88,133	**8,322**	**115,810**

Fair value hedging derivatives

Cross currency interest rate swaps are used to hedge both FX risks and interest rate risks arising from the movement in the fair value of foreign currency fixed rate bonds classified as at fair value through other comprehensive income and as Financial assets at amortised cost (2017: Available-for-sale) attributable to the changes in the FX rate and the risk-free (interest rate swap) yield curve. A fixed rate payer (foreign currency)/floating rate receiver (home currency) interest rate swap is expected to be a highly effective hedge.

Interest rate swaps are used by the Bank to hedge the interest rate risk arising from the movement in the fair value of bonds classified as at fair value through other comprehensive income and as Financial assets at amortised cost (2017: Available-for-sale) attributable to changes in the risk-free (interest rate swap) yield curve. A fixed payer/floating rate receiver interest rate swap denominated in the same currency as the hedged bond is expected to be highly effective hedge.

Fair value hedges for portfolios of retail non-maturity deposits have been used to hedge interest rate risk arising from changes in fair value of non-maturity retail deposits to changes in the risk-free yield curve. The portfolio consisting of the part of retail current accounts was designated as a hedged item. The interest rate risk is effectively hedged by the single currency fixed rate receiver/floating rate payer swaps.

Fair value hedges for portfolios of fixed rate loans have been used to hedge interest rate risk arising from changes in the fair value of fixed rate loans to changes in the risk-free yield curve. The interest rate risk is effectively hedged by the single currency fixed rate payer/floating rate receiver swaps.

Fair value hedges for portfolios of fixed rate mortgage bonds classified as at fair value through other comprehensive income (2017: Available-for-sale) have been used to hedge interest rate risk arising from changes in the fair value of fixed rate bonds to changes in the risk-free yield curve. The interest rate risk is effectively hedged by the single currency fixed rate payer/floating rate receiver swaps.

Interest rate swaps are used by the Bank to hedge the interest rate risk arising from the movement in the fair value of bonds classified as Financial assets at amortised cost (2017: Loans and receivables), i.e. private issues without active secondary market, to changes in the risk-free (interest rate swap) yield curve. A fixed payer/floating rate receiver interest rate swap denominated in the same currency as the hedged bond is expected to be a highly effective hedge.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding fair value hedging derivatives as at 31 December 2018 and 2017 are set out as follows:

	2018 IAS 39			2017 IAS 39		
	Notional	Fair value		Notional	Fair value	
(CZKm)	amount	Positive	Negative	amount	Positive	Negative
Fair value hedges						
Single currency interest rate swaps						
Fair value micro hedges	63,950	265	2,500	55,304	105	3,001
Fair value portfolio hedges	460,751	6,104	5,654	396,279	5,307	5,198
Cross currency interest rate swaps						
Fair value micro hedges	923	-	86	923	-	77
Total hedging derivatives	**525,624**	**6,369**	**8,240**	**452,506**	**5,412**	**8,276**

The following table contains details of the hedged items as at 31 December 2018 covered by the Bank's hedging strategies:

(CZKm)	2018 IAS 39 Carrying amount of hedged item	Accumulated amount of fair value adjustments on the hedged items: Assets	Accumulated amount of fair value adjustments on the hedged items: Liabilities	Change in fair value of hedged item for ineffectiveness assessment
Fair value micro hedges				
Financial assets at amortised cost	17,276	166	-	37
Financial assets at fair value through other comprehensive income	15,307	86	-	(157)
Financial liabilities at amortised cost	32,733	-	191	(237)
Total	65,316	252	191	(357)
Fair value portfolio hedges				
Financial assets at amortised cost	256,492	(3,082)	-	401
Financial assets at fair value through other comprehensive income	10,834	(166)	-	(71)
Financial liabilities at amortised cost	187,115	-	(3,062)	(742)
Total	454,441	(3,248)	(3,062)	(412)
Total fair value hedged items	**519,757**	**(2,996)**	**(2,871)**	**(769)**

In 2018, the discontinuation of hedge accounting due to sales of underlying hedged bonds resulted in realised losses of CZK 51 m (2017: CZK 159 m) included in Net gains from financial instruments at fair value through profit or loss in the statement of income.

In 2018, the net losses in the amount of CZK 769 m (2017: gains of CZK 2,705 m) realised on the hedged item attributable to the hedged interest rate risk is included in Net gains from financial instruments at fair value through profit or loss.

Net gains realised on the hedging contracts, which are included in Net gains from financial instruments at fair value through profit or loss, amounted to CZK 749 m (2017: losses of CZK 2,535 m).

20. PROPERTY AND EQUIPMENT

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2017	4,431	851	546	1,335	303	7,466
Depreciation and impairment at 1 January 2017	(2,678)	(275)	(455)	(1,052)	-	(4,460)
Net book value at 1 January 2017	**1,753**	**576**	**91**	**283**	**303**	**3,006**
Transfers	324	275	51	104	(754)	-
Additions	-	-	-	-	838	838
Disposals	(14)	(5)	(3)	(11)	-	(33)
Merger of ČSOB, Centrum Radlická and Patria Online (Note: 18)	2,029	-	-	41	-	2,070
Transfer to non-current assets held-for-sale	(6)	-	-	-	-	(6)
Depreciation	(251)	(252)	(26)	(95)	-	(624)
Impairment	(6)	-	-	-	-	(6)
Net book value at 31 December 2017	**3,829**	**594**	**113**	**322**	**387**	**5,245**
of which						
Cost	7,403	1,112	567	1,554	387	11,023
Depreciation and impairment	(3,574)	(518)	(454)	(1,232)	-	(5,778)

(CZKm)	Land and buildings	IT equipment	Office equipment	Other	Construction in progress	Total
Cost at 1 January 2018	7,403	1,112	567	1,554	387	11,023
Depreciation and impairment at 1 January 2018	(3,574)	(518)	(454)	(1,232)	-	(5,778)
Net book value at 1 January 2018	**3,829**	**594**	**113**	**322**	**387**	**5,245**
Transfers	318	183	68	101	(670)	-
Additions	-	-	-	-	762	762
Disposals	(3)	(4)	(2)	(5)	-	(14)
Transfer to non-current assets held-for-sale	(38)	-	-	-	-	(38)
Depreciation	(240)	(257)	(24)	(90)	-	(611)
Impairment	(22)	-	-	-	-	(22)
Net book value at 31 December 2018	**3,844**	**516**	**155**	**328**	**479**	**5,322**
of which						
Cost	7,566	1,275	612	1,487	479	11,419
Depreciation and impairment	(3,722)	(759)	(457)	(1,159)	-	(6,097)

As a result of the merger of ČSOB, Centrum Radlická and Patria Online (Note: 18), the Bank acquired a building of the ČSOB Group's headquarter in the carrying amount of CZK 2,029 m and other property of CZK 41 m.

Property and equipment are assessed as non-current assets.

21. GOODWILL AND OTHER INTANGIBLE ASSETS

(CZKm)	Goodwill	Acquired software	Internally developed software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2017	2,752	4,394	-	530	1,188	8,864
Amortisation and impairment at 1 January 2017	(63)	(3,026)	-	(466)	(60)	(3,615)
Net book value at 1 January 2017	**2,689**	**1,368**	**-**	**64**	**1,128**	**5,249**
Transfers	-	43	1,494	-	(1,537)	-
Additions	-	-	-	-	762	762
Disposals	-	-	-	(12)	-	(12)
Merger with subsidiaries Centrum Radlická and Patria Online (Note: 18)	-	1	-	-	-	1
Amortisation	-	(420)	(81)	(14)	-	(515)
Impairment	-	(190)	-	-	-	(190)
Net book value at 31 December 2017	**2,689**	**802**	**1,413**	**38**	**353**	**5,295**
of which						
Cost	2,752	4,254	1,494	480	353	9,333
Amortisation and impairment	(63)	(3,452)	(81)	(442)	-	(4,038)

(CZKm)	Goodwill	Acquired software	Internally developed software	Other intangible assets	Construction in progress	Total
Cost at 1 January 2018	2,752	4,254	1,494	480	353	9,333
Amortisation and impairment at 1 January 2018	(63)	(3,452)	(81)	(442)	-	(4,038)
Net book value at 1 January 2018	**2,689**	**802**	**1,413**	**38**	**353**	**5,295**
Transfers	-	123	580	3	(706)	-
Additions	-	-	-	-	697	697
Disposals	-	(4)	-	-	-	(4)
Amortisation	-	(279)	(267)	(13)	-	(559)
Impairment	-	-	-	-	-	-
Net book value at 31 December 2018	**2,689**	**642**	**1,725**	**28**	**345**	**5,429**
of which						
Cost	2,752	3,287	2,073	399	345	8,856
Amortisation and impairment	(63)	(2,645)	(348)	(371)	-	(3,427)

Included in Construction in progress is internally developed software in the net amount of CZK 345 m as at 31 December 2018 (31 December 2017: CZK 353 m).

Goodwill and other intangible assets are assessed as non-current assets.

Goodwill has been allocated to the Retail segment and SME clients, representing a cash-generating unit (CGU). The recoverable amount for the Retail segment and SME clients was determined based on the value-in-use methodology. The calculation uses cash flow projections from business plans for the forthcoming three years which are then extrapolated for a five further years using the expected average growth rate of 3%; after that a terminal value is applied.

Cash flows in the Retail segment and SME clients are based on the net profit generated by the CGU above the required capital and a terminal value of the business. For the calculation of the terminal value a sustainable discount rate of 10.6% in 2018 (2017: 10.1%) and no long term growth rates were used in 2018 and 2017.

The value in use is particularly sensitive to a number of key assumptions:

- The growth rate in forecasted cash flows beyond the terminal year of the budget. The Bank has a conservative approach when calculating the terminal value, which implies that no growth rate for Retail segment and SME clients has been used for extrapolation purposes beyond the budget period.
- The risk discount rate. For Retail segment and SME clients an average risk discount rate of 10.8% has been applied (2017: 10.3%). This reflects a risk-free rate in the Eurozone, long-term inflation in the Czech market and in the Eurozone, the credit default swap spread for the Czech Republic relative to the Eurozone, an average 'beta' factor for relative market risk, including the market risk premium.

The key assumptions described above may change as economic and market conditions change.

The outcome of the impairment assessment was that it is considered unlikely that goodwill in respect of the Retail segment and SME clients would be impaired given that the value-in-use is significantly higher than the carrying value of goodwill.

The management believes that reasonable potential changes in the key assumptions on which the recoverable amount is based would not cause it to fall below the carrying amount.

22. NON-CURRENT ASSETS HELD-FOR-SALE

(CZKm)	Land and buildings	Total
Net book value at 1 January 2017	**35**	**35**
Transfer from Property and equipment	6	6
Disposals	(41)	(41)
Net book value at 31 December 2017	**-**	**-**
of which		
Cost	-	-
Impairment	-	-

(CZKm)	Land and buildings	Total
Net book value at 1 January 2018	**-**	**-**
Transfer from Property and equipment	38	38
Disposals	-	-
Net book value at 31 December 2018	**38**	**38**
of which		
Cost	38	38
Impairment	-	-

Movements disclosed in Transfer from Property and equipment represent buildings and other property which were decided to be sold. The buildings were measured at the lower of their carrying amount and fair value less costs to sell. The fair value of the buildings was calculated based on indicative market prices.

23. OTHER ASSETS

(CZKm)	2018 IFRS 9	2017 IAS 39
Other financial assets		
Other debtors, net of provisions (Notes: 30, 32, 35, 38.2)	550	534
Accrued income (Notes: 30, 32, 35, 38.2)	163	123
	713	**657**
Other non-financial assets		
Prepaid charges	488	260
VAT and other tax receivables	4	9
	492	**269**
Total other assets	**1,205**	**926**

The following table shows staging and detail of cumulative impairment losses on other financial assets for 2018:

	2018 IFRS 9		
(CZKm)	Stage 2	Stage 3	Total
Other financial assets			
Gross carrying amount	707	33	740
Allowance for impairment losses	(3)	(24)	(27)
	704	**9**	**713**

Expected credit losses of Other financial assets are assessed using simplified approach.

Other assets are assessed as current assets.

24. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(CZKm)	2018 IFRS 9	2017 IAS 39
Financial liabilities held for trading		
Short positions	11,916	12,952
Derivative contracts (Note: 19)		
Trading derivatives	15,445	13,868
Derivatives used as economic hedges	2,369	2,064
Term deposits	1,273	362
Repo transactions	1	2,097
Bonds and investment certificates issued	4,540	5,317
	35,544	**36,660**
Financial liabilities designated at fair value through profit or loss		
Bonds issued	11,988	-
Investment certificates	14,077	9,498
	26,065	**9,498**
Financial liabilities at fair value through profit or loss	**61,609**	**46,158**

The amount that the Bank would contractually be required to pay at the maturity of the financial liabilities designated at fair value through profit or loss is CZK 729 m higher than the carrying amount at 31 December 2018 (31 December 2017: lower by CZK 52 m).

The changes in the fair value of the Financial liabilities designated at fair value through profit or loss attributable to changes in own credit risk were not significant.

The investment certificates and bonds issued reported as Financial liabilities designated at fair value through profit or loss are hybrid contracts which contain an embedded derivative. The Bank has assessed the contract, where the separation of the embedded derivative would require unreasonable cost and therefore the Bank has decided to apply the fair value option on measurement of these hybrid contracts as a whole.

25. FINANCIAL LIABILITIES AT AMORTISED COST

(CZKm)	2018 IFRS 9	2017 IAS 39
Deposits received from credit institutions		
Current accounts and overnight deposits	10,213	36,146
Term deposits	16,883	15,237
Repo transactions	29,803	22,011
	56,899	**73,394**
Deposits received from other than credit institutions		
Current accounts and overnight deposits	541,494	506,247
Term deposits	28,673	11,806
Savings deposits	212,310	214,976
Repo transactions	316	-
Other deposits	7,353	8,979
	790,146	**742,008**
Debt securities in issue		
Bonds and investment certificates issued	1	501
Promissory notes	347,338	329,985
	347,339	**330,486**
Financial liabilities at amortised cost	**1,194,384**	**1,145,888**

26. OTHER LIABILITIES

(CZKm)	2018 IFRS 9	2017 IAS 39
Other financial liabilities		
Payables to employees including social security charges (Notes: 30, 32, 35, 38.3)	1,983	1,908
Accrued charges (Notes: 30, 32, 35, 38.3)	1,245	1,259
Other creditors (Notes: 30, 32, 35, 38.3)	218	100
	3,446	**3,267**
Other non-financial liabilities		
Income received in advance	58	59
VAT and other tax payables	89	113
	147	**172**
Total other liabilities	**3,593**	**3,439**

Other liabilities are assessed as current liabilities.

27. PROVISIONS

(CZKm)	Pending legal issues and other losses	Restructuring	Contractual engagements	Total
At 1 January 2017	**341**	**49**	**32**	**422**
Additions	74	-	9	83
Amounts utilised	(10)	(37)	(21)	(68)
Unused amounts reversed	(37)	-	(5)	(42)
Discount amortisation (Note: 5)	-	-	3	3
At 31 December 2017	**368**	**12**	**18**	**398**
Additions	54	96	66	216
Amounts utilised	-	(47)	(18)	(65)
Unused amounts reversed	(236)	-	(8)	(244)
Discount amortisation (Note: 5)	-	-	3	3
At 31 December 2018	**186**	**61**	**61**	**308**

Loan commitments and guarantees (Note: 33):

(CZKm)	Total
At 1 January 2017 (IAS 39)	**232**
Additions	345
Unused amounts reversed	(109)
Foreign currency translation	(2)
At 31 December 2017 (IAS 39)	**466**
Impact of transition to IFRS 9 (Note: 2.5)	9

(CZKm)	Stage 1	Stage 2	Stage 3	Total
At 1 January 2018 (IFRS 9)	**77**	**53**	**345**	**475**
Origination and acquisition	37	19	108	164
Change in credit risk not leading to stage transfers	(75)	(3)	(288)	(366)
Change in credit risk leading to stage transfer	(6)	(16)	4	(18)
Derecognition	(10)	-	(22)	(32)
Foreign currency translation	29	(14)	(16)	(1)
At 31 December 2018 (IFRS 9)	**52**	**39**	**131**	**222**

Restructuring

During 2018, the Bank started a restructuring programme, resulting in the creation of a provision of CZK 96 m. In the framework of this restructuring programme the total number of personnel was reduced in 2018 and continues in 2019.

Pending legal issues and other losses

Provisions for legal issues and other losses represent an obligation to cover potential risks resulting from litigation, where the Bank is the defendant.

The Bank is involved in a number of ongoing legal disputes, the resolution of which may have an adverse financial impact on the Bank. Based upon historical experience and expert reports, the Bank assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for.

The Bank's policy is to create a provision, where the possibility of an outflow of resources embodying economic benefits to settle the obligation is more than 50%. In such cases the Bank creates a provision in the full amount to cover the possible cost in the event of loss.

In 2018, the Bank had a provision for pending legal issues and other losses in the total amount of CZK 186 m. It is expected that the majority of the costs will be incurred in the next 3 years.

On a quarterly basis, the Bank monitors the status of all cases and makes a decision as to whether to create, utilise or reverse any provision.

The Bank does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Bank's interests.

Contractual engagements

A number of leasehold property arrangements for which, on a net basis, the unavoidable contractual rental costs exceeds expected economic benefits exists in the Bank. Particularly, when the Bank decides to terminate the occupation of the building before the maturity of the leasehold arrangement. This provision represents the present value of the future net rental losses, or other costs, that will arise. It is expected that the majority of costs will be incurred over the next 5 years.

28. SHARE CAPITAL AND OTHER RESERVES

As at 31 December 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 Bank at 31 December 2018 and 2017.

On 31 December 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)	Revaluation reserve from financial assets at fair value through OCI	Available-for-sale reserve	Cash flow hedge reserve	Total
At 1 January 2017	**-**	**1,844**	**1,973**	**3,817**
Other comprehensive income (Note: 29)	**-**	(476)	(1,476)	(1,952)
At 31 December 2017	**-**	**1,368**	**497**	**1,865**
Impact of transition to IFRS 9 (Note: 2.5)	970	(1,368)	**-**	(398)
At 1 January 2018	**970**	-	**497**	**1,467**
Other comprehensive income (Note: 29)	(259)	-	(473)	(732)
At 31 December 2018	**711**	**-**	**24**	**735**

29. COMPONENTS OF OTHER COMPREHENSIVE INCOME

(CZKm)	2018 IFRS 9	2017 IAS 39
Other comprehensive income – to be reclassified to the statement of income		
Cash flow hedges		
Net unrealised gain / (loss) on cash flow hedges	26	(1,001)
Net gains on cash flow hedges reclassified to the statement of income (Note: 19)	(610)	(815)
Tax effect relating to cash flow hedges (Note: 12)	111	340
	(473)	(1,476)
Financial debt instruments FVOCI		
Net unrealised losses on financial debt instruments FVOCI	(411)	-
Realised gains on financial debt instruments FVOCI reclassified to the statement of income on impairment	(3)	-
Tax effect relating to financial debt instruments FVOCI (Note: 12)	79	-
	(335)	-
Available-for-sale financial assets		
Net unrealised losses on available-for-sale financial investments	-	(12)
Net realised gains on available-for-sale financial investments reclassified to the statement of income on disposal	-	(455)
Net realised gains on available-for-sale financial investments amortised to the statement of income on reclassified assets (Note: 16)	-	(121)
Tax effect relating to available-for-sale financial investments (Note: 12)	-	112
	-	(476)
Other comprehensive income for the year, net of tax, to be reclassified to statement of income in subsequent periods	**(808)**	**(1,952)**
Other comprehensive income – not to be reclassified to the statement of income		
Financial equity instruments FVOCI		
Net unrealised gains on financial equity instruments FVOCI	62	-
Net realised losses on financial equity instruments FVOCI reclassified to the retained earnings on disposal	25	-
Tax effect relating to financial equity instruments FVOCI	(11)	-
Other comprehensive income for the period, net of tax, not to be reclassified to statement of income in subsequent periods	**76**	**-**
Other comprehensive income for the year, net of tax	**(732)**	**(1,952)**

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial assets and liabilities at fair value

The Bank's accounting policy on fair value measurements is discussed in the Accounting policies (Note 2.4 (4)).

Financial assets and liabilities at fair value, i.e. financial assets FVOCI (2017: available-for-sale), held for trading, designated at fair value through profit or loss, are valued as follows:

- Level 1

  If available, published price quotations in active markets are used to determine the fair value of financial assets or financial liabilities. Revaluation is obtained using prices of an identical asset or liability, which means that no model is involved in the process of a revaluation. Financial instruments valued on this basis include spot foreign exchange contracts and listed shares and bonds.

  Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Bank determines fair values using valuation techniques.

- Level 2

  Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observed from the market.

  Financial instruments valued on this basis include forward interest rate, foreign exchange and commodity contracts, mortgage bonds, money market loans and deposits.

- Level 3

  Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

  Financial instruments for which the parameters are not observable include unlisted shares, a part of the portfolio of trading derivatives, a part of the portfolio of mortgage bonds and selected listed but not traded bonds.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to determine a fair value that reflects the price of the financial instrument at the reporting date, that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and less complex financial instruments like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over-the-counter derivatives like interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Bank uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain over-the-counter structured derivatives, certain loans and securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, the determination of expected future cash flows on the financial instrument being valued, the determination of the probability of counterparty default and prepayments and the selection of appropriate discount rates. The Valuation policy is subject to approval of the ČSOB Risk and Capital Oversight Committee and KBC Group Valuation Committee. The process for the approval of any new product consist also of an assessment of the valuation of the product and the eventual new valuation model for the product has to be approved before the product is endorsed or approval of the model is a blocking condition for the product implementation. The New and Active Product Process also requires a regular review of all products and the assessment of valuation quality is an important part of the review. Any valuation model, which uses not directly observable inputs, is subject to the Parameter review policy. The policy requires quarterly assessment of all parameters correctness. The Bank currently checks the valuation of all bonds quarterly.

The Bank also monitors the quality of asset valuations on a daily basis. If an asset quote quality does not meet the required criteria for Level 1 or level 2 the asset is transferred to Level 3 and vice versa. The monitoring process evaluates among others the frequency of quote updates.

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 31 December 2018:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Debt instruments	2,437	198	2,717	5,352
Derivative contracts	-	17,047	252	17,299
Financial assets held for trading pledged as collateral				
Debt instruments	1,676	-	-	1,676
Non-trading financial assets mandatorily at fair value through profit or loss				
Loans and advances	-	643	-	643
Financial assets FVOCI				
Debt securities	12,830	-	24,475	37,305
Equity securities	-	-	533	533
Financial assets FVOCI pledged as collateral				
Debt securities	2,505	-	781	3,286
Fair value adjustments of the hedged items in portfolio hedge	-	(3,082)	-	(3,082)
Derivatives used for hedging	-	8,441	-	8,441
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Short positions	11,916	-	-	11,916
Derivative contracts	-	16,991	823	17,814
Term deposits	-	1,273	-	1,273
Repo transactions	-	1	-	1
Bonds and Investment certificates issued	-	-	4,540	4,540
Financial liabilities designated at fair value through profit or loss				
Bonds and Investment certificates issued	-	-	26,065	26,065
Fair value adjustments of the hedged items in portfolio hedge	-	(3,062)	-	(3,062)
Derivatives used for hedging	-	10,015	-	10,015

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 31 December 2017:

(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets recorded at fair value				
Financial assets held for trading				
Loans and advances	-	-	-	-
Debt instruments	133	319	3,716	4,168
Derivative contracts	-	13,306	200	13,506
Financial assets held for trading pledged as collateral				
Debt instruments	1,901	196	-	2,097
Financial assets designated at fair value through profit or loss				
Debt instruments	-	-	3,376	3,376
Available-for-sale financial assets				
Debt securities	27,445	231	20,647	48,323
Equity securities	-	-	454	454
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	-	(3,483)	-	(3,483)
Derivatives used for hedging	-	8,448	-	8,448
Financial liabilities recorded at fair value				
Financial liabilities held for trading				
Short positions	12,952	-	-	12,952
Derivative contracts	-	15,852	80	15,932
Term deposits	-	362	-	362
Repo transactions	-	2,097	-	2,097
Bonds and Investment certificates issued	-	5,317	-	5,317
Financial liabilities designated at fair value through profit or loss				
Bonds and Investment certificates issued	-	2,545	6,953	9,498
Fair value adjustments of the hedged items in portfolio hedge	-	(3,803)	-	(3,803)
Derivatives used for hedging	-	10,473	-	10,473

Yield curve used in the mortgage bonds valuation model for discounting future cash flows is constructed from IRS rates and respective credit spreads. The credit spreads for all maturities were derived from market unobservable inputs in 2018. The credit spread curve for mortgage bonds was derived from newly issued mortgage bonds for 5Y bucket (as the most frequent maturity) and spreads for other maturities were calculated using slope from bank bond credit spread curve with rating grade A. The management considers this a significant market unobservable input, and as a consequence, all mortgage bonds are reported as part of Level 3.

In 2017, the spreads for the first year of maturity were exclusively derived from market observable quotes of mortgage bonds. Therefore mortgage bonds with a maturity of up to one year were included in Level 2.

The spread according to bond maturity was 74 bps (2-year) to 102 bps (20-year) in 2017 and 0 bps (2-year) to 25 bps (above 20-year) in 2018.

Valuation of bonds issued by Česká Exportní Banka (ČEB) is based on model using unobservable inputs. Yield curves (different for floating and fix bonds) used in the ČEB bonds valuation model for discounting future cash flows are constructed from IRS rates and respective credit spreads. The credit spreads are derived from the quotes of the most liquid bonds issued by ČEB and IRS rates. The management considers this a significant market unobservable input and, as a consequence, the bonds issued by ČEB are classified as Level 3.

The spreads are regularly updated, at the latest quarterly. The spread according to bond maturity was 49 bps (1-year) to 100 bps (10-year) for fixed bonds after last review in December 2018 (2017: 5 bps (1-year) to 215 bps (10-year) for fixed bonds and 9 bps (1-year) to 42 bps (10-year) for floating bonds).

The Bank's share in Visa Inc. classified as Financial asset at fair value through other comprehensive income (2017: Available-for-sale financial asset) is subject to fair value measurement based on the quoted price of Visa Inc.

Investment certificate is a financial liability composed of term deposit and index linked option/swap. The Bank valuates the certificates using valuation of the underlying option/swap component in combination with the calculation of the deposit component value. Issued bonds 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 both market observable and unobservable inputs.
In 2018, unobservable inputs represented a significant portion of the valuation, and as a consequence, the investment certificates and bonds issued were transferred to Level 3 financial instruments.

All transfers of financial instruments among the levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Movements in Level 3 financial instruments measured at fair value

The following table shows the 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:

	Financial assets held for trading		Financial assets designated at fair value through profit or loss	Available-for-sale financial assets (incl. assets pledged as collateral)		Total
(CZKm)	Trading derivatives	Debt securities	Debt securities	Debt securities	Equity securities	
At 1 January 2017	**100**	**4,814**	**3,485**	**12,573**	**342**	**21,314**
Total gains / (losses) recorded in profit or loss	240	(291)	(109)	(170)	-	(330)
Total gains recorded in other comprehensive income	-	-	-	(360)	65	(295)
Transfers into Level 3	-	58	-	9,829	-	9,887
Transfers out of Level 3	-	(76)	-	-	-	(76)
Merger with Patria Online (Note: 18)	-	-	-	-	47	47
Purchases	-	1,424	-	1,613	-	3,037
Settlement	(140)	(142)	-	-	-	(282)
Sales	-	(2,071)	-	(109)	-	(2,180)
At 31 December 2017	**200**	**3,716**	**3,376**	**23,376**	**454**	**31,122**
Total gains / (losses) recorded in profit or loss related to assets held at the end of the reporting period	240	(281)	(109)	(170)	-	(320)

	Financial assets held for trading		Financial assets designated at fair value through profit or loss	Financial assets FVOCI (incl. assets pledged as collateral)		Total
(CZKm)	Financial derivatives	Debt securities	Debt securities	Debt securities	Equity securities	
Impact of transition to IFRS 9	**-**	**-**	**(3,376)**	**1,330**	**-**	**(2,046)**
At 1 January 2018	**200**	**3,716**	**-**	**24,706**	**454**	**29,076**
Total gains / (losses) recorded in profit or loss	(115)	46	-	(287)	-	(356)
Total gains recorded in other comprehensive income	-	-	-	46	80	126
Transfers into Level 3	343	126	-	-	-	469
Transfers out of Level 3	-	(5)	-	-	-	(5)
Purchases	-	1,239	-	791	-	2,030
Settlement	(176)	-	-	-	-	(176)
Sales	-	(2,405)	-	-	(1)	(2,406)
At 31 December 2018	**252**	**2,717**	**-**	**25,256**	**533**	**28,758**
Total gains / (losses) recorded in profit or loss related to assets held at the end of the reporting period	(115)	29	-	(287)	-	(373)

Total gains / (losses) recorded in profit or loss are included within the captions Interest income calculated using the effective interest rate method, Net gains from financial instruments at fair value through profit or loss, Net realised gains on financial instruments at fair value through other comprehensive income (2017: financial assets available-for-sale) and Impairment losses of the statement of income.

Included in Transfers to level 3 in 2017, there are available-for-sale debt securities for which remaining maturity depends on the prepayment option. Based on the valuation model, the mortgage bonds with the remaining maturity up to one year, taking into account the prepayment option, are reported as part of Level 2. If the prepayment option has not been called then the remaining maturity is prolonged over 1 year. Such a mortgage bond is then reported as Level 3 financial instrument.

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)	Debt instruments	Financial derivatives	Debt instruments	
At 1 January 2017	**-**	**142**	**-**	**178**
Total losses recorded in profit or loss	-	72	37	109
Issued	-	-	6,916	6,916
Settlement	-	(134)	-	(134)
At 31 December 2017	**-**	**80**	**6,953**	**7,033**
Total losses recorded in profit or loss related to liabilities held at the end of the reporting period	-	72	37	109
At 1 January 2018	**-**	**80**	**6,953**	**7,033**
Total (gains) / losses recorded in profit or loss	(173)	705	(635)	(103)
Transfers into Level 3	4,744	179	2,593	7,516
Issued	-	-	19,008	19,008
Settlement	(31)	(141)	(1,854)	(2,026)
At 31 December 2018	**4,540**	**823**	**26,065**	**31,428**
Total (gains) / losses recorded in profit or loss related to liabilities held at the end of the reporting period	(299)	705	(855)	(449)

Total (gains) / losses recorded in profit or loss are included within the captions Net gains from financial instruments at fair value through profit or loss of the statement of income.

Impact on fair value of Level 3 financial instruments measured at fair value of changes to key assumptions

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

As at 31 December 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 418 m and CZK 25 m, respectively (2017: CZK 405 m and CZK 65 m, respectively). Such a change in the credit spread is based on the variability of mortgage bond and ČEB bond quotes that were observed by the management on the market.

Management believes that reasonably possible changes in other non-observable market 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

In 2017 and 2018, no transfers were made between a group of financial instruments with a market quoted price and those for which the fair value is calculated using valuation techniques based on market observable inputs.

Financial assets and liabilities not carried at fair value

Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements:

	2018 IFRS 9		2017 IAS 39	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash, balances with central banks and other demands deposits	36,126	36,126	53,191	53,191
Financial assets at amortised cost	1,132,355	1,116,191	-	-
Financial assets at amortised cost pledged as collateral	45,281	47,015	-	-
Loans and receivables	-	-	974,013	963,794
Held-to-maturity investments	-	-	86,604	95,483
Held-to-maturity investments pledged as collateral	-	-	29,017	30,814
Other assets (Note: 23)	713	713	657	657
Financial liabilities				
Financial liabilities at amortised cost	1,194,384	1,195,646	1,145,888	1,148,386
Other liabilities (Note: 26)	3,446	3,446	3,267	3,267

The following table shows an analysis of financial instruments for which fair values are disclosed, 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 31 December 2018:

	2018 IFRS 9			
(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash, balances with central banks and other demand deposits	8,833	27,293	-	36,126
Financial assets at amortised cost	84,755	521,041	510,395	1,116,191
Financial assets at amortised cost pledged as collateral	44,890	-	2,125	47,015
Other assets (Note: 23)	-	713	-	713
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	1,146,727	48,919	1,195,646
Other liabilities (Note: 26)	-	3,446	-	3,446

The following table shows an analysis of financial instruments for which fair values are disclosed, 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 31 December 2017:

	2017 IAS 39			
(CZKm)	Level 1	Level 2	Level 3	Total
Financial assets for which fair values are disclosed				
Cash, balances with central banks and other demand deposits	9,742	43,449	-	53,200
Loans and receivables	-	503,090	460,704	963,794
Held-to-maturity investments	93,190	-	2,293	95,483
Held-to-maturity investments pledged as collateral	30,814	-	-	30,814
Other assets (Note: 23)	-	657	-	657
Financial liabilities for which fair values are disclosed				
Financial liabilities at amortised cost	-	1,111,020	37,366	1,148,386
Other liabilities (Note: 26)	-	3,267	-	3,267

The following methods and assumptions were applied in estimating the fair values of the Bank's financial assets and liabilities:

Financial debt securities at amortised cost

Fair values for securities measured at amortised cost are based on quoted market prices, where available. Such quotes are obtained from relevant exchanges, if exchange activity for the particular security is considered sufficiently liquid, or from reference rates averaging market maker quotes. If quoted market prices are not available, fair values are estimated from quoted market prices of comparable instruments or using the valuation model based on discounted future cash flows.

Loans and advances to credit institutions and balances with central banks measured at amortised cost

The carrying values of current account balances are equal to their fair values. The fair values of term placements with credit institutions and central banks are estimated by discounting their future cash flows using current interbank market rates, including the respective credit spread derived from the Bank’s own experience of probability of default and loss given default. A majority of the loans reprice within relatively short time periods, therefore, it is assumed that their carrying values approximate their fair values.

Loans and advances to other than credit institutions measured at amortised cost

A substantial majority of the loans to customers reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values. The fair values of fixed-rate loans to customers are estimated by discounting their future cash flows using current market rates including the respective credit spread derived from the Bank’s own experience of probability of default and loss given default.

Deposits received from credit institutions and subordinated liabilities

The carrying values of current account balances are equal to their fair values. For other amounts due to credit institutions with equal to or less than one year remaining maturity, it is assumed that their carrying values approximate their fair values. The fair values of other amounts due to credit institutions are estimated by discounting their future cash flows using IRS rates modified by market unobservable credit spread.

Deposits received from other than credit institutions

The fair values of current accounts and term deposits, with equal to or less than one year remaining to maturity, approximate their carrying values. The fair values of other term deposits are estimated by discounting their future cash flows using IRS rates modified by market unobservable credit spreads.

Debt securities in issue

The fair values of bonds issued are estimated by discounting their future cash flows using Czech government bond rates adjusted by credit spread derived from market observable transactions with respective or comparable bonds. The carrying values of promissory notes and certificates of deposit approximate their fair values.

Other assets and other liabilities

A majority of other assets and liabilities have a remaining maturity equal to or less than one year or reprice within relatively short time periods; therefore, it is assumed that their carrying values approximate their fair values.

31. ADDITIONAL CASH FLOW INFORMATION

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

(CZKm)	2018 IFRS 9	2017 IAS 39
Cash, balances with central banks and other demand deposits (Note: 14)	36,126	53,191
Loans and advances to credit institutions and central banks	524,605	477,336
Financial liabilities at amortised cost to credit institutions and central banks	(40,129)	(36,275)
Financial liabilities at amortised cost – promissory notes issued to credit institutions	(347,285)	(310,147)
Cash and cash equivalents	**173,317**	**184,105**

Change in operating assets

(CZKm)	2018 IFRS 9	2017 IAS 39
Net change in financial assets held for trading (incl. assets pledged as collateral)	(4,556)	1,945
Net change in financial assets designated at fair value through profit or loss	-	109
Net change in non-trading financial assets mandatorily at fair value through profit or loss	(643)	-
Net change in available-for-sale financial assets (including assets pledged as collateral)	-	16,905
Net change in financial assets at FVOCI (including assets pledged as collateral)	(209)	-
Net change in loans and receivables	-	(36,978)
Net change in financial assets at amortised cost	(26,327)	-
Net change in derivatives used for hedging	(575)	1,360
Net change in other assets	(290)	91
	(32,600)	**(16,568)**

Change in operating liabilities

(CZKm)	2018 IFRS 9	2017 IAS 39
Net change in financial liabilities held for trading	(1,115)	(3,408)
Net change in financial liabilities designated at fair value through profit or loss	16,567	7,877
Net change in financial liabilities at amortised cost	8,004	96,540
Net change in derivatives used for hedging	(458)	55
Net change in other liabilities	6	(651)
	23,004	**100,413**

Non-cash items included in profit before tax

(CZKm)	2018 IFRS 9	2017 IAS 39
Depreciation and amortisation	1,170	1,139
Allowances and provisions for credit losses (Note: 11)	368	255
Net change in fair value adjustments of the hedged items in portfolio hedge	340	(4,319)
Creation of provisions	66	(31)
Impairment on property and equipment (Note: 11)	22	6
Foreign exchange differences in held-to-maturity investments	-	1,049
Impairment of intangible assets (Note: 11)	-	190
Impairment on investment securities (Note: 11)	(41)	3
Impairment on other assets (Note: 11)	(70)	(1)
Other	-	449
	1,855	**(1,260)**

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table sets out the financial assets and liabilities of the Bank by expected remaining maturity as at 31 December 2018:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 14)	36,126	-	-	-	36,126
Financial assets held for trading					
Financial derivatives	5,446	8,963	2,890	-	17,299
Other than financial derivatives	263	2,794	2,295	-	5,352
Financial assets held for trading pledged as collateral	17	1,244	415	-	1,676
Non-trading financial assets mandatorily at fair value through profit or loss	643	-	-	-	643
Financial assets at fair value through other comprehensive income	5,010	5,260	27,035	533	37,838
Financial assets at fair value through other comprehensive income pledged as collateral	36	1,362	1,888	-	3,286
Financial assets at amortised cost	667,914	266,567	197,874	-	1,132,355
Financial assets at amortised cost pledged as collateral	7,174	21,347	16,760	-	45,281
Fair value adjustments of the hedged items in portfolio hedge	(1,625)	(1,818)	361	-	(3,082)
Derivatives used for hedging	2,842	4,989	610	-	8,441
Other assets (Note: 23)	713	-	-	-	713
Total carrying value	**724,559**	**310,708**	**250,128**	**533**	**1,285,928**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	6,117	9,269	2,429	-	17,815
Other than financial derivatives	13,076	4,653	-	-	17,729
Financial liabilities designated at fair value through profit or loss	11,969	11,538	2,558	-	26,065
Financial liabilities at amortised cost	494,164	329,651	370,569	-	1,194,384
Fair value adjustments of the hedged items in portfolio hedge	(290)	(1,451)	(1,321)	-	(3,062)
Derivatives used for hedging	2,067	5,562	2,386	-	10,015
Other liabilities (Note: 26)	3,446	-	-	-	3,446
Total carrying value	**530,549**	**359,222**	**376,621**	**-**	**1,266,392**

For derivatives, disclosed amounts are calculated based on assumption, that fair value will be evenly settled each year up to maturity date.

The following table sets out the financial assets and liabilities of the Bank by expected remaining maturity as at 31 December 2017:

(CZKm)	Less than 1 year	1 year to 5 years	More than 5 years	Without maturity	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 14)	43,449	-	-	-	43,449
Financial assets held for trading					
Financial derivatives	4,320	7,284	1,902	-	13,506
Other than financial derivatives	190	2,655	1,323	-	4,168
Financial assets held for trading pledged as collateral	-	196	1,901	-	2,097
Financial assets designated at fair value through profit or loss	29	483	2,864	-	3,376
Available-for-sale financial assets	629	15,449	32,245	454	48,777
Available-for-sale financial assets pledged as collateral	41	891	4,915	-	5,847
Loans and receivables	608,053	214,739	151,221	-	974,013
Fair value adjustments of the hedged items in portfolio hedge	(1,173)	(2,600)	290	-	(3,483)
Held-to-maturity investments	11,185	42,795	32,624	-	86,604
Held-to-maturity investments pledged as collateral	4,394	19,994	4,629	-	29,017
Derivatives used for hedging	2,406	5,511	531	-	8,448
Other assets (Note: 23)	657	-	-	-	657
Total carrying value	**674,180**	**307,397**	**234,445**	**454**	**1,216,476**
LIABILITIES					
Financial liabilities held for trading					
Financial derivatives	6,199	8,015	1,718	-	15,932
Other than financial derivatives	15,331	5,224	173	-	20,728
Financial liabilities designated at fair value through profit or loss	13	7,547	1,938	-	9,498
Financial liabilities at amortised cost	475,140	320,106	350,642		1,145,888
Fair value adjustments of the hedged items in portfolio hedge	(262)	(1,473)	(2,068)	-	(3,803)
Derivatives used for hedging	1,975	5,188	3,310	-	10,473
Other liabilities (Note: 26)	3,267	-	-	-	3,267
Total carrying value	**501,663**	**344,607**	**355,713**	**-**	**1,201,983**

33. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

Contingent assets

Based on a court ruling, the Bank recovered a written-off loan amounting to CZK 485 m in 2007. Due to the uncertainty regarding the continuing court proceedings, following the appeal by the counterparty against the decision, the Bank will not recognise this amount in the statement of income until the final court decision regarding the Bank's claim. In 2011, the original court ruling was cancelled and the legal case was passed to the court in the first instance for new judicial proceedings. Based on that decision, the Bank returned the expenses compensation of CZK 3 m from the total received amount from the original court case to the counterparty. Judicial proceeding is continuing at the Supreme court.

Contingent liabilities and commitments

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

(CZKm)	2018 IFRS 9	2017 IAS 39
Loan commitments - irrevocable (Note: 38.2)	100,107	98,640
Loan commitments - revocable	57,275	56,365
Financial guarantees (Note: 38.2)	44,056	34,555
Other commitments (Note: 38.2)	3,358	1,340
	204,796	**190,900**
Provisions for loan commitments and guarantees (Notes: 27, 38.2)	222	466

Revocable loan commitments are such commitments in which the Bank may at any time limit the amount that may be drawn under the credit limit. Further the Bank may not provide any drawdown under the credit facility requested by the client or the Bank can suspend further drawdowns under the credit facility all together. The Bank can do so with or without specifying the reason, giving a prior notice or stipulating any time limit. Loan commitments which do not meet the above definition are assessed as irrevocable.

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 (Note: 38.3).

Litigation

Other than the litigations, for which provisions have already been made (Note: 27), the Bank is named in and is defending a number of legal actions in various jurisdictions arising in the ordinary course of business. The Bank does not believe that the ultimate resolution of these legal actions will result in a material impact on the financial position of the Bank.

The Bank is subject to a number of claims in the context of the IPB acquisition amounting to tens of billions of Czech Crowns. The Bank believes that such claims are unfounded. In addition, the Bank believes that potential risk arising from such claims is covered by guarantee agreements issued by the institutions of the Czech state.

Further, the Bank has initiated a number of legal actions to protect its assets.

Taxation

Czech tax legislation, interpretation and guidance are still evolving. Consequently, under the current taxation environment, it is difficult to predict the interpretations that the respective tax authorities may apply in a number of areas. As a result, the Bank has used its current understanding of the tax legislation in the design of its planning and accounting policies. The effect of the uncertainty cannot be quantified.

Operating lease commitments (Bank is the lessee)

Future minimum lease payments under operating leases related to land and buildings are as follows:

(CZKm)	2018	2017
Not later than 1 year	375	457
Later than 1 year and not later than 5 years	804	912
Later than 5 years	222	190
	1,401	**1,559**

Future minimum sublease payments amounted to CZK 6 m as at 31 December 2018 (31 December 2017: CZK 14 m).

The operating leases related to land and buildings can be technically cancelled under the Czech law; however, the Bank is commercially bound to continue with these leases for the periods set out above.

A reconciliation of lease commitments as at 31 December 2018 as reported according to IAS 17 and at 1 January 2019 according to IFRS 16 is provided below:

(CZKm)	2018
Operating lease commitments disclosed as at 31 December 2018 (IAS 17)	**1,401**
Effect of discounting	(260)
Adjustments as a result of a different treatment of extension and termination options	1,585
Short-term leases and low-value leases recognised on straight-line basis as expense	(95)
Other	(3)
Lease liability recognised as at 1 January 2019 (IFRS 16)	**2,628**

The selected items of statement of financial position as at 1 January 2019 shows the following amounts relating to leases:

(CZKm)	1 January 2019
Right-of-use assets	
Property and equipment	2,628
Property and equipment impairment	(43)
	2,585
Lease liabilities	
Financial liabilities at amortised cost	2,628
Contractual engagements	
Provisions	(43)

Operating lease receivables (Bank is the lessor)

Future minimum lease payments (including sublease payments) under operating leases related to land and buildings are as follows:

(CZKm)	2018	2017
Not later than 1 year	36	14
Later than 1 year and not later than 5 years	95	5
	131	**19**

These operating leases can be technically cancelled under Czech law; however, the lessees are commercially bound to continue with these leases for the periods set out above.

Other contingent liabilities – construction of new headquarter building

The Bank committed to its subsidiary Radlice Rozvojová and to the developer to finance the development of a new headquarter building in the amount of CZK 1,060 m as at 31 December 2018 (31 December 2017: 1,847 m).

34. REPURCHASE AGREEMENTS AND COLLATERAL

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

(CZKm)	2018 IFRS 9	2017 IAS 39
Financial assets		
Financial assets at amortised cost	521,077	-
Loans and receivables	-	475,072
	521,077	**475,072**

Under reverse repurchase agreements, the Bank 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.

The fair value of financial assets accepted as collateral in connection with reverse repo transactions and securities lending as at 31 December 2018 was CZK 547,425 m, of which CZK 29,791 m has been either sold or repledged (31 December 2017: CZK 492,763 m and CZK 30,703 m, respectively).

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

(CZKm)	2018 IFRS 9	2017 IAS 39
Financial liabilities		
Financial liabilities held for trading	1	2,097
Financial liabilities at amortised cost	30,119	22,011
	30,120	**24,108**

The Bank 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: 15) and Financial assets at fair value through other comprehensive income (Note: 16) and Financial assets at amortised cost (Note: 17).

35. OFFSET FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table shows an analysis of the financial assets and liabilities of the Bank that have been set-off or that have not been set-off as at 31 December 2018:

(CZKm)	Gross amounts of recognised financial instrument	Gross amounts of recognised financial instrument set off	Net amounts of financial instrument
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	21,365	-	21,365
Derivatives not set-off that are not subject to an enforceable master netting arrangement	4,375	-	4,375
Total trading and hedging derivatives	**25,740**	**-**	**25,740**
Repurchase agreements set-off	2,151	2,151	-
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	521,077	-	521,077
Total repurchase agreements (Note: 34)	**523,228**	**2,151**	**521,077**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	22,513	-	22,513
Derivatives not set-off that are not subject to an enforceable master netting arrangement	5,317	-	5,317
Total trading and hedging derivatives	**27,830**	**-**	**27,830**
Repurchase agreements set-off	2,151	2,151	-
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	30,120	-	30,120
Total repurchase agreements (Note: 34)	**32,271**	**2,151**	**30,120**

The following table shows an analysis of the financial assets and liabilities of the Bank that have not been set-off as at 31 December 2017:

(CZKm)	Gross amounts of recognised financial instrument	Gross amounts of recognised financial instrument set off	Net amounts of financial instrument
FINANCIAL ASSETS			
Derivatives not set-off that are subject to an enforceable master netting arrangement	18,483	-	18,483
Derivatives not set-off that are not subject to an enforceable master netting arrangement	3,471	-	3,471
Total trading and hedging derivatives	**21,954**	**-**	**21,954**
Repurchase agreements not set-off that are not subject to an enforceable master netting arrangement	475,072	-	475,072
Total repurchase agreements (Note: 34)	**475,072**	**-**	**475,072**
FINANCIAL LIABILITIES			
Derivatives not set-off that are subject to an enforceable master netting arrangement	18,392	-	18,392
Derivatives not set-off that are not subject to an enforceable master netting arrangement	8,013	-	8,013
Total trading and hedging derivatives	**26,405**	**-**	**26,405**
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	24,108	-	24,108
Total repurchase agreements (Note: 34)	**24,108**	**-**	**24,108**

The following table shows an analysis of the financial assets and liabilities of the Bank that have not been set-off and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2018:

(CZKm)	Net amounts of financial assets and liabilities	Amounts not set off Financial instruments	Cash collateral	Securities collateral	Total net amount
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	21,365	20,614	633	-	118
Debt securities pledged as collateral in repo transaction not set-off that are subject to an enforceable master netting arrangements	30,120	30,120	-	-	-
Total carrying value	**51,485**	**50,734**	**633**	**-**	**118**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	22,513	20,614	1,709	-	190
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	30,120	-	-	30,120	-
Total carrying value	**52,633**	**20,614**	**1,709**	**30,120**	**190**

The following table shows an analysis of the financial assets and liabilities of the Bank that have not been set-off and are subject to an enforceable master netting arrangement or similar agreement as at 31 December 2017:

(CZKm)	Net amounts of financial assets and liabilities	Amounts not set off Financial instruments	Cash collateral	Securities collateral	Total net amount
FINANCIAL ASSETS					
Derivatives not set-off that are subject to an enforceable master netting arrangement	18,483	16,502	1,651	-	330
Debt securities pledged as collateral in repo transaction not set-off that are subject to an enforceable master netting arrangements	24,108	24,108	-	-	-
Total carrying value	**42,591**	**40,610**	**1,651**	**-**	**330**
FINANCIAL LIABILITIES					
Derivatives not set-off that are subject to an enforceable master netting arrangement	18,392	16,502	1,643	-	247
Repurchase agreements not set-off that are subject to an enforceable master netting arrangement	24,108	-	-	24,108	-
Total carrying value	**42,500**	**16,502**	**1,643**	**24,108**	**247**

The amounts in both tables are subject to master netting agreement in accordance with International Swaps and Derivatives Association (ISDA), however with no intention to settle them on a net basis.

36. RELATED PARTY DISCLOSURES

A number of transactions are executed with related parties in the normal course of business.

The outstanding balances of assets from related party transactions as at 31 December 2018 are as follows:

(CZKm)	Cash, balances with central banks and other demand deposits	Financial assets held for trading	Non-trading financial assets mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial assets at amortised cost	Derivatives used for hedging	Other assets
Directors / Top management	-	-	-	-	-	-	-
KBC Bank NV	47	6,064	643	-	2,213	6,789	-
Entities under common control							
ČSOB SK	15	-	-	-	-	-	-
Other	17	17	-	-	-	-	1
Subsidiaries							
BANIT	-	-	-	-	103	-	-
ČSOB Factoring	-	-	-	-	2,773	-	-
ČSOB Leasing	-	62	-	-	23,922	-	-
Hypoteční banka	1	1,486	-	22,592	227,749	268	-
Patria Finance	-	-	-	-	252	-	-
Associates							
ČSOB AM	-	-	-	-	-	-	-
ČSOB Pojišťovna	-	165	-	-	-	-	8
Joint ventures							
ČMSS	-	411	-	-	40	72	-

The outstanding balances of liabilities from related party transactions as at 31 December 2018 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	82	-	52
KBC Bank NV	4,920	370,329	8,828	-
Entities under common control				
ČSOB SK	-	15	-	-
Other	10	88	-	23
Subsidiaries				
BANIT	-	-	-	53
ČSOB Advisory	-	91	-	-
ČSOB Leasing	222	73	-	-
Hypoteční banka	1,880	6,622	156	-
Patria Corporate Finance	-	13	-	-
Patria Finance	-	184	-	-
Radlice Rozvojová	-	13	-	-
Associates				
ČSOB AM	-	626	-	-
ČSOB Pojišťovna	23	1,313	-	-
Joint ventures				
ČMSS	-	4,043	17	-

The outstanding balances of assets from related party transactions as at 31 December 2017 are as follows:

(CZKm)	Cash, balances with central banks and other demand deposits	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Derivatives used for hedging	Other assets
Directors / Top management	-	-	-	-	-	-	-
KBC Bank NV	550	3,952	-	-	1,434	6,235	-
Entities under common control							
ČSOB SK	44	8	-	-	-	-	-
Other	23	19	-	-	123	-	2
Subsidiaries							
BANIT	-	-	-	-	135	-	-
ČSOB Factoring	-	-	-	-	2,677	-	-
ČSOB Leasing	-	16	-	-	26,482	-	-
Hypoteční banka	2	501	3,396	19,332	208,963	296	18
Patria Finance	-	-	-	-	97	-	-
Associates							
ČSOB AM	-	-	-	-	144	-	-
ČSOB Pojišťovna	-	145	-	-	-	-	7
Joint ventures							
ČMSS	-	-	-	-	40	20	-

The outstanding balances of liabilities from related party transactions as at 31 December 2017 are as follows:

(CZKm)	Financial liabilities held for trading	Financial liabilities at amortised cost	Derivatives used for hedging	Other liabilities
Directors / Top management	-	212	-	48
KBC Bank NV	2,262	341,444	9,311	3
Entities under common control				
ČSOB SK	2,098	43	-	-
Other	2	93	-	54
Subsidiaries				
BANIT	-	-	-	41
ČSOB Advisory	-	24	-	-
ČSOB Leasing	181	75	-	-
Hypoteční banka	1,873	6,621	-	-
Patria Corporate Finance	-	14	-	-
Patria Finance	-	31	-	-
Radlice Rozvojová	-	15	-	-
Associates				
ČSOB AM	-	85	-	-
ČSOB Pojišťovna	43	1,119	-	-
Joint ventures				
ČMSS	-	3,616	8	-

The outstanding balances of financial assets and liabilities held for trading comprise positive and negative fair values of derivative financial instruments (mainly single currency and cross-currency interest rate swaps). Majority of these transactions are collateralised by cash deposit or by securities. Loans and receivables from related parties represent balances on current accounts or, in a specific cases, term loans with fixed maturity granted to subsidiaries of the Bank (ČSOB Leasing). Financial assets included in the portfolio held for trading, designated at fair value through profit or loss, financial assets at amortised cost (2017: available for sale and loans and receivables) contracted between ČSOB and Hypoteční banka represent mortgage debenture bonds with the contractual maturities from 3 years up to 30 years issued by Hypoteční banka and purchased by the Bank on a primary capital market. Financial liabilities to related parties measured at amortised cost consist of balances on demand deposits. Liabilities to KBC Bank NV represent balances on money-market products, specifically promissory notes with maturities up to one year issued by the Bank, repo transactions and short-term deposits.

The Bank provides banking services to its subsidiaries, associates and joint ventures such as provided loans, overdrafts, interest bearing deposits and current accounts as well as other services. In addition, the Bank acquired interest bearing debt instruments issued by its subsidiaries.

The outstanding balances, described above, arose in the ordinary course of business and are subject to the substantially same terms, including interest rates and security, as for comparable transactions with third party counterparties.

The balances of interest income and expense from related party transactions for the year ended 31 December are as follows:

	2018 IFRS 9		2017 IAS 39	
(CZKm)	Interest income	Interest expense	Interest income	Interest expense
Directors / Top management	-	-	-	-
KBC Bank NV	2,503	2,270	2,248	1,147
Entities under common control				
ČSOB SK	-	24	-	3
Other	3	1	2	-
Subsidiaries				
BANIT	2	-	2	-
Centrum Radlická (merged with ČSOB in 2017)	-	-	-	-
ČSOB Factoring	30	-	12	-
ČSOB Advisory	1	7	-	1
ČSOB Leasing	290	-	212	-
Hypoteční banka	3,296	378	2,551	384
Patria Finance	5	1	4	-
Associates				
ČSOB Pojišťovna	-	57	-	20
ČSOB AM	-	7	-	-
Joint ventures				
ČMSS	32	228	7	89

The balances of fee and commission income and expenses from related party transactions for the year ended 31 December are as follows:

	2018 IFRS 9		2017 IAS 39	
(CZKm)	Fee and commission income	Fee and commission expense	Fee and commission income	Fee and commission expense
KBC Bank NV	58	2	64	2
Entities under common control				
ČSOB SK	15	-	-	-
KBC Securities NV	4	-	7	-
Other	16	2	-	1
Subsidiaries				
BANIT	-	228	-	204
ČSOB Factoring	2	-	1	-
ČSOB Leasing	31	-	18	1
ČSOB Penzijní společnost	18	-	15	-
Hypoteční banka	265	179	280	133
Patria Finance	22	3	14	1
Associates				
ČSOB AM	598	-	557	-
ČSOB Pojišťovna	396	-	338	-
Joint ventures				
ČMSS	7	1	5	3

Dividend income received from subsidiaries, associates and joint ventures in 2018 amounted to CZK 4,114 m (2017: CZK 3,209 m). Rental expenses paid to subsidiaries, associates and joint ventures in 2018 amounted to CZK 8 m (2017: CZK 3 m).

Effective from 1 July 2009, the Bank concluded a service level agreement on the provision of administration services, such as human resources and accounting services, with KBC Group. In 2018, the Bank received CZK 108 m (2017: CZK 63 m) from the provision of administration services and paid expense of CZK 333 m (2017: CZK 476 m) for IT services, including rental expenses on information technologies.

In 2018, the Bank received income of CZK 705 m (2017: CZK 675 m) from ČSOB SK and ČSOB Pojišťovna arising from providing services and support in the following areas such as: ICT services, electronic banking, cards, payment processing, financial management and risk management.

The outstanding contractual balances of the contingent assets and liabilities to the related parties at 31 December are as follows:

	2018 IFRS 9		2017 IAS 39	
(CZKm)	Guarantees received	Guarantees given	Guarantees received	Guarantees given
KBC Bank NV	3,931	64	2,444	194
Entities under common control				
ČSOB SK	1,708	16	2,308	23
Kereskedelmi és Hitelbank Rt.	-	18	219	18
Subsidiaries				
ČSOB Leasing	-	5,796	-	1,677

The outstanding balances of guarantees received from KBC Bank NV and the entities under common control principally comprise sub-participation arrangements and other compensation commitments.

In 2016, the Bank committed to its subsidiary Radlice Rozvojová and to the developer to finance the development of a new headquarter building in the amount of CZK 1,060 m as at 31 December 2018 (31 December 2017: CZK 1,847 m).

37. EVENTS AFTER THE REPORTING PERIOD

Until 31 December 2018, the Bank was exercising a significant influence in ČSOB AM having an ownership amounted to 40.08%. Given that fact, ČSOB AM was assessed as an associated company being included into the consolidated financial statements using equity method. In February 2019, the Bank sold the share in ČSOB AM to KBC Asset Management. Cash consideration received by the Bank amounted to CZK 910 m. As a result, the Bank cessed its significant influence and excluded the company from the consolidated financial statements in 2019.

On 15 April 2019, ČSOB and Bausparkasse Schwäbisch Hall (BSH) reached agreement for ČSOB to acquire BSH's 45% stake in the building savings bank Českomoravská stavební spořitelna, a.s. and thus assume 100% ownership control of ČMSS, for a total consideration of EUR 240 m. The agreement is subject to antitrust approval. Transaction has a strong financial and strategic rationale and ČSOB consolidates its position as the largest provider of financial solutions for housing purposes in the Czech Republic. Parties have agreed that dividends from 2018 and 2019 profit fully accrue to ČSOB.

38. RISK MANAGEMENT

38.1 Introduction

Risk is an inherent part of ČSOB's activities, and risk and capital management is critical to the results of operations and financial condition of ČSOB.

The principal risks that ČSOB faces are credit risk, liquidity risk, operational and other non-financial risks, market risk, subdivided into trading (trading portfolio) and non-trading (credit and investment portfolio) risks. ČSOB manages risk and capital through a system of ongoing identification, measurement and monitoring, subject to risk and capital limits and other controls. ČSOB primarily allocates capital to each subsidiary and business unit with the aim of achieving an acceptable balance between risk and return. The Bank's risk and capital management system is based on a risk strategy determined by the ČSOB Board of Directors and is consistent with the KBC Group's risk and business strategy, with a primary focus on the early identification and management of risks and trends. ČSOB maintains and develops its risk and capital management system to meet its ongoing internal risk and capital management needs and to comply with all legal and other regulatory (capital) requirements, including Basel III, and the regulations of the CNB, European Central Bank (ECB), European Banking Authority (EBA) and other relevant bodies.

Risk and Capital Management Organization

Main Principles of Risk and Capital Management Organization

The Bank's risk and capital management organization is based on the principle of segregating risk origination and acceptance from risk monitoring and control. The risk and capital management and control functions are designed to be exercised independently of the front office functions. Nevertheless, the front office is engaged in risk and capital management and control functions and is responsible in the first instance for risk control in all risk and capital management areas. The aim of risk and capital management at ČSOB is to closely cooperate with the business in achieving an acceptable balance between return and risk, as opposed to focusing solely on minimizing risks.

The risk and capital management governance model that was implemented within the ČSOB in 2011 is based on the following general principles:

- the business, including both sales and credit departments, should be responsible in the first instance for risk and capital management, and must systematically take into account risk and capital management considerations into all its decisions;
- risk and capital management, and risk reporting, should be performed consistently within the entire KBC Group, including ČSOB, and management incentives should be linked to risk and capital adjusted measures, and aligned consistently within the entire KBC Group;
- the risk and capital management governance structure should be an independent and vertically integrated structure aimed at ensuring that risk and capital management considerations are properly reflected in the business decisions within ČSOB;

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- risk and capital management should closely cooperate with the business with the aim of achieving an acceptable balance between return and risk, as opposed to focusing only on minimising risks;
- the Board of Directors should determine the risk appetite of ČSOB within which the business has the right to take risks and beyond which the Chief risk officer (CRO) can intervene; and
- the risk reporting processes should be uniform and insightful to allow for the adoption of risk and capital management decisions at both strategic and implementation levels.

The principles described above establish a governance structure, within which:

(i) the Board of Directors is responsible for determining the risk appetite of ČSOB, and capital allocation within ČSOB, by establishing measurable risk and capital parameters, which must be followed in all business activities;

(ii) the Risk and Capital Oversight Committee (RCOC) is responsible for proposing the risk appetite and capital allocation to the Board of Directors, translating the approved risk appetite and capital allocation into numerical risk limits within its delegated authority, and regular monitoring of risk and capital against these limits;

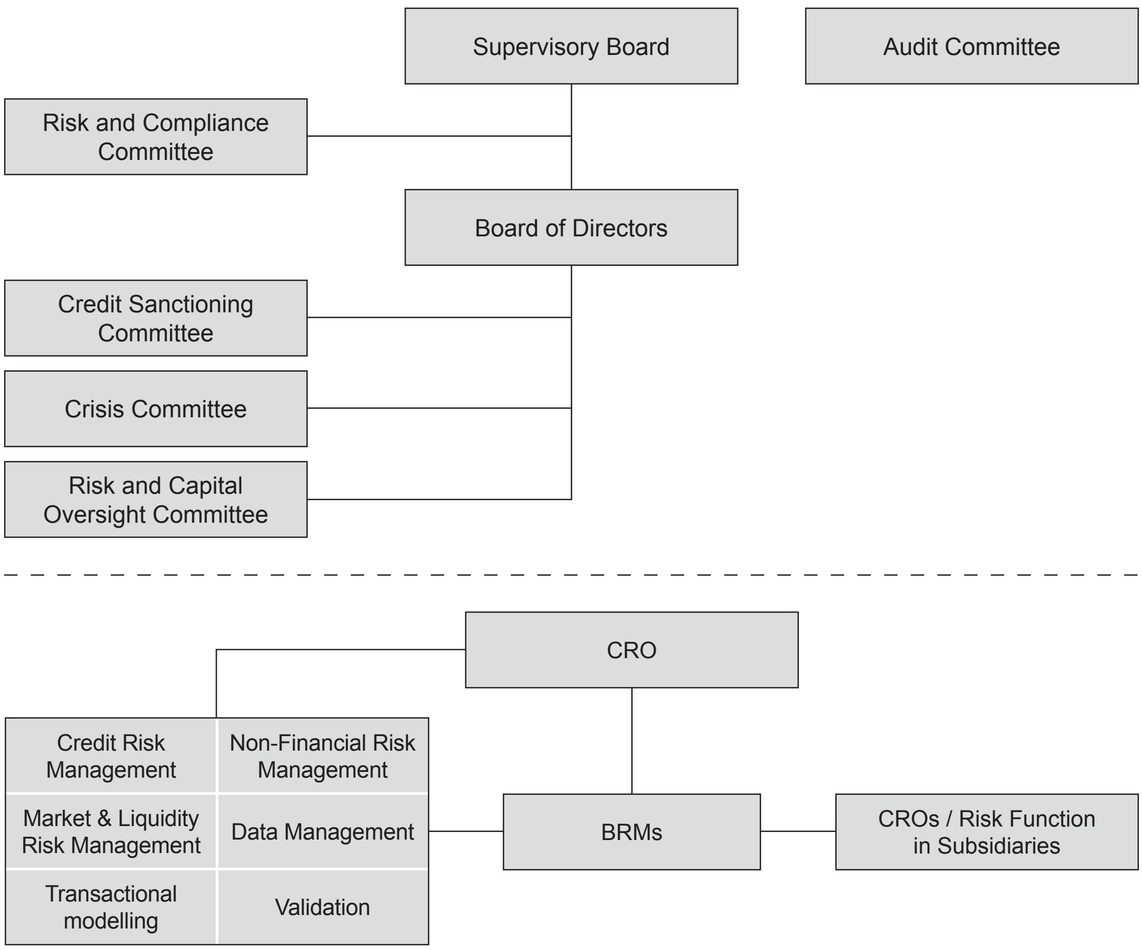
(iii) the CRO, together with the Risk Function, as described below, is responsible for designing the frameworks in which risk management should take place, for translating the risk limits into policies and for ensuring that monitoring systems are in place; and

(iv) the business is responsible for taking risks within the risk and capital allocation.

Risk and Capital Management Governance

Risk and capital governance in the Bank is fully embedded in the governance of the KBC Group. In 2017, Transactional Modelling was newly incorporated into CRO zone.

The chart below depicts an overview of the principal bodies of the risk and capital governance model in the Bank.



The Bank operates a three-line of defense (LoD) risk management model whereby front office functions, risk management oversight and assurance roles are played by functions independent of one another. The model is characterised primarily by:

- the Board of Directors, assisted by the Audit Committee, Supervisory Board and its Committees,
- the Risk and Capital Oversight Committee,
- an independent Chief Risk Officer, supported by the independent Risk Function, and
- risk-aware business people, who act as the first line of defence ensuring that a risk control environment is established as part of day-to-day operations.

Supervisory Board

In its main role, the Supervisory Board oversees whether the governance of the Bank is efficient, comprehensive and adequate, and regularly evaluates the findings obtained from this activity. Its oversight role consists in providing constructive challenge when developing the strategy of the Bank; monitoring of the performance of the management function and the realisation of agreed goals and objectives, business and risk strategies; and ensuring the integrity of the financial information, effective risk management and internal controls (including proper segregation of duties within the Bank).

The Supervisory Board regularly receives integrated risk and capital management reports and information prepared by the Risk Function, as described below.

The Supervisory Board:

(i) Oversees whether the system of risk governance is efficient, comprehensive and adequate;

(ii) Regularly discuss matters concerning the risks to which the Bank is or might be exposed;

(iii) Continuously oversees and assures itself of the fulfilment of the risk management strategy and of the operational control's reliability;

(iv) Critically and constructively participates in the evaluation of the management of risks;

(v) Comments on a proposal (of the KBC Group CRO) to entrust as well as dismiss a natural person with the ensuring of the performance of the risk management function, stipulates policies governing remuneration of that person and assesses the activities of the person.

Risk and Compliance Committee

The Supervisory Board established the Risk and Compliance Committee which is mainly responsible for advising the Supervisory Board on the Bank's overall current and future risk profile, appetite and strategy, and for overseeing the implementation of that strategy.

The Committee regularly discusses risk management and compliance related matters and communicates with the Bank's risk control function and Chief Risk Officer. In addition, the Risk and Compliance Committee assists the Supervisory Board in the establishment of sound remuneration policies and practices, examines whether incentives provided by the remuneration system take into consideration risk, capital, liquidity likelihood and timing of earnings.

The Committee reviews the activities, structure, independence, professionalism and expertise of Risk management.

The Committee regularly receives integrated risk and capital management reports and information prepared by the Risk Function, as described below.

Audit Committee

The Audit Committee, inter alia, monitors the effectiveness of the Bank's internal control, internal audit, risk management systems, establishment of accounting policies by the institution and procedures in preparing the financial statements of the Bank.

With regards to external audit, the Committee oversees the Bank's external auditors, monitors the process of mandatory audits of the financial statements and consolidated financial statements, assesses the independence of statutory auditors and the auditing firm(s), recommends for approval by the management body the appointment, compensation and appointment of the external auditors; review and approves the audit scope and frequency; review audit reports.

In addition to that the Committee checks that the management body in its management function takes necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulations and policies, and other problems identified by the auditors.

Board of Directors (BoD)

The Board of Directors has the overall responsibility for the Bank, proposes its strategic direction within applicable legal and regulatory framework taking into account the institution's long-term financial interests and solvency; ensures the effective implementation of the strategy and is responsible for the day-to-day running of the Bank.

The Board of Directors generally ensures that comprehensive and adequate internal control and risk governance system is established good functioning and efficient, in its entirety and in parts. With regards to the risk management function, the Board of Directors:

(i) Ensures earmarking of adequate and sufficient capacities for management of significant risks, capital and liquidity management, internal models and validations/reviews of such models;

(ii) Approves and regularly evaluates the implementation of:

- Risk Management Charter,
- Risk Appetite of ČSOB,
- Result of Risk Scan,
- Risk Management Strategy,
- Risk Management Framework (including risk specific frameworks),
- Limit Book and Framework,
- Internal Capital Adequacy Assessment Process and Capital Adequacy Policy,
- Recovery and Resolution plan,
- Information Security Strategy;

(iii) Evaluates the overall functioning and efficiency of the internal control and governance system (Internal Control Assessment to ČSOB Supervisory Board), and ensures appropriate steps to rectify the potential identified shortcomings.

On the basis of monthly integrated risk management reports prepared by the Risk Function, the Board of Directors is also responsible for monitoring whether ČSOB’s risk profile is in line with ČSOB’s risk appetite, limits system and making decisions on risk and capital management issues that may be escalated to its attention by the CRO or the RCOC, as described below.

Risk and Capital Oversight Committee (RCOC)

The RCOC assists the Board of Directors in monitoring ČSOB’s risk and capital management exposures against the limits set by the Board of Directors. The key responsibilities of the RCOC regarding risk and capital management matters are to:

(i) propose to the Board of Directors the Bank’s Risk Appetite;

(ii) propose to the Board of Directors a framework of limits consistent with the Bank’s Risk Appetite, within which Risk and Capital will be managed;

(iii) provide an integrated view on Risk exposure against Risk Appetite/Limits and identify/report on ‘hidden risks’ (including concentration); In the event of Risk exposure being in excess of limit(s), to recommend to the BoD material mitigating actions and decide on non-material mitigating actions to bring Risk exposure back in line;

(iv) periodically review limits and, as necessary, to recommend to the BoD material changes in limit (s) and to decide on non – material limit changes;

(v) monitor market context, solvency, liquidity, risk/return profile, balance sheet profile, maturity transformation and structural interest rate exposure;

(vi) monitor capital adequacy and usage of Regulatory and Economic Capital.

The RCOC reviews regular risk reports prepared by the Risk Function, which are then submitted to the Board of Directors, the Audit Committee and the Supervisory Board. These reports form the basis for the risk monitoring process. Further ad hoc reports may be prepared and submitted, where relevant. The CRO is the chairman and the CFO is the vice-chairman of the Committee.

Chief Risk Officer (CRO)

The Chief Risk Officer (CRO), who is a member of the Board of Directors, is in general responsible for the identification, assessment and reporting of risks arising within operations across all business and all risk types, and has a direct management responsibility for the following risk management functions / departments:

(i) Credit Risk Management;

(ii) Market and Liquidity Risk Management;

(iii) Non-financial Risk Management;

(iv) Validations;

(v) Data Management and

(vi) Transactional Modelling.

The CRO:

(i) Ensures that risk management processes are effective and efficient, promotes a culture of risk aware business conduct and prudent risk management;

(ii) Ensures compliance with Group (KBC) and regulatory requirements in the field of risk management;

(iii) Recommends the need for action to address risk & capital issues raised in internal reports;

(iv) Inputs to corrective actions to address local underperformance versus targets and agree to final actions to ensure within risk playing field;

(v) Assess the rate and structure of risk undertaken and the impact thereof on the performance and stability;

(vi) Coordinates the field of continuity management for the business;

(vii) Provides risk and capital reporting to internal (senior management, Board of Directors, Risk and Compliance Committee, Subsidiaries) and external clients (KBC, CNB);

(viii) Presents information concerning the developments in the field of risk management to ČSOB and KBC management;

(ix) Advices on risk related matters to Management Board of subsidiaries within the Group that have a separate legal structure

(x) Is accountable for clear delineation of accountabilities and responsibilities between 3 LoD.

The key strategic and governance responsibilities of the CRO are to:

(i) Recommend Risk Governance structure and roles;

(ii) Decide the structure of the Risk Function;

(iii) Contribute to the Risk Appetite and approves Business line´s Risk Appetites;

(iv) Contribute to the corporate Strategy / strategic plans (including performance targets) development and agree to final Strategy to ensure within risk playing field;

(v) Recommend Risk and Capital Adequacy Policy;

(vi) Contribute to limits and delegation of authority setting within and below BoD delegation and give consent to final decision to ensure within Risk Appetite;

(vii) Contribute to capital and funding allocation and give consent to final allocation to ensure staying within Risk Appetite.

The CRO, in its role has following key execution activities:

(i) Recommend and decide on changes to the Risk Function owned frameworks and policies;

(ii) Decide on validation of transactional models for risk management;

(iii) Input to guidelines for portfolio and transactional model development;

(iv) Input or decide (in line with the delegation rules) on mitigating actions for limit overruns and agree to final decision to ensure staying within Risk Appetite;

(v) Recommend and/or decide ex-post actions to address compliance issues with risk frameworks;

(vi) Ensure the process of assessment and evaluation of the regulatory / internally determined capital adequacy and conduct stress testing;

(vii) Contribute to day to day business decisions as a trusted advisor;

(viii) Agree to risk taking decisions outside of the risk playing field with the right to call “time out”.

The CRO may suspend any decisions of any department or committee, or any business unit or sub-unit, affecting the risk or capital position of ČSOB by escalating it to the RCOC or the Board of Directors.

Risk Function

The Risk Function provides independent oversight of the management of risks inherent in the Bank’s activities. The function is generally responsible for ensuring that effective processes are in place for:

(i) Identifying current and emerging risks;

(ii) Developing risk assessment and measurement systems;

(iii) Establishing policies, practices and other control mechanisms to manage risks;

(iv) Developing risk tolerance limits for Senior Management and Board approval;

(v) Monitoring positions against approved risk tolerance limits; and

(vi) Reporting results of risk monitoring to Senior Management and the Board.

The Risk Function is represented by the following departments reporting to the CRO - Credit Risk Management, Market and Liquidity Risk Management, Non-financial Risk Management, Data Management, Validations and Transactional Modelling. The departments have the following roles:

Credit Risk Management, Market and Liquidity Risk Management, Non-financial Risk Management

Particular risk management departments are responsible for managing credit risk, market risk, liquidity risk and operational risk The risk departments have the following roles and responsibilities::

(i) Define the risk management approach and methodology related to their specific risk type, in particular through ownership of the risk type specific framework and policies.

(ii) Define the risk measures that relate to the specific risk types.

(iii) Support ČSOB Group RCOC.

(iv) Support the CROs for all matters that relate to the specific risk types.

(v) Contribute to integrated processes (e.g. ICAAP/ORSA, stress testing).

(vi) Define and deliver the core reports for the specific risk types and deliver inputs for Integrated Risk Report.

(vii) Define and monitor a set of Limits (Primary & Secondary), Targets and indicators (e.g. Early Warning Signals) that cover the specific risk types.

(viii) Follow up on the status of risk and capital management for the specific risks throughout the ČSOB.

Data Management

Data Management is responsible for supporting all the other departments forming the Risk Function in data management and reporting. In particular:

(ix) maintaining all ICT applications needed for the performance of risk and capital management;

(x) designing the technical ICT architecture in cooperation with the ICT; and

(xi) performing activities aimed at ensuring the correct flow of data needed for proper risk and capital monitoring.

Data Management is responsible for risk data governance and also forms the link between the requirements of the Risk Function and ICT.

Central Credit risk and loss Measurement Validation

Central Credit risk and loss Measurement Validation focuses on reducing of model risk and seeks a group-wide consistency by providing a well-founded, intelligible and timely independent second opinion and methodological guidance on models for risk measurement and provisioning to their owners, decision bodies and modellers.

Transactional modelling

Transactional modelling being part of KBC Group Modelling Competence Centre is responsible for design and review of local credit risk (PD, EAD, LGD), incl. application scorecards, and local provisioning models. The unit further participates in implementation of local and group-wide models into credit decision process of all business segments and for the purpose of regulatory capital calculation.

Integrated risk management

Furthermore, specific team within the Risk Function covers overarching aspects of risk management. It's mandate is to provide an increased focus on holistic risk management and cross-risk oversight to further enhance our risk management. Key objectives are to:

(i) drive key strategic cross-risk initiatives and establish greater cohesion between defining portfolio strategy and governing execution, including regulatory adherence and recovery planning;

(ii) provide a strategic and forward-looking perspective on the key risk issues for discussion at senior levels within the Bank (risk appetite, stress testing framework);

(iii) strengthen risk culture at the Bank; and

(iv) foster the implementation of consistent risk management standards.

Integrated risk management is responsible for managing the process of measuring and monitoring risk on an integrated basis within the Bank. In particular, Integrated risk management performs the ICAAP process (see ICAAP Process below), including the management of economic capital, and is responsible for integrated risk reporting (see Risk Monitoring and Reporting below). Integrated risk management also regularly provides reports to the supervisory section of the CNB.

Integrated risk management is also responsible for preparation of recovery plans and cooperates with regulator in preparation of resolution plan.

Delegation of responsibilities

The Board of Directors has delegated responsibilities to each of the RCOC and the CRO.

Usage of delegation authority:

- can always be overruled by a higher decision level;
- is always restricted in time:

(i) Either for a period explicitly mentioned in the Limit Book & Limit Framework

(ii) If no time period is specified, until the next formal limit review

- always needs to be formally recorded ("audit trail") and communicated to Risk Management and CRO.

The RCOC and the CRO may authorize transactions and approve risk limit exceptions described in limit book and limit book framework. The limit book and limit book framework is regularly approved by RCOC and Board of Directors.

Moreover, the CRO may submit to the Board of Directors, the Supervisory Board the Risk and Compliance Committee and/or the Audit Committee issues and concerns related to the entire ČSOB which the CRO considers to have an actual or potential material impact on ČSOB's risk parameters.

Other Departments and Committees Participating in Risk and Capital Management

In addition to the Board of Directors, the Audit Committee, the Supervisory Board, the RCOC, the CRO and the Risk Function, the following other departments and committees are involved in day-to-day risk and capital management at the ČSOB level:

Credit Departments

The Credit Departments are responsible for implementing and maintaining the individual credit processes within the frameworks designed by the Risk Function and the limits determined by the risk appetite and capital allocation approved by the Board of Directors.

The Credit Departments report either to a Credit Risk Manager or the CFO. The key responsibilities of the Credits Departments are to:

(i) approve individual credit applications;

(ii) approve contractual documentation concerning individual credits;

(iii) monitor credit behaviour of individual credits during their lifetime; and

(iv) manage the work-out process in respect of individual credits.

Asset and Liability Management Department (ALM Department)

The ALM Department is responsible for managing the assets and liabilities of ČSOB's investment portfolio within the frameworks designed by the Risk Function and the risk appetite and capital allocation approved by the Board of Directors. The ALM Department is also primarily responsible for managing the funding and liquidity position of ČSOB. The ALM Department reports to the CFO.

Internal Audit Department

The Internal Audit Department regularly audits / assesses capital management processes throughout ČSOB examining both the adequacy of its risk and capital management procedures and the Bank's compliance with the same. The Internal Audit Department discusses the results of its assessments with management, and reports its findings and recommendations to the Board of Directors and the Audit Committee. The Internal Audit Department reports to the CEO.

New and Active Product Processes (NAPPs)

Members of NAPPs process are responsible for the approval of new products and their distribution and marketing, as well as for the regular review of existing products. Cross functional membership in NAPPs including control functions (the Risk Function, Finance Department, Tax Department, Legal Department and Compliance Department) seeks to ensure that no product may be offered to ČSOB's customers unless all significant risks have been analysed and mitigated and residual risks have been accepted. ČSOB pays special attention to protecting ČSOB against claims arising from the mis-selling of products. As a general rule, all products as well as all distribution channels must be covered by a NAPP.

Credit Sanctioning Committee (CSC)

The CSC is a committee with group-wide responsibility and authority to take decisions on individual credit applications falling within the delegated decision powers of the CSC. As such, it acts as the highest decision-making committee for the ČSOB Group with respect to credit risk. The members of the CSC are the CFO, who is the CSC's chairman, and the head of ČSOB credit and bad debts department, corporate advice and underwriting department, corporate and bank credits department, corporate specialised finance department and corporate and institutional banking department. The CSC reports to the Board of Directors.

Business Risk Meetings (BRMs)

Business Risk Meetings are established for business lines in the Bank where business specific risk issues are regularly discussed. The CRO has sole decision right within the delegated decision authority which can always be escalated to the Board of Directors at the request of the Board of Directors' member responsible for that area.

Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP)

The Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR) require banks to have in place processes to assess and maintain adequate levels of internal capital and liquidity buffers.

The ICAAP is seen as an integral part of the overall management and control system of the Bank, by which ČSOB also adopts and uses reliable, effective and comprehensive strategies and procedures to:

- continually set and assess the need for internal capital; and
- plan and maintain internal capital resources, of the amount, structure and allocation to sufficiently cover the risks that ČSOB is or may be exposed to (internally set and maintained capital adequacy).

As part of the KBC Group, ČSOB has adopted a unified KBC Group ICAAP approach, approved by the top managements of both KBC and ČSOB, taking into account requirements of the home regulator (the Czech National Bank) as well as the host regulator (the European Central Bank).

Regularly, at least once a year, the Board of Directors evaluates the ICAAP, focusing on an overall assessment of whether the strategies and procedures used are reliable, effective, comprehensive and still proportionate to the nature, scale and complexity of the Bank's activities. The Board of Directors also discusses and approves any ICAAP changes and modifications. Moreover, results of Internal Capital Model which is currently used for internal calculation of the ČSOB capital adequacy are quarterly reported to the Board of Directors.

When setting and assessing - on an ongoing basis - its internal capital needs, and planning and maintaining its internal capital resources, ČSOB uses an accounting-value approach, while taking into account quantitative and qualitative inputs and methods, including its own expert analyses, forecasts and scenarios proportionate to the nature, scale and complexity of its activities and the risks associated with them.

ICAAP is forward-looking, i.e. it also takes into account the risks to which the Bank will or may be exposed. Therefore, ČSOB also assesses and takes into account, under the ICAAP the following:

- the processes of planning, preparing and approving new activities, products or systems;
- other ongoing or anticipated material changes in its risk profile or in the external environment;

- effects of possible divergences from the anticipated developments, including the effects of possible extraordinary circumstances; and
- stress test results.

including the methods of reflecting these when planning and securing internal capital resources. The ICAAP strategic planning horizon is three years.

ICAAP and ILAAP address the following material risks to which the Bank is or may be exposed:

- Credit and counterparty risk, (including concentration risk)
- Interest rate in banking book
- Market risk banking book (excl. interest rate)
- Market risk trading book
- Operational risk
- Business and strategic risk
- Funding and liquidity risk

Other risks, are covered, under ICAAP processes, by qualitative measures in risk management, organisation of processes, control mechanisms, etc.

The amount of capital needed is calculated for the ČSOB Group as a separate entity within the KBC Group at the probability level of 99.9% for a one year period, taking into account relevant diversification effects. The internally defined capital resources must fully cover the total capital need and, if compliance with this condition was at risk, ČSOB, in cooperation with the KBC Group, would take relevant remedial measures (increasing capital resources, reducing risk, etc.).

According to the relevant EBA Guidelines the Internal Liquidity Assessment Process (ILAAP) is a process to identify, measure, manage and monitor liquidity, implemented by the bank pursuant to the CRD IV. It discloses all the qualitative and quantitative information about the systems, processes and methodologies to measure and manage liquidity and funding risk, which is necessary to underpin the risk appetite and business strategy both in normal and stressed scenarios.

Risk measurement and reporting systems

The Bank's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worse case scenarios that would arise when extreme events that are unlikely to occur do, in fact, occur.

Monitoring and controlling of risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all businesses is examined and processed in order to analyse, control and identify risks when they arise. This information is presented and explained to the Board of Directors, the RCOC, and the CRO. The reports include aggregate credit exposure, credit metric forecasts, hold limit exceptions, Value at Risk (VaR), interest rate sensitivities, interest rate gaps, liquidity ratios and risk profile changes. Once a quarter, the Supervisory Board receives a comprehensive risk report designed to provide all information necessary to assess and conclude on the risks of the Bank.

A daily report is provided to the top management and all other relevant members of the Bank on the use of market limits and analysis of VaR in the trading book. A weekly report is provided to top management and all other relevant members on interest rate sensitivities and liquidity in the non-trading book.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The risk profile is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Bank. The effectiveness of hedges is assessed by the Middle Office. The effectiveness of all hedge relationships is monitored by the unit quarterly. In situations of ineffectiveness, a new hedge relationship to mitigate risk on a continuous basis is established.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. To prevent and manage excessive risk concentration at both a relationship and industry level, the Bank, for selected cases, uses credit risk transfer instruments (e.g. risk sharing participation, risk transfer guarantees, etc.).

38.2 Credit risk

Credit risk is the risk of a potential loss expected to arise as a consequence of the non-payment or non-performance by an obligor (a borrower, guarantor, counterparty to a commercial transaction or issuer of a debt instrument), due to that party's insolvency or lack of willingness to pay, or to events or measures taken by the political or monetary authorities of a particular country. The latter is also referred to as country risk.

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations. The Bank monitors exposures in relation to these limits. The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. This includes also regular collateral revisions.

Since September 2012, the Bank is allowed by both Belgian and Czech banking regulators to use the IRB Advanced approach for the capital calculations of its non-retail (Corporate, non-retail SME, Banks, Non-Banking financial institutions) as well as retail exposures. As a result, credit risk is measured, monitored and managed based on the principles of this approach.

For the non-retail exposure (Corporate, non-retail SME, Banks, Non-Banking financial institutions), counterparty risk (i.e. default risk) is managed based on statistical default prediction models that establish a rating (PD / Probability of Default), LGD (Loss Given Default) and EAD (Exposure at Default).

For the retail exposures, statistical models have been developed for PD, LGD and EAD. Contrary to the non-retail exposure, where risk factors are determined on an individual basis, risk factors are determined in Retail based on risk-homogenous sets of exposure (so-called pools).

The model results are used for the capital calculation and for credit decision purposes too.

The default is defined as a situation where at least one of the following conditions is met:

(i) it may be assumed that the customer will not fulfil its obligations in a proper and timely manner without ČSOB seeking to collect its outstanding receivable through credit protection,

(ii) at least one payment of the principal or interest and fees of any obligation of the customer towards ČSOB is more than 90 days past the due date.

At ČSOB, default status is determined to occur any time a forbearance measure-concession is granted: forbearance measures consist of concessions towards a borrower facing or about to face financial difficulties, which leave the borrower unable to comply with the original terms and conditions of a credit. For more, see the section “Forbearance measures”.

Non-retail exposure

Rating system: PD (Probability of Default)

The Bank manages its non-retail credit exposure by establishing counterparty limits that are based on individually assigned internal ratings. These ratings are based on IRB Advanced compliant statistical rating models that take into account financial and non-financial data. The individual PD rating is scaled according to the KBC master scale, which has 12 grades going from PD 1 - the best rating to PD 12, which is the worst.

PD 1 to PD 9 represent the performing exposures.

PD 10 contains: (i) customers where the relevant Bank credit decision authority has judged the exposure to be "unlikely to pay" and none of the obligations are more than 90 days overdue, and (ii) restructured loans. After at least twelve months of performance, the restructured loan may be reclassified to the performing status; and (iii) previously restructured loans already classified as performing less than two years ago which become more than 30 days overdue.

PD 11 represents customers, who have been overdue for 90 days or more, but not subject to bankruptcy proceeds yet.

PD 12 represents customers, which are subject to bankruptcy proceeding or Bank credit decision authority has judged the exposure to be "partly or fully lost" without recourse to credit protection.

PD ratings are used not only for the measurement, monitoring and management of credit risk, but also to determine, among other things, the level at which a credit approval must be obtained, the required collateral and pricing.

The following table sets forth a breakdown of the Bank's risk categories, including the internal and external ratings, for non-retail exposure in 2018 and 2017:

2018				ČSOB risk categories for Non-retail exposure			
PD Scale	PD Rating	PD %	S&P's Rating	Stage	Performance	Impairment	Default
Normal	1-7	0.0-6.4	AAA - B	Stage 1/ Stage 2	Performing customers	Model based	Non-defaulted
Monitored	8-9	6.4-100	(B-) - C	Stage 1/ Stage 2	Performing customers	Model based	Non-defaulted
Uncertain	10	100	D	Stage 3	Non-performing customers	Model based/ Individually assessed	Defaulted
Doubtful	11	100	D	Stage 3	Non-performing customers	Model based/ Individually assessed	Defaulted
Irrecoverable	12	100	D	Stage 3	Non-performing customers	Model based/ Individually assessed	Defaulted

2017	ČSOB risk categories for Non-retail exposure					ČSOB and CNB risk	CNB risk
PD Scale	PD Rating	PD %	S&P Rating	Performance	Impairment		
Normal	1-7	0.0-6.4	AAA - B	Performing customers	Collectively assessed	Non-defaulted	Standard
Asset Quality review (AQR)	8-9	6.4-100	(B-) - C	Performing customers	Collectively assessed	Non-defaulted	Watched
Uncertain	10	100	D	Non-performing customers	Individually impaired	Defaulted	Substandard
Uncertain	11	100	D	Non-performing customers	Individually impaired	Defaulted	Doubtful
Irrecoverable	12	100	D	Non-performing customers	Individually impaired	Defaulted	Loss

Individual Credit Processes

The individual approval, monitoring and work-out processes are subject to risk and capital management frameworks approved by the Group Risk Management (GRM) and/or the CRO but developed, maintained and implemented by the Credit Departments in the Bank. These Credit Departments are also responsible for the implementation of these frameworks in the day-to-day operations of the credit processes and for assuring that individual risk acceptance remains within the limits set by the risk appetite statement.

Application Process

The loan or credit application process for non-retail credit exposures involves three steps. Firstly, the employee maintaining the overall relationship with the customer prepares a credit application containing the credit request, the reason for the application and an analysis of the risks (including a financial analysis). Secondly, a credit risk advisor operating independently from the business line, who reports to the Credit Department, provides a written non-binding advice. Thirdly, a decision is taken by the Credit Sanctioning Committee (CSC), the highest local decision taking body, or one of its sub-committees consisting of business line employees and employees in the Credit Department. The Committee adopts its decisions by consensus based on a draft decision formulated by the Chairman or Vice - Chairman.

Within the delegation framework set by the Bank, the Credit Department can delegate the credit decision to the regional manager or senior relationship manager of a branch. Delegations are granted *ad personam*. The delegations are risk based and take into account the total exposure with respect to a customer or customer group.

All credit decisions must be taken according to the “four eyes principle”, i.e. at least two persons with appropriate delegation authority need to be involved.

Individual Monitoring Process

An individual credit monitoring process is applicable to non-retail exposures (corporate, large non-retail SME). For small non-retail SME an automated behavioural monitoring process is being used. Credit exposures with a rating between PD 1 – 8 (non-retail SME) / PD 1 – 9 (corporate) are reviewed by the business function with the support of monitoring applications. Credit exposures with a rating between PD 9 – 12 (non-retail SME) / PD 10 – 12 (corporate) are reviewed by the Bad Debt Department, which is a sub-department of the Credit Departments.

Regardless of the PD rating, a full credit application must be submitted to the applicable decision authority for a review at least once a year in accordance with the same application process as for the new exposures. Additionally, certain triggers lead to a more frequent review of credit applications. These triggers include breaches of contractual conditions (such as the breach of financial or non-financial covenants or the non-payment of fees, interest or principal), but also events that do not constitute a breach of contract such as a sudden unexpected change in management that could lead to a deterioration of the customer’s financial situation.

In addition to the annual review process, commercial real estate finance, acquisition finance and project finance are subject to a quarterly review by the CSC, pursuant to which all major exposure is subject to a short review of its main credit risk characteristics. Based on the outcome of the general quarterly review, the CSC can take immediate action or request an early full review of the file.

Collective Monitoring Process

In addition to the required annual review process, a collective monitoring process is applied to non-retail SME customers. The monitoring of compliance by the customer with covenants specified in the relevant financing documentation is based on information provided by the customer in covenant compliance reports and financial statements. A breach of the internal thresholds and covenants specified in the financing documentation triggers the individual review process as described above.

Bad Debts Treatment

For both corporate and non-retail SME customers, the management of bad debts is the sole responsibility of the Bad Debt Department. The credit customer relationship is transferred to the Bad Debt Department when an exposure reaches a PD rating of 9 in the case of non-retail SME and PD rating of 10, in the case of corporate customers.

Retail exposure (Entrepreneurs, retail SMEs and Individuals)

Risk Categories

The following table sets forth a breakdown of the Bank's risk categories for retail exposure in 2018 and 2017. Number of days past due is the principal criterion for the assessment of the quality of retail exposures:

2018	ČSOB risk categories for Retail exposure				
PD Scale	Days overdue	Stage	Performance	Impairment	Default
Normal	0 - 30	Stage 1/ Stage 2	Performing	Model based	Non-defaulted
Monitored	31 - 90	Stage 1/ Stage 2	Performing	Model based	Non-defaulted
Uncertain	91 - 180	Stage 3	Non-performing	Model based	Defaulted
Doubtful	181 - 360	Stage 3	Non-performing	Model based	Defaulted
Irrecoverable	360 and more	Stage 3	Non-performing	Model based	Defaulted

2017	ČSOB risk categories for Retail exposure			ČSOB and CNB risk categories	CNB risk categories
PD Scale	Days overdue	Performance	Impairment		
Normal	0 - 30	Performing	Collectively assessed	Non-defaulted	Standard
Asset Quality review (AQR)	31 - 90	Performing	Collectively assessed	Non-defaulted	Watched
Uncertain	91 - 180	Non-performing	Individually impaired	Defaulted	Substandard
Uncertain	181 - 360	Non-performing	Individually impaired	Defaulted	Doubtful
Irrecoverable	360 and more	Non-performing	Individually impaired	Defaulted	Loss

In addition, all restructured exposures fall initially within the non-performing category irrespective of whether or not they are overdue. After at least twelve months of performance the restructured exposures may be reclassified to the performing status. Previously restructured exposures already classified as performing less than two years ago, can fall again into non-performing category when becoming more than 30 days overdue.

Application Process

The application process in the retail segment is based on the usage of application scorecards for new customers and behavioural scorecards for existing customers. For consumer finance products (personal unsecured loans, retail overdrafts and credit cards) decisions are fully automated based on scorecards in the vast majority of cases. Mortgage decisions are supported by scorecards but decision-taking is essentially manual.

The application process makes extensive use of several external credit bureau databases that include both positive and negative information.

Monitoring Process

The monitoring process in the retail segment is performed regularly by the relevant Credit Departments. It is based on aggregated data. It does not involve individual reviews and looks at the development of defaults and probability of default within different sub-portfolios and the development of Credit Cost Ratios within the different sub-portfolios.

Collection Process

The collection process in retail consists of two major phases: early collection and late collection. Early collection is generally based on a rapid succession of reminders (via a call centre or automated written notices) starting when any payment is three days overdue and may involve the restructuring of the loan. Late collection starts when any payment is 90 days overdue, and is focused on legal proceedings. All collection units within the Bank are monitored by the Risk Function.

Derivative financial instruments

Positive fair values arising from financial derivative instruments entered into by the Bank, such as foreign exchange derivatives and interest rate swaps, give rise to potential future claims resulting from counterparty default and are therefore treated for credit risk purposes in the same way as credit exposures.

Credit-related commitments risk

The Bank provides guarantees and letters of credit on behalf of its customers, as a result of which the Bank may be required to make payments on such customers' behalf. Such payments are subsequently required to be reimbursed to ČSOB by the customer based on the terms of the underlying credit documentation. These guarantees expose the Bank to similar risks as loans and such risks are managed using the same credit risks control processes and policies.

The following two main commitment risks are treated as off-balance sheet within the Bank:

(i) *Undrawn but Committed Exposure*. This exposure arises when the Bank has a legal commitment to provide a borrower with a facility or credit when asked and such facility or credit has not yet been drawn. This type of exposure comprises to a large extent of short-term exposure, where the Bank's commitment has a duration equal to or shorter than one year.

(ii) *Off-Balance Sheet Products*. This exposure consists of bank guarantees and/or letters of credit. Off-balance sheet products are granted predominantly in the corporate segment and often consist of bid, performance or advance payment bonds for domestic construction companies.

Commitment risks expose the Bank to similar risks as loans and such risks are monitored and managed using the same credit risk control processes and policies.

The Bank manages credit risk in three major portfolios: Credit portfolio, Investment portfolio and Trading portfolio. Besides these there is a credit exposure connected with settlement activities (correspondent banking, settlement of receivables generated within system of electronic toll, which ČSOB administers for the Czech Government – e-Toll), where risk is limited as counterparties are either highly rated banks, government institutions or entities with guarantees by highly rated banks.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2018. The maximum exposure is shown as gross without taking account of any collateral and other credit enhancements.

IFRS 9 (CZKm)	Credits	Investment	Trading	Other assets	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 14)	729	26,564	-	-	27,293
Financial assets held for trading (Note: 15)	-	2,062	20,589	-	22,651
Financial assets held for trading pledged as collateral	-	-	1,676	-	1,676
Non-trading financial assets mandatorily at fair value through profit or loss	-	643	-	-	643
Financial assets FVOCI (Note: 16)	1,705	35,600	-	-	37,305
Financial assets FVOCI pledged as collateral	781	2,505	-	-	3,286
Financial assets at AC	267,013	861,705	-	3,637	1,132,355
Financial assets at AC pledged as collateral	1,006	44,275	-	-	45,281
Fair value adjustments of the hedged items in portfolio hedge	-	(3,082)	-	-	(3,082)
Derivatives used for hedging	-	8,441	-	-	8,441
Other assets (Note: 23)	-	-	-	713	713
Total	271,234	978,713	22,265	4,350	1,276,562
Contingent liabilities (Note: 33)	41,165	5,796	-	323	47,284
Commitments – irrevocable (Note: 33)	98,862	1,153	-	-	100,015
Total	140,027	6,949	-	323	147,299
Total credit risk exposure	**411,261**	**985,662**	**22,265**	**4,673**	**1,423,861**

The table below shows the maximum exposure to credit risk for the components of the statement of financial position as at 31 December 2017. The maximum exposure is shown as gross without taking account of any collateral and other credit enhancements.

IAS 39 (CZKm)	Credits	Investment	Trading	Other assets	Total
ASSETS					
Cash, balances with central banks and other demand deposits (Note: 14)	-	42,544	-	905	43,449
Financial assets held for trading (Note: 15)	-	1,282	16,392	-	17,674
Financial assets held for trading pledged as collateral	-	-	2,097	-	2,097
Financial assets designated at fair value through profit or loss	-	3,376	-	-	3,376
Available-for-sale financial assets (Note: 16)	562	47,761	-	-	48,323
Available-for-sale financial assets pledged as collateral	1,772	4,075	-	-	5,847
Loans and receivables	255,439	715,832	-	2,742	974,013
Fair value adjustments of the hedged items in portfolio hedge	-	(3,483)	-	-	(3,483)
Held-to-maturity investments	834	85,770	-	-	86,604
Held-to-maturity investments pledged as collateral	-	29,017	-	-	29,017
Derivatives used for hedging	-	8,448	-	-	8,448
Other assets (Note: 23)	-	-	-	657	657
Total	258,607	934,622	18,489	4,304	1,216,022
Contingent liabilities (Note: 33)	33,508	1,682	-	323	35,513
Commitments – irrevocable (Note: 33)	98,132	423	-	-	98,555
Total	131,640	2,105	-	323	134,068
Total credit risk exposure	**390,247**	**936,727**	**18,489**	**4,627**	**1,350,090**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Set out below is an analysis of the maximum exposure to credit risk of the Bank before and after taking into account the collateral held:

(CZKm)	2018 IFRS 9 Gross maximum exposure	2018 IFRS 9 Financial effect of collateral	2018 IFRS 9 Net maximum exposure	2017 IAS 39 Gross maximum exposure	2017 IAS 39 Financial effect of collateral	2017 IAS 39 Net maximum exposure
ASSETS						
Cash, balances with central banks and other demand deposits (Note: 14)	27,293	-	27,293	43,449	-	43,449
Financial assets held for trading (incl. assets pledged as collateral)	24,327	975	23,352	19,771	1,584	18,187
Financial derivatives	17,299	975	16,324	13,506	1,584	11,922
Financial assets other than derivatives	7,028	-	7,028	6,265	-	6,265
Non-trading financial assets mandatorily at fair value through profit or loss	643	-	643	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	3,376	-	3,376
Financial assets FVOCI (incl. assets pledged as collateral)	40,591	-	40,591	-	-	-
Available-for-sale financial assets (incl. assets pledged as collateral)	-	-	-	54,170	-	54,170
Financial assets at amortised cost (incl. assets pledged as collateral)	1,177,636	633,398	544,238	-	-	-
Of which non-performing assets	*4,448*	*1,392*	*3,056*	-	-	-
Loans and receivables	-	-	-	974,013	579,525	394,488
Fair value adjustments of the hedged items in portfolio hedge	(3,082)	-	(3,082)	(3,483)	-	(3,483)
Held-to-maturity investments (incl. assets pledged as collateral)	-	-	-	115,621	-	115,621
Derivatives used for hedging	8,441	304	8,137	8,448	601	7,847
Other assets (Note: 23)	713	-	713	657	-	657
Total	1,276,562	634,677	641,885	1,216,022	581,710	634,312
Contingent liabilities and commitments – irrevocable (Note: 33)	147,299	42,810	104,489	134,068	35,873	98,195
Of which non-performing exposures	*1,687*	*755*	*932*	-	-	-
Total credit risk exposure	**1,423,861**	**677,487**	**746,374**	**1,350,090**	**617,583**	**732,507**

Financial effect of collateral represents a fair value of collateral received by the Bank against a credit exposure limited to the outstanding amount of the exposure.

The portfolios are further structured as follows:

The credit portfolio is structured according to the type of the business the Bank enters into:

2018 IFRS 9 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Corporate	157,167	37,192	51,891	**246,250**	(2,157)	(165)	**243,928**
SME	88,133	4,030	36,115	**128,278**	(3,483)	(36)	**124,759**
Retail	31,369	1	10,934	**42,304**	(1,191)	(17)	**41,096**
Other	1,419	72	14	**1,505**	(23)	(4)	**1,478**
Total credits	**278,088**	**41,295**	**98,954**	**418,337**	**(6,854)**	**(222)**	**411,261**

2017 IAS 39 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**	Allowances	Provisions	**Net exposure**
Corporate	150,587	30,114	55,044	**235,745**	(1,745)	(345)	**233,655**
SME	86,224	3,704	32,594	**122,522**	(3,631)	(98)	**118,793**
Retail	28,062	3	10,573	**38,638**	(899)	(12)	**37,727**
Other	32	70	5	**107**	(23)	(12)	**72**
Total credits	**264,905**	**33,891**	**98,216**	**397,012**	**(6,298)**	**(467)**	**390,247**

The following tables show a reconciliation of the allowances for impairment losses of credit portfolio for 2017 and 2018 by classes of financial instruments and by individual and collective impairment for 2017:

(CZKm)	Corporate	SME	Retail	Other	Total
At 1 January 2017 (IAS 39)	**1,851**	**3,674**	**1,043**	**27**	**6,595**
Net increase in allowances for credit losses (Note: 11)	(57)	218	(138)	(5)	18
(Write-offs) / recoveries	(22)	(257)	(6)	1	(284)
Foreign currency translation	(27)	(4)	-	-	(31)
At 31 December 2017 (IAS 39)	**1,745**	**3,631**	**899**	**23**	**6,298**
Impact of transition to IFRS 9	86	78	330	8	502
Of which reserved interest	-	*279*	*137*	-	*416*
At 1 January 2018 (IFRS 9)	**1,831**	**3,709**	**1,229**	**31**	**6,800**
Stage 1					
At 1 January 2018	**92**	**170**	**135**	**8**	**405**
Origination and acquisition	71	69	80	-	220
Change in credit risk not leading to stage transfers	(17)	(14)	(27)	(7)	(65)
Change in credit risk leading to stage transfer	(6)	(12)	(6)	-	(24)
Modification without derecognition	-	-	-	-	-
Derecognition	-	(17)	(33)	-	(50)
Write-offs	-	-	-	-	-
Foreign currency translation	-	-	-	-	-
At 31 December 2018	**140**	**196**	**149**	**1**	**486**
Stage 2					
At 1 January 2018	**69**	**383**	**339**	**-**	**791**
Origination and acquisition	43	32	57	-	132
Change in credit risk not leading to stage transfers	7	(2)	2	-	7
Change in credit risk leading to stage transfer	(3)	41	(9)	-	29
Modification without derecognition	-	(14)	(2)	-	(16)
Derecognition	-	(34)	(38)	-	(72)
Write-offs	-	-	-	-	-
Foreign currency translation	(40)	-	(49)	-	(89)
At 31 December 2018	**76**	**406**	**300**	**-**	**782**
Stage 3					
At 1 January 2018	**1,653**	**3,024**	**752**	**23**	**5,452**
Origination and acquisition	214	54	28	74	370
Change in credit risk not leading to stage transfers	(309)	(78)	22	-	(365)
Change in credit risk leading to stage transfer	428	347	228	-	1,003
Modification without derecognition	-	76	-	-	76
Derecognition	-	(152)	(31)	-	(183)
Write-offs	(52)	(424)	(258)	(75)	(809)
Foreign currency translation	(6)	(10)	(2)	-	(18)
At 31 December 2018	**1,928**	**2,837**	**739**	**22**	**5,526**
POCI					
At 1 January 2018	**17**	**132**	**3**	**-**	**152**
Origination and acquisition	-	-	-	-	-
Change in credit risk not leading to stage	-	(33)	1	-	(32)
Change in credit risk leading to stage transfer	-	(2)	-	-	(2)
Modification without derecognition	-	-	-	-	-
Derecognition	-	(20)	-	-	(20)
(Write-offs) / recoveries	(4)	(33)	(1)	-	(38)
Foreign currency translation	-	-	-	-	-
At 31 December 2018	**13**	**44**	**3**	**-**	**60**

In 2018, the most significant changes in gross carrying amount that have an impact on ECL allowance include: origination and acquisition of new assets, changes in credit risk leading to transfers between stages (Note: 17), derecognition of loans and write-offs.

IAS 39 (CZKm)	Individual impairment	Collective impairment	Total
At 1 January 2017	**5,927**	**668**	**6,595**
Net increase in allowances for credit losses (Note: 11)	90	(72)	18
(Write-offs) / recoveries	(284)	-	(284)
Foreign currency translation	(31)	-	(31)
At 31 December 2017	**5,702**	**596**	**6,298**

An industry sector analysis of the Bank's Credit portfolio, before taking into account any collateral held or other credit enhancements, is as follows:

	2018 IFRS 9		2017 IAS 39	
Sector	Granted exposure (CZKm)	Percentage of total exposure	Granted exposure (CZKm)	Percentage of total exposure
Services	60,350	14.4	57,022	14.4
Distribution	58,216	13.9	54,909	13.8
Commercial Real Estate	54,791	13.1	47,648	12.0
Private persons	39,689	9.4	35,485	8.9
Building and Construction	35,446	8.5	34,316	8.6
Automotive	29,544	7.1	28,936	7.3
Machinery and Heavy Equipment	14,726	3.5	15,420	3.9
Authorities	14,069	3.4	12,038	3.0
Oil, Gas and other Fuels	13,878	3.3	15,808	4.0
Finance and Insurance	13,863	3.3	10,932	2.8
Electricity	12,900	3.1	13,837	3.5
Metals	12,198	2.9	12,102	3.1
Chemicals	7,468	1.8	8,040	2.0
Electrotechnics	7,352	1.8	7,536	1.9
Telecommunications	5,247	1.3	5,673	1.4
Food producers	4,810	1.1	5,476	1.4
Other sectors	33,791	8.1	31,834	8.0
Total	**418,337**	**100.0**	**397,012**	**100.0**

The investment portfolio is structured according to the type of the instrument:

2018 IFRS 9 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	392,477	-	-	(61)	**392,416**
Loans and receivables within investment portfolio	549,230	5,796	1,153	-	**556,179**
Derivatives used for hedging	8,441	-	-	-	**8,441**
Derivatives held for trading	2,062	-	-	-	**2,062**
Cash, balances with central banks and other demand deposits	26,564	-	-	-	**26,564**
Total investment	**978,774**	**5,796**	**1,153**	**(61)**	**985,662**

2017 IAS 39 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	Cumulative impairment loss	**Granted exposure**
Debt securities	170,001	-	-	(2)	**169,999**
Loans and receivables within investment portfolio	712,349	1,682	423	-	**714,454**
Derivatives used for hedging	8,448	-	-	-	**8,448**
Derivatives held for trading	1,282	-	-	-	**1,282**
Cash, balances with central banks and other demand deposits	42,544	-	-	-	**42,544**
Total investment	**934,624**	**1,682**	**423**	**(2)**	**936,727**

The following tables show a reconciliation of the allowances for impairment losses on investment portfolio for 2017 and 2018 by classes of financial instruments:

(CZKm)	Debt securities: Financial assets FVOCI	Debt securities: Financial assets at amortised cost	Total
At 1 January 2017 (IAS 39)	**-**	**-**	**-**
Net increase in allowances for credit losses (Note: 11)	-	2	2
At 31 December 2017 (IAS 39)	**-**	**2**	**2**
Impact of transition to IFRS 9	8	97	105
At 1 January 2018 (IFRS 9)	8	99	107
Stage 1			
At 1 January 2018	**8**	**75**	**83**
Change in credit risk not leading to stage transfers	(3)	(21)	(24)
At 31 December 2018	**5**	**54**	**59**
Stage 2			
At 1 January 2018	**-**	**24**	**24**
Change in credit risk not leading to stage transfers	-	(22)	(22)
At 31 December 2018	**-**	**2**	**2**

The investment portfolio is monitored from a counterparty sector point of view:

Sector	2018 IFRS 9 Granted exposure (CZKm)	2018 IFRS 9 Percentage of total exposure	2017 IAS 39 Granted exposure (CZKm)	2017 IAS 39 Percentage of total exposure
Central banks	547,606	55.6	517,588	55.3
General government	139,358	14.1	143,846	15.3
Credit institutions	264,666	26.9	243,664	26.0
Corporate	34,032	3.4	31,629	3.4
Total investment	**985,662**	**100.0**	**936,727**	**100,0**

The trading portfolio is structured according to the type of the instrument:

2018 IFRS 9 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Debt securities	7,028	-	-	7,028
Derivatives held for trading	15,237	-	-	15,237
Total trading portfolio	**22,265**	**-**	**-**	**22,265**

2017 IAS 39 (CZKm)	Outstanding gross amount	Contingent liabilities gross	Credit commitments gross	**Granted exposure**
Debt securities	6,265	-	-	6,265
Derivatives held for trading	12,224	-	-	12,224
Total trading portfolio	**18,489**	**-**	**-**	**18,489**

The trading portfolio is monitored from counterparty sector point of view:

Sector	2018 IFRS 9 Granted exposure (CZKm)	2018 IFRS 9 Percentage of total exposure	2017 IAS 39 Granted exposure (CZKm)	2017 IAS 39 Percentage of total exposure
General government	4,901	22.0	3,144	17.0
Credit institutions	13,887	62.4	12,848	69.5
Corporate	3,477	15.6	2,497	13.5
Total trading portfolio	**22,265**	**100.0**	**18,489**	**100,0**

Risk concentrations of the maximum exposure to credit risk

The concentration of risk is managed by geographical region, industry and by client/counterparty. The Bank's financial assets, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

(CZKm)	2018 IFRS 9 Total risk	2018 IFRS 9 of which General government	2017 IAS 39 Total risk	2017 IAS 39 of which General government
Czech Republic	1,345,159	135,720	1,277,410	136,736
Slovak Republic	12,656	6,958	13,494	7,126
Greece	2	-	1	-
Italy	1,494	-	2,084	-
Spain	729	-	83	-
Belgium	15,603	557	13,181	993
Hungary	969	-	1,087	-
Other Europe	38,107	8,646	38,562	8,859
Other	9,142	-	4,642	-
Total	**1,423,861**	**151,881**	**1,350,544**	**153,714**

Client concentration is monitored on the level of individual portfolios. In the credit portfolio the exposure towards groups of economically connected subjects are monitored:

Client	2018 IFRS 9 Granted exposure (CZK m)	2018 IFRS 9 % of total credit portfolio	2017 IAS 39 Granted exposure (CZK m)	2017 IAS 39 % of total credit portfolio
1 largest client	9,806	2.3	8,048	2.0
10 largest clients	60,256	14.4	56,085	14.1
25 largest clients	97,195	23.2	95,805	24.1

The largest exposures to single clients in the investment portfolio as at 31 December 2018 and 31 December 2017 were:

Client	2018 IFRS 9 Granted exposure (CZK m)	2018 IFRS 9 % of total investment portfolio	2017 IAS 39 Granted exposure (CZK m)	2017 IAS 39 % of total investment portfolio
CNB	547,607	55.6	517,588	55.2
Hypoteční banka	250,609	25.4	231,989	24.8
Czech Ministry of Finance (S&P's rating AA)	123,198	12.5	126,872	13.5

The largest exposures to single clients in the trading portfolio as at 31 December 2018 and 31 December 2017 were:

	2018 IFRS 9		2017 (IAS 39	
Client	Granted exposure (CZK m)	% of total trading portfolio	Granted exposure (CZK m)	% of total trading portfolio
KBC Bank	6,064	27.2	3,952	21.4
Czech Ministry of Finance (S&P's rating AA)	4,901	22.0	3,144	17.0

Exposures to counter parties by risk rating class in the investment and trading portfolio as at 31 December 2018 and 31 December 2017 were:

	2018 IFRS 9		2017 IAS 39	
Rating (S&P)	Granted exposure (CZK m)	% of total portfolio	Granted exposure (CZK m)	% of total portfolio
Investment portfolio				
AAA up to and including A-	702,480	71.3	667,727	71.3
BBB+ up to and including BB-	259	-	8,191	0.9
Below BB-	-	-	-	-
Unrated	282,923	28.7	260,809	27.8
Total	**985,662**	**100.0**	**936,727**	**100.0**
Trading portfolio				
AAA up to and including A-	13,298	59.7	12,000	64.9
BBB+ up to and including BB	3,972	17.9	3,533	19.1
Below BB-	-	-	-	-
Unrated	4,995	22.4	2,956	16.0
Total	**22,265**	**100.0**	**18,489**	**100.0**

Included in the item unrated, there are loans granted to the ČSOB's subsidiaries Hypoteční banka, ČSOB Leasing and ČSOB Factoring, as well as securities issued by these companies held by the Bank as part of the investment portfolio.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities;
- For commercial lending, pledges over real estate properties, trade receivables and inventory;
- For retail lending, pledges over residential properties are used for mortgage financing.

The Bank continuously monitors the market value of all collateral, monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses and requests additional collateral in accordance with the underlying agreement when necessary. The amount of collateral reported for an individual receivable does not exceed the carrying amount of the receivable.

Within concluding derivatives transaction to hedge counterparty´s risk the Bank uses Master netting agreements and collateralisation annex (i.e. CSA or its equivalents).

Impairment assessment (applicable since 1 January 2018)

The Bank complies with the IFRS 9 accounting standard which became effective as of 1 January 2018. As a result, the portfolio categorisation changed compared to previous years and impairment calculation methodology moved from incurred loss model to expected credit loss model.

The portfolio can be divided into three stages while the main considerations for stage allocation include whether there has been a significant increase in credit risk since initial recognition, any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, worsening of their credibility reflected by credit rating downgrades or infringement of the original terms of the contract.

A symmetric 5-tier waterfall staging approach was developed to assess whether there has been a significant increase in credit risk since initial recognition triggering transfer to stage 2. The five tiers are following:

1. Increase of internal rating (mapped to Basel probability of default) by 2 notches or more since initial recognition, for Retail exposures 400% increase of probability of default being equivalent of 2 notches;
2. The exposure is forborne;
3. The exposure is more than 30 days past due;
4. The internal PD rating is 9 or its equivalent for Retail exposures;
5. Collective assessment – manual expert judgement based on forward looking information not captured by PD models such as social, political, regional, economic conditions.

A default event triggers transfer directly to stage 3.

The Bank takes the advantage of low credit risk exemption for its debt securities in the Treasury and ALM portfolios, i.e. all such exposures internally rated PD1 - PD3 stay in stage 1.

The accounting standard introduced also staging rules for purchased or originated credit impaired (so called POCI) assets which upon cure event move from stage 3 to stage 2, but may never transfer to stage 1. This concerns also modified financial assets in case the modification resulted into derecognition of the original asset and recognition of a new forborne asset.

The expected credit loss (impairment) is calculated on 12-month basis for stage 1 and on lifetime basis for stage 2 and stage 3.

Various IFRS 9 models were developed within the Bank for certain combinations of products and types of counterparty to arrive at the impairment as a sum of discounted products of IFRS 9 Probability of default (PD), Exposure at default (EAD), and Loss given default (LGD) adjusted for survival factor across the 12 months or lifetime to maturity for stage 1 or stage 2 and stage 3, respectively. The final impairment is a weighted sum of calculated impairments resulting from three different macroeconomic scenarios.

A sensitivity analysis on the impact of these multiple economic scenarios on IFRS 9 ECL, performed by calculating the difference between the outcome of the probability-weighted scenario (which is recognised) and the base scenario – gives a scenario-weighted ECL at year-end 2018 that is 0.4% higher than the base scenario. If we take just the portfolios for which statistical macroeconomic variables are included in the model, the sensitivity rises to 2.6%. Different macroeconomic factors are taken into consideration and the Bank applies three scenarios to evaluate a range of possible outcomes. The macroeconomic variables include GDP growth, the unemployment rate, policy interest rates, the exchange rate, government bond yields, house prices and inflation.

Management has the possibility to reflect its expertise in the final result of the impairment numbers in the exceptional case that the model-based calculation does not result in relevant and reliable impairment amounts based on available forward looking information.

Financial guarantees, letters of credit and undrawn limits are assessed and provisions are made for them in a similar manner as allowances for loans and other receivables.

Impairment assessment (applicable until 31 December 2017)

The main considerations for credit impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, worsening of their credibility reflected by credit rating downgrades or infringement of the original terms of the contract. The Bank addresses impairment in two areas: specific impairments and impairments incurred but not reported (IBNR).

Specific impairments are applied to individual assets where there is registered objective evidence of default. All defaulted exposure requires an impairment test – when a client becomes defaulted, it is considered to be impaired and thus specific impairment has to be accounted for. IBNR are applied for asset groups that based on statistical evidence contain probably already impaired assets, but have not been yet individually recognised.

Specific impairment (Individual assessment)

The Bank determines allowances appropriate for loans with outstanding amounts above a predefined materiality threshold where there is registered objective evidence of default on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, the availability of other financial support, liquidation value of collateral, and the timing of the expected cash flows. Impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention. For insignificant exposures with registered objective evidence of default a portfolio approach for deriving the impairment allowance is applied using statistical methods and models.

IBNR (Collective assessment)

Collective allowances are applied for loans and advances where there has not yet been recognised objective evidence of impairment and they reflect impairment that is likely to be present in the group of assets. Collective allowances are assessed based on statistical estimates and evaluated at each reporting period.

Collective allowances are estimated by taking into consideration:

(i) historical losses in the portfolio;

(ii) current economic conditions;

(iii) the approximate delay between the time a loss is likely to have been incurred and the time it will be identified (emergence period).

The local management is responsible for deciding the length of the emergence period. In 2014, the Bank used a uniform emergence period of four months, which was confirmed by the back-testing. In 2015, the emergence period has been extended to 6 – 8 months for some of the segments based on the latest back-testing results and in 2016 further changes have been made for other segments, prolonging the emergence period also to 8 months. The emergence period extension resulted in 2016 and 2015 an increase of the collective impairment provision of CZK 160 m (2015: CZK 155 m). The back-testing methodology was refined in 2016 and 2015 following the updated Bank policy on determining the emergence period and its back-testing. All 2016 emergence periods have been reconfirmed for 2017.

Financial guarantees, letters of credit and undrawn limits are assessed and provisions are made in a similar manner as allowances for loans and other receivables.

Quality of credit portfolio

The Bank sorts exposures into five categories for the purpose of credit risk management. The table below shows the credit quality by class of asset for loan-related statement of financial position lines (in gross amounts), based on the Bank's credit rating system as at 31 December 2018 and 2017:

Credit portfolio	2018 IFRS 9					Total
	Non-defaulted assets		Defaulted assets			
(CZKm)	Normal	Monitored	Uncertain	Doubtful	Irrecoverable	
Corporate	176,409	12,218	4,156	73	1,503	194,359
SME	77,768	9,986	1,641	252	2,516	92,163
Retail	27,891	2,440	123	140	776	31,370
Other	1,384	9	4	1	93	1,491
Total	**283,452**	**24,653**	**5,924**	**466**	**4,888**	**319,383**

Credit portfolio	2017 IAS 39					
	Collectively assessed assets		Individually impaired assets			Total
(CZKm)	Normal	AQR	Uncertain *(Substandard)*	Uncertain *(Doubtful)*	Irrecoverable	
Corporate	169,170	7,921	2,164	114	1,332	180,702
SME	83,527	1,858	1,454	275	2,814	89,928
Retail	26,974	153	27	196	715	28,064
Other	21	9	-	1	72	102
Total	**279,692**	**9,941**	**3,645**	**586**	**4,933**	**298,796**

Investment portfolio	2018 IFRS 9			
	Non-defaulted assets		Defaulted assets	Total
(CZKm)	Normal	Monitored	Irrecoverable	
Debt securities	392,086	330	-	392,416
Loans and receivables within investment portfolio	556,179	-	-	556,179
Derivatives used for hedging	8,441	-	-	8,441
Derivative contracts held for trading	2,062	-	-	2,062
Cash, balances with central banks and other demand deposits	26,564	-	-	26,564
Total	**985,332**	**330**	**-**	**985,662**

Investment portfolio	2017 IAS 39			
	Collectively assessed assets		Individually impaired assets	Total
(CZKm)	Normal	AQR	Irrecoverable	
Debt securities	169,670	329	-	169,999
Loans and receivables within investment portfolio	714,454	-	-	714,454
Derivatives used for hedging	8,448	-	-	8,448
Derivative contracts held for trading	1,282	-	-	1,282
Cash, balances with central banks and other demand deposits	42,544	-	-	42,544
Total	**936,398**	**329**	**-**	**936,727**

Trading portfolio	2018 IFRS 9		
	Non-defaulted assets	Defaulted assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	7,028	-	7,028
Derivative contracts held for trading	15,237	-	15,237
Total	**22,265**	**-**	**22,265**

Trading portfolio	2017 IAS 39		
	Collectively assessed assets	Individually impaired assets	Total
(CZKm)	Normal	Irrecoverable	
Debt securities	6,265	-	6,265
Derivative contracts held for trading	12,224	-	12,224
Total	**18,489**	**-**	**18,489**

The table below shows a credit quality analysis of gross exposures of performing financial assets in the Credit portfolio:

	2018 IFRS 9			2017 IAS 39		
(CZKm)	Neither past due nor defaulted	Past due (< 30 days) but not defaulted	Past due (> 30 days) but not defaulted	Neither past due nor individually impaired	Past due (< 30 days) but not individually impaired	Past due (> 30 days) but not individually impaired
Corporate	152,536	32	7	148,315	-	-
SME	83,419	305	74	80,966	769	64
Retail	29,618	594	118	26,393	627	103
Other	1,393	-	-	8	-	-
Total	**266,966**	**931**	**199**	**255,682**	**1,396**	**167**

Performing assets reported within Neither past due nor defaulted / individually impaired gross exposures consist of Normal risk category assets based on the Bank's credit ranking system.

There were no past due but not impaired assets in the Investment and Trading portfolios.

Gross amounts of non-performing financial assets included in the credit portfolio and the related impairment are as follows:

	2018 IFRS 9		2017 IAS 39	
(CZKm)	Gross amount	Impairment	Gross amount	Impairment
Credit portfolio				
Corporate	5,732	(2,058)	3,610	(1,982)
SME	4,409	(2,878)	4,543	(3,342)
Retail	1,039	(740)	937	(718)
Other	98	(26)	73	(36)
Total	**11,278**	**(5,702)**	**9,163**	**(6,078)**

There are no individually impaired financial assets included in the investment portfolio.

Forbearance measures

Forbearance measures consist of concessions towards a borrower facing or about to face financial difficulties, which leave the borrower unable to comply with the original terms and conditions of a credit. Contracts for which forbearance measures have been taken and for which the exit criteria are not fulfilled are referred to as "Forborne credits". Such an approach enables the Bank to control and limit potential future losses stemming from troubled credits.

Following the conservative approach of the local regulator, default status occurs any time a forbearance measure-concession is granted. The minimum period for assignment of the "Forborne tag" is 36 months: this period consists of 12 months of the default status, and 24 months of what is referred to as the "probation period". In addition, any time more than 30 days past due are observed at an individual receivable during the "probation period", the receivable is re-classified as defaulted and the 36-month period is re-set.

Outstanding gross amounts and gross amounts of forborne exposures included in the credit portfolio and the related impairment and collateral and financial guarantees as at 31 December 2018 and 2017 are as follows:

IFRS 9	2018				
		Forborne exposures			
(CZKm)	Outstanding gross amount	Total exposure	Percentage of outstanding gross amount (%)	Total impairment	Collateral and financial guarantees
Corporate	157,167	1,547	1.0	516	574
SME	88,133	1,013	1.2	565	177
Retail	31,369	108	0.3	52	-
Other	1,419	1	0.1	-	1
Total	**278,088**	**2,669**	**1.0**	**1,133**	**752**

IAS 39	2017				
		Forborne exposures			
(CZKm)	Outstanding gross amount	Exposure of collectively and individually assessed assets	Percentage of outstanding gross amount (%)	Individual and collective impairment	Collateral and financial guarantees
Corporate	150,587	2,528	1.7	683	1,173
SME	86,224	997	1.2	637	179
Retail	28,062	130	0.5	61	2
Other	32	1	2.7	-	1
Total	**264,905**	**3,656**	**1.4**	**1,381**	**1,355**

Detail analysis of forborne exposures included in the credit portfolio and the related impairment as at 31 December 2018 and 2017 are as follows:

IFRS 9	2018				
(CZKm)	Non-defaulted exposure	Of which past due	Defaulted exposure	Impairment of defaulted exposure	Impairment of non-defaulted exposure
Corporate	952	-	595	478	37
SME	60	2	954	562	3
Retail	25	2	82	51	1
Other	-	-	1	-	-
Total	**1,037**	**4**	**1,632**	**1,091**	**41**

IAS 39	2017				
(CZKm)	Exposure of collectively assessed assets	Of which past due but not individually impaired assets	Exposure of individually impaired assets	Individual impairment	Collective impairment
Corporate	1,693	-	835	679	4
SME	69	12	928	635	2
Retail	47	11	83	60	1
Other	-	-	1	-	-
Total	**1,809**	**23**	**1,847**	**1,374**	**7**

The following table shows a reconciliation of Gross amounts of forborne exposures for 2018 and 2017 by classes of financial instruments:

(CZKm)	Corporate	SME	Retail	Other	Total
At 1 January 2017 (IAS 39)	**2,713**	**1,168**	**226**	**-**	**4,107**
Loan which have become forborne	12	282	24	1	319
Loans which are no longer considered to be forborne	-	(167)	(42)	-	(209)
Increase of exposure	9	1	-	-	10
Decrease of exposure	(206)	(287)	(78)	-	(571)
At 31 December 2017 (IAS 39)	**2,528**	**997**	**130**	**1**	**3,656**
Loan which have become forborne	-	337	31	-	368
Loans which are no longer considered to be forborne	-	(70)	(16)	-	(86)
Increase of exposure	2	23	5	-	30
Decrease of exposure	(983)	(274)	(41)	-	(1,298)
At 31 December 2018 (IFRS 9)	**1,547**	**1,013**	**109**	**1**	**2,670**

The following table shows a reconciliation of Impairments of forborne exposures for 2018 and 2017 by classes of financial instruments:

(CZKm)	Corporate	SME	Retail	Other	Total
At 1 January 2017 (IAS 39)	**720**	**626**	**83**	**-**	**1,429**
Loan which have become forborne	12	155	11	-	178
Loans which are no longer considered to be forborne	-	(50)	(2)	-	(52)
Increase of exposure	4	63	10	-	77
Decrease of exposure	(53)	(157)	(41)	-	(251)
At 31 December 2017 (IAS 39)	**683**	**637**	**61**	**-**	**1,381**
Impact of transition to IFRS 9	(4)	(46)	-	-	(50)
At 1 January 2018 (IFRS 9)	**679**	**591**	**61**	**-**	**1,331**
Loan which have become forborne	-	126	13	-	139
Loans which are no longer considered to be forborne	-	(22)	-	-	(22)
Increase of exposure	37	33	8	-	78
Decrease of exposure	(200)	(163)	(30)	-	(393)
At 31 December 2018 (IFRS 9)	**516**	**565**	**52**	**-**	**1,133**

38.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flows and collateral needs without normal business operations being disrupted. To limit this risk, the Bank pays significant attention to both operational and strategic liquidity management.

Operational Liquidity Management

The aim of operational liquidity management is to ensure the smooth processing of the Bank's current payment obligations in CZK as well as in other currencies while minimizing associated cost. Operational liquidity is based on cash flow projections with an outlook of up to ten working days for CZK and one day for other currencies.

Funding Management

The actual development of liquidity might vary from ALM's liquidity prediction. The Bank can address an adverse liquidity development in several ways. Most typically, the Bank would adjust its investment policy, i.e. decrease the percentage of liabilities reinvested in a cash form and use the liquidity from maturing bonds for other purposes. In the event of a more sudden decrease of liquidity, the Bank can borrow via repo operations on the market or use regulatory repo facilities (in the CNB or ECB). The capacity and readiness to withstand adverse liquidity development is regularly reviewed by the means of stress tests.

Starting from October 2015 the Bank reports on Liquidity Coverage Ratio (LCR), which compares available liquidity buffers to expected net cash outflows within the 30 day horizon under gravely stressed conditions.

The LCR during the year 2018 and 2017 was as follows:

(%)	2018	2017
31 March	138.0	145.9
30 June	133.6	145.2
30 September	136.3	146.9
31 December	135.0	144.8

The LCR ratio is regularly monitored and reported to the top management of the Bank.

Strategic Liquidity Management

The aim of strategic liquidity management is to provide sufficient funding for the Bank's business activities in the medium- and long-term horizon. For the strategic liquidity management, the Bank uses the net-stable-funding-ratio (NSFR) which is defined as a ratio of available stable funding (numerator) to required stable funding (denominator). The strategy of the Bank is to maintain the value of NSFR well above one. That means the Bank aims to maintain matched funding, i.e. to ensure that long-term assets are funded by stable liabilities (contractually or statistically), while short-term liabilities are used for the funding of assets that are short-term and/or liquid.

The NSFR is monitored on a monthly basis and it is regularly reported to the top management of ČSOB.

The NSFR during 2018 and 2017 was as follows:

(%)	2018	2017
31 March	143.6	137.1
30 June	143.4	138.0
30 September	156.5	140.9
31 December	152.7	139.7

In addition to internally defined limits, the Bank must also comply with a regulatory limit on the basis of mandatory minimum reserve deposited with CNB. The limit presently equals to 2% of customer deposits.

Analysis of financial liabilities by remaining contractual maturity

The tables below summarise the contractual maturity profile of the Bank's financial liabilities based on the contractual undiscounted repayment obligations (outflows shown as negative; inflows as positive).

The following table sets out the financial liabilities of the Bank by remaining contractual maturity as at 31 December 2018:

IFRS 9 (CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Financial liabilities					
Financial liabilities held for trading other than financial derivatives	-	(13,225)	(4,842)	-	(18,067)
Financial liabilities designated at fair value through profit or loss	-	(12,105)	(12,358)	(2,844)	(27,307)
Financial liabilities at amortised cost	(756,896)	(394,622)	(31,570)	(19,564)	(1,202,652)
Fair value adjustments of the hedged items in portfolio hedge	3,062	-	-	-	3,062
Other liabilities (Note: 26)	-	(3,485)	-	-	(3,485)
Contractual cash flows excluding derivatives	**(753,834)**	**(423,437)**	**(48,770)**	**(22,408)**	**(1,248,449)**
Net settled derivatives	**-**	**(5,770)**	**(14,782)**	**(5,516)**	**(26,068)**
Trading derivatives	-	(3,741)	(9,056)	(2,792)	(15,589)
Hedging derivatives	-	(2,029)	(5,726)	(2,724)	(10,479)
Gross settled derivatives	**-**	**(3,860)**	**(1,827)**	**(457)**	**(6,144)**
Trading derivatives	-	(3,845)	(1,315)	(450)	(5,610)
Inflows	-	*526,481*	*67,331*	*5,694*	*599,506*
Outflows	-	*(530,326)*	*(68,646)*	*(6,144)*	*(605,116)*
Hedging derivatives	-	(15)	(512)	(7)	(534)
Inflows	-	*261*	*13,917*	*1,052*	*15,230*
Outflows	-	*(276)*	*(14,429)*	*(1,059)*	*(15,764)*
Contractual cash flows from derivatives	**-**	**(9,630)**	**(16,609)**	**(5,973)**	**(32,212)**
Contractual cash flows from financial liabilities	**(753,834)**	**(433,067)**	**(65,379)**	**(28,381)**	**(1,280,661)**
Loan commitments – irrevocable (note 33)	(100,108)	-	-	-	(100,108)
Loan commitments – revocable (note 33)	(57,274)	-	-	-	(57,274)
Financial guarantees (note 33)	(44,056)	-	-	-	(44,056)
Other commitments (note 33)	(3,358)	-	-	-	(3,358)
Contractual cash flows from contingent liabilities	**(204,796)**	**-**	**-**	**-**	**(204,796)**

The following table sets out the financial liabilities of the Bank by remaining contractual maturity as at 31 December 2017:

IAS 39 (CZKm)	On demand	Less than 1 year	1 year to 5 years	More than 5 years	Total
Financial liabilities					
Financial liabilities held for trading other than financial derivatives	-	(15,423)	(5,463)	(189)	(21,075)
Financial liabilities designated at fair value through profit or loss	-	(13)	(8,099)	(2,176)	(10,288)
Financial liabilities at amortised cost	(749,754)	(359,687)	(32,110)	(9,951)	(1,151,502)
Fair value adjustments of the hedged items in portfolio hedge	3,803	-	-	-	3,803
Other liabilities (Note: 26)	-	(3,267)	-	-	(3,267)
Contractual cash flows excluding derivatives	**(745,951)**	**(378,390)**	**(45,672)**	**(12,316)**	**(1,182,329)**
Net settled derivatives	**-**	**(4,611)**	**(12,232)**	**(5,937)**	**(22,780)**
Trading derivatives	-	(2,690)	(6,751)	(2,029)	(11,470)
Hedging derivatives	-	(1,921)	(5,481)	(3,908)	(11,310)
Gross settled derivatives	-	**(4,007)**	**(2,792)**	**(267)**	**(7,066)**
Trading derivatives	-	(3,877)	(2,557)	(267)	(6,701)
Inflows	-	*232,789*	*79,260*	*6,646*	*318,695*
Outflows	-	*(236,666)*	*(81,817)*	*(6,913)*	*(325,396)*
Hedging derivatives	-	(130)	(235)	-	(365)
Inflows	-	*2,833*	*7,668*	*555*	*11,056*
Outflows	-	*(2,963)*	*(7,903)*	*(555)*	*(11,421)*
Contractual cash flows from derivatives	**-**	**(8,618)**	**(15,024)**	**(6,204)**	**(29,846)**
Contractual cash flows from financial liabilities	**(745,951)**	**(387,008)**	**(60,696)**	**(18,520)**	**(1,212,175)**
Loan commitments – irrevocable (note 33)	(98,640)	-	-	-	(98,640)
Loan commitments – revocable (note 33)	(56,365)	-	-	-	(56,365)
Financial guarantees (note 33)	(34,555)	-	-	-	(34,555)
Other commitments (note 33)	(1,340)	-	-	-	(1,340)
Contractual cash flows from contingent liabilities	**(190,900)**	**-**	**-**	**-**	**(190,900)**

For net settled derivatives, disclosed amounts are calculated based on assumption, that fair value will be evenly settled each year up to maturity date.

The maturity of contingent liabilities and commitments is on demand. This represents the undiscounted cash flows of the Bank's contingent liabilities and commitments on the basis of their earliest possible contractual maturity. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

The liquidity risk of the Bank is not managed based on the remaining contractual maturities of the financial instruments, as such the Bank's expected cash flows on these instruments vary significantly from this analysis (Note: 32). For example, undrawn loan commitments are not expected to be drawn down immediately.

38.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Bank classifies exposures to market risk into either trading or non-trading portfolios. The market risk for the trading portfolio is managed and monitored based on a historic VaR methodology that reflects the interdependency between risk variables. The secondary measure for risk management is Basis Point Value (BPV) sensitivity. Non-trading positions are managed and monitored using BPV sensitivity analysis.

Market risk – Trading

The Board of Directors has set limits on the level of risk that may be accepted. The Bank applies a VaR methodology to assess the market risk positions held and to estimate the potential economic loss based upon assumptions for various changes in market conditions. VaR is a method used to measure financial risk by estimating a potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The Bank uses a full linear VaR model for interest rate and foreign exchange rate risk. These calculations are based on historic scenarios derived from a two-year history. The Bank has no net position in FX options, nor any position in equity. A nominal technical limit for reminder products, in particular interest rate options, commodity derivatives and structured bonds. Positions in these products are not allowed to be material as back-to-back approach is required.

Standard VaR calculations are supplemented by a sophisticated system of stress tests. They consist of examples of extreme, but plausible events on the financial markets to test their impact on the market value of positions currently held by the Bank. The Bank analyses scenarios, dependent and independent of the Bank’s position. Also, real historical scenarios are evaluated on a regular basis.

To enhance the system of risk management, the Bank also uses other methods of risk monitoring, such as interest rate sensitivity BPV, and stop-loss limits.

Objectives and limitations of the VaR methodology

The Bank uses the historical VaR methodology to measure and monitor interest rate and foreign exchange rate risks in the trading book observing the relevant Basel II standards. The accuracy of estimated results is verified through back-testing.

VaR assumptions

When measuring risks, the Bank applies VaR assumptions to estimate potential losses at a 99% confidence level that is not expected to be exceeded if the current market risk positions were to be held unchanged for 10 days. The use of a 99% confidence level means that, within a ten-day horizon, losses exceeding the VaR figure should occur, on average, not more than once every 100 days. The Bank uses historical daily changes in market variables to assess possible changes in the market value of the trading portfolio based on historical data from the past 500 days.

Since VaR is an integral part of the Bank's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by the management.

The VaR model is back tested on a daily basis. Daily VaR (1 day holding period) is compared with theoretic profit or loss from holding previous day position. Daily VaR is also compared with the actual profit or loss made by the trading book.

The Bank holds regulatory approval to use an internal VaR model for the calculation of capital requirements for interest rate and foreign exchange risks.

ČSOB calculate a Stress VaR to fulfil CRR / CRD IV requirements for market risk capital. A one year historic stress period is used for determining of stress scenarios. All other assumptions are identical to the standard VaR measurement.

The tables below show potential gains or (losses) analysed using VaR 10D 99% model in 2018 and 2017:

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2018	682	3	4	689
Average during the period	817	3	(3)	817
Highest	1,122	37	(38)	1,121
Lowest	503	1	7	511

(CZKm)	Interest rate	Foreign exchange	Effect of correlation	Global VaR total
31 December 2017	674	4	3	681
Average during the period	487	5	(5)	487
Highest	793	21	(20)	794
Lowest	122	(2)	2	122

Market risk – Investment portfolio

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Board of Directors has established limits on the BPV sensitivity. The Board of Directors has set secondary limits on interest rate gaps for stipulated periods. Positions are monitored on a weekly basis and hedging strategies are used to ensure positions are maintained within the established limits.

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's statement of income and equity.

The sensitivity of the statement of income is calculated by revaluing financial assets designated at fair value through profit or loss for the effects of the assumed changes in interest rates. The sensitivity of the statement of income is analysed by the maturity of the asset. The total sensitivity of the statement of income is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity also to non-parallel changes.

The sensitivity of equity is calculated by revaluing Financial assets at fair value through other comprehensive income / Available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash-flow hedges, for the effects of the assumed changes in interest rates. The sensitivity of equity is analysed by the maturity of the asset or swap. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve, while the analysis by maturity band displays the sensitivity also to non-parallel changes.

The Bank’s investment portfolio consists of predominantly linear interest rate sensitive products.

The table below shows the sensitivity of the statement of income and other comprehensive income (before tax) due to revaluation of assets and liabilities that are measured at fair value on recurring basis as at 31 December 2018:

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	17.9	16.5	(94.2)	(78.3)	(138.0)
EUR	+ 10	0.6	0.2	11.5	(7.0)	5.3
USD	+ 10	0.2	0	0	0	0.2
CZK	- 10	(17.9)	(16.5)	94.2	78.3	138.0
EUR	- 10	(0.6)	(0.2)	(11.5)	7.0	(5.3)
USD	- 10	(0.2)	0	0	0	(0.2)

		Sensitivity of other comprehensive income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(8.6)	12.0	31.5	(196.4)	(161.5)
EUR	+ 10	0.1	0.1	(0.6)	(21.4)	(21.8)
USD	+ 10	-	-	-	-	-
CZK	- 10	8.6	(12.0)	(31.5)	196.4	161.5
EUR	- 10	(0.1)	(0.1)	0.6	21.4	21.8
USD	- 10	-	-	-	-	-

The table below shows the sensitivity of the statement of income and other comprehensive income (before tax) as at 31 December 2017 due to revaluation of assets and liabilities that are measured at fair value on recurring basis:

		Sensitivity of the statement of income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	(14.2)	2.5	(60.6)	(56.0)	(128.3)
EUR	+ 10	(0.1)	0.2	(0.4)	(9.8)	(10.1)
USD	+ 10	-	(0.1)	(0.9)	-	(1.0)
CZK	- 10	14.2	(2.5)	60.6	56.0	128.3
EUR	- 10	0.1	(0.2)	0.4	9.8	10.1
USD	- 10	-	0.1	0.9	-	1.0

		Sensitivity of other comprehensive income				
(CZKm)	Change in basis points	Less than 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
CZK	+ 10	11.8	5.3	(92.6)	(27.3)	(102.8)
EUR	+ 10	0.7	-	(26.3)	(14.8)	(40.4)
USD	+ 10	(0.1)	-	(4.4)	(0.1)	(4.7)
CZK	- 10	(11.8)	(5.3)	92.6	27.3	102.8
EUR	- 10	(0.7)	-	26.3	14.8	40.4
USD	- 10	0.1	-	4.4	0.1	4.7

Currency risk

Currency risk is the risk that the value of a financial instrument would fluctuate due to changes in foreign exchange rates. The Bank adopted a strategy under which the banking book has no open positions in foreign currencies. Positions are monitored on a daily basis and hedging strategies are used to close such positions. Minimum technical residual open positions in foreign currencies are allowed; the Bank sets limits for these positions. The technical currency position is added to the currency position of the trading book position and reported in aggregate.

The table below shows the foreign currency risk sensitivity of the statement of income (before tax) as at 31 December 2018 and 2017:

	2018			2017		
(CZKm)	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR	Net position in foreign currency	Increase of foreign exchange rate by 1 CZK/EUR	Decrease of foreign exchange rate by 1 CZK/EUR
EUR	18	1	(1)	7	-	-

Sensitivity of the statement of income to currencies other than EUR is not significant.

Equity price risk

Equity price risk is the risk that the fair values of equities will decrease as a result of changes in the levels of equity indices and in the value of individual stocks. Investment equity price risk exposure arises from the Bank's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments included in Financial assets at fair value through other comprehensive income at 31 December 2018) due to a reasonably possible change in equity indices (before tax), with all other variables held constant, is as follows:

(CZKm)	Change in equity price (%)	Effect on equity
Visa Inc. quotation	- 10	(41)
	+ 10	41

The effect on equity (as a result of a change in the fair value of equity instruments included in Available-for-sale financial assets at 31 December 2017) due to a reasonably possible change in equity indices (before tax), with all other variables held constant, was as follows:

(CZKm)	Change in equity price (%)	Effect on equity
Visa Inc. quotation	- 10	(33)
	+ 10	33

Prepayment risk

Prepayment risk is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Prepayment risk of the Bank's products is negligible, however, it is regularly monitored and assessed. Convenient tools for prepayment risk limitation are applied in the area of mortgage loans particularly.

38.5 Operational risk

The Bank defines operational risk in line with Basel III as the risk of loss resulting from inadequate or failed internal procedures, people and systems, or from external events. Operational risks include legal, compliance and tax risks. The impact of incidents on the Bank's reputation is taken into consideration when assessing the Bank's vulnerability in respect of operational risk incidents.

Principles of Operational Risk Management

Operational risk management starts with the identification of operational risks having materialized within the ČSOB, as well as an assessment of the Bank's vulnerability in respect of potential risks that have not materialised yet. Operational risk management focuses primarily on the key risks and the most risky areas for potential losses. The assessment involves ranking the risks and risk events in terms of their severity and anticipated frequency. The assessment is followed by the decision of an accountable manager, i.e. acceptance of risk or its mitigation by implementing appropriate control measures and/or risk transferring to the 3rd parties and/or risk insurance. Risk events that cannot be prevented may be also mitigated by business continuity arrangements.

Operational Risk Management Governance

The basic objective is to make operational risk management a natural part of the decision making in business units. Operational risk management governance is promoted by the CRO and the Risk Function.

Non-financial Risk Management Department (NFRD)

The NFRD is responsible for reporting in the non-financial risk management area, including operational risk management. This includes coordination, implementation of methodology, assurance of independent control, advisory to business units and training. NFRD covers also business continuity and information security areas. Other risks related to operational risk are coordinated by special units, including the Compliance Unit, Legal Unit and Tax Unit.

Local Operational Risk Managers (the "LORMs")

LORMs are first line support for business managers in respect of non-financial risks (also responsible for first-line business continuity and information security agendas). Beside frequent contacts, regular meetings of LORMs are organised by the NFRD every quarter for training and exchange of information.

Crisis Management

Apart from the regular operational risk management infrastructure, the Bank has also established a crisis management infrastructure. Major incidents within the Bank are resolved by the Crisis Management Committee with the involvement of the Board of Director members. Additionally, the Bank has in place a procedure for resolving local incidents. This procedure is used for more explicit and structured situations, i.e. not complex crises.

Building Blocks of Operational Risk Management

Loss Data Collection

Loss events are registered into a loss database, which contains a full description of cases involving a higher level of loss. The quality of loss data is monitored on a daily basis, and data is reconciled regularly.

Deep Dive

The *Deep Dive* (formerly detailed risk scan) aims to identify and quantify operational risks in products, activities, processes and systems. The risks are subsequently either accepted or mitigated via action plans.It consists of workshops organised and facilitated by the LORM, where business representatives and control function representatives discuss operational risks faced in order to reach a consensus on the adequate risk response (risk acceptance or mitigation).

Process of Change Management

Besides above mentioned NAPP addressing product changes, Process of Change Management dealing with non-product changes is also used. Each material change must be analysed and identified risks are further managed according to valid rules.

Risk Scan

Every year, before the risk appetite statement is defined, the Bank executes a risk scan identifying and assessing its top risks. All material risk types are explicitly considered, but it is not necessary that a top risk is ultimately withheld for every risk type. The Risk Scan is executed and reported based on the KBC Group Risk Scan Guidance.

The prime responsibility for the identification and assessment of the top risks lies with the business. Input for the risk scan can be derived from several sources, including the main risks identified in the Internal Control Statement, audit recommendations, existing claims, economic forecasts and so on. The Risk Function facilitates the process. This may include gathering business input and documenting the conclusions of the risk scan. The business may call upon the Risk Function for assistance with the identification and assessment of the top risks as well. In any case, the Risk Function challenges the assessment details.

The results of the risk scan, as well as the risk response thereto (acceptance, non-acceptance, mitigating actions), can lead to changes to the existing business plans. Furthermore, they are used as input for the definition of risk appetite in the strategic planning process.

Group Key Controls, Zero Tolerances, Local Risk and Control Assessment (GKC ZT)

The Group Key Controls and Zero Tolerances are top down basic control objectives used to mitigate key & killer non-financial risks (including risks to reputation) that are inherent to the processes of the business entities. Each GKC contain the key & killer operational risks related to the involved business process.

Besides Group Key Controls and Zero Tolerances, local approach called Local Risk and Control Assessment aims to identify new key risks and controls and/or revise GKC risks and controls to have one local view of risk exposure per process.

Risk assessment and its approval

All operational risks must be assessed according to Uniform Risk Scale consisting of 4 levels, where financial limits and also non-financial criteria are taken into account. Risk is then approved by respective managerial level based on its impact.

Action plans

Action plans are activities set up by 1st LoD that mitigate risk. Action plans are reported by LORMs to NFRD on a Q basis. By using risk based approach, NFRD checks selected action plans when they are proposed for closing by 1st LoD.

Key Risk Indicators

Key risk indicators are measurable metrics or indicators used to track the exposure to loss or other difficulties. Key risk indicators are used for informing the management of the current level of risk exposure and/or the effectiveness of the controls in place. Key risk indicators also underpin overall risk profile which is set on the level of subsidiary and selected business units of Bank.

39. CAPITAL

Capital Adequacy

Capital adequacy measures the financial strength and stability of an institution. It compares the amount of the capital held by a financial institution to the risk of possible decline in value of assets on its statement of financial position.

Capital adequacy (or solvency) risk is the risk that the capital base of the bank might fall below an acceptable level. In practice, this entails checking solvency against the minimum regulatory and in-house solvency ratios and its active steering.

Capital targets and structure

Regarding the capital targets and structure, the Bank fully follows the KBC Group Capital Adequacy Policy stating that fully owned subsidiaries shall hold the regulatory minimum capital (all capital in excess of the regulatory minimum must be held at the Group level).

For the purpose of the ICAAP process, available capital of the Pillar II in the Bank coincides with the Common equity Tier 1 capital under Pillar I.

Managing solvency

ČSOB reports its solvency calculated on the basis of IFRS balances taking into account all relevant regulatory requirements. Solvency targets based on external regulatory capital requirements were met throughout 2018 and 2017 with adequate buffers above the regulatory minimum standards, underpinning the very strong capital position of the Bank.

The primary objectives of the Bank’s capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

In accordance with Basel III, Pillar 2 requirements, the Bank has an Internal Capital Adequacy Assessment Process (ICAAP) in place. The ICAAP examines both the current and future capital situation. To assess the latter situation, a four-year forecast is drawn up for required and available capital, both regulatory and economic, according to a basic scenario that takes account of anticipated internal and external growth, and according to various likely alternative scenarios. The Bank uses also other instruments as required by Pillar 2 mainly in the area of capital planning, stress testing and risk strategies.

The Basel III agreement and corresponding European CRD IV Directive and Regulation introduced new, more stringent capital requirements for financial institutions. According to these requirements, the legal minimum tier-1 ratio increased to 6.0% (with a common equity ratio of 4.5%). On top of this, a capital conservation buffer, and an extra charge for systemic risks of banks were applied. In addition, a countercyclical buffer (to be determined by the national regulatory authority) was introduced in 2017 and has been gradually increasing since. The Bank incorporated major changes / ratios into the regular management of the risk and capital positions.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital instruments.

For the purpose of the capital management in 2018 and 2017, the Bank was granted the CNB permission to include a part of the interim profit of the Bank to the Common Equity Tier 1 before taking a formal decision confirming the final net profit of the Bank for the year. As a consequence of the approval, the ČSOB Tier 1 capital increased by CZK 1,563 m as at 31 December 2018 and CZK Nil m as at 31 December 2017.

The following table shows the capital, capital requirements and CAD ratio calculated under Basel III on 31 December 2018 and status prior adoption of IFRS 9 on 31 December 2017 for ČSOB:

(CZKm)	2018	2017
Tier 1 capital	63,504	62,116
Tier 2 capital	-	-
Total capital	**63,504**	**62,116**
Regulatory capital requirements	26,909	29,496
Risk weighted assets	**336,360**	**368,705**
Capital adequacy ratio	18.88%	16.85%

The first time application of IFRS 9 led to an increase of CSOB Total capital ratio by 6 basis points. A combined negative effect of reclassification of part of the Treasury bond portfolio and initial ECL creation was outweighed by reduction of IRB shortfall.

RELATED PARTIES REPORT

Report of the Board of Directors of Československá obchodní banka, a. s., on Relations between Related Entities

1. Controlled Entity

Československá obchodní banka, a.s., with its registered office at Praha 5, Radlická 333/150, Postcode 150 57, identification number 000 01 350, incorporated in the Commercial Register maintained by the Municipal Court in Prague, Section B XXXVI, Entry 46 (hereinafter "ČSOB" or "the Bank").

2. Controlling Entity

KBC Bank NV, with its registered office at Havenlaan 2, B-1080 Brussels, Kingdom of Belgium, is the sole shareholder in ČSOB.

All shares issued by KBC Bank NV are held (directly or indirectly) by the KBC Group NV (legal entity).

3. Structure of the relationships between the Controlling Entity and the Controlled Entity, as well as between the Controlled Entity and Entities Controlled by the same Controlling Entity

KBC Bank NV is a bank supervised by the Belgian National Bank. It is a part of the banking-insurance financial group KBC Group. KBC Group is primarily active in the markets in Belgium, the Czech Republic, Slovakia, Bulgaria, Hungary and Ireland. To a limited extent, it also pursues its business in other countries.

Shares issued by KBC Group NV (legal entity) are traded on the Euronext Stock Exchange in Brussels, Kingdom of Belgium; none of the shareholders owns a stake in the company in excess of 20%.

Annex 1 to this report gives an overview of the ČSOB and KBC group companies, which is also available at www.kbc.com.

In the period that was monitored, the Bank had relations mainly with the following related entities:

Trade name	Registered office	
Bankovní informační technologie, s.r.o.	Radlická 333/150, 150 57 Praha 5	Czech Republic
CBC Banque SA	Grand-Place 5, 1000 Brusel	Kingdom of Belgium
Českomoravská stavební spořitelna, a.s.	Vinohradská 3218/169, 100 17 Praha 10	Czech Republic
Československá obchodná banka, a. s.	Žižkova 11, 811 02 Bratislava	Slovak Republic
ČSOB Advisory, a.s.	Radlická 333/150, 150 57 Praha 5	Czech Republic
ČSOB Asset Management, a.s., investment company	Radlická 333/150, 150 57 Praha 5	Czech Republic
ČSOB Factoring, a.s.	Benešovská 2538/40, 101 00 Praha 10 - Vinohrady	Czech Republic
ČSOB Leasing, a.s.	Na Pankráci 310/60, 140 00 Praha 4	Czech Republic
ČSOB Leasing, a.s.	Panónska cesta 11, 852 01 Bratislava	Slovak Republic
ČSOB Penzijní společnost, a. s., a member of ČSOB Group	Radlická 333/150, 150 57 Praha 5	Czech Republic
ČSOB Poisťovňa, a.s.	Žižkova 11, 811 02 Bratislava	Slovak Republic
ČSOB Pojišťovna, a. s., a member of ČSOB holding	Masarykovo náměstí 1458, 530 02 Pardubice - Zelené předměstí	Czech Republic
ČSOB stavebná sporiteľňa, a.s.	Žižkova 11, 811 02 Bratislava	Slovak Republic
Eurincasso, s.r.o.	Benešovská 2538/40, 101 00 Praha 10 - Vinohrady	Czech Republic
Hypoteční banka, a.s.	Radlická 333/150, 150 57 Praha 5	Czech Republic
KBC Asset Management NV	Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek)	Kingdom of Belgium
KBC Bank NV	Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek)	Kingdom of Belgium
KBC Group NV (legal entity)	Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek)	Kingdom of Belgium
KBC Group NV Czech Branch, organizational unit	Radlická 333/150, 150 57 Praha 5	Czech Republic
KBC Investments Limited	111 Old Broad Street, London	United Kingdom
KBC Securities NV	Havenlaan 2, B-1080 Brussels (Sint-Jans Molenbeek)	Kingdom of Belgium
K & H BANK Zrt.	Lechner Ödön fasor 9, 1095 Budapest	Hungary
K & H Biztosító Zrt.	Lechner Ödön fasor 9, 1095 Budapest	Hungary
Patria Finance, a.s.	Jungmannova 745/24, 110 00 Praha 1	Czech Republic
Patria Corporate Finance, a.s.	Jungmannova 745/24, 110 00 Praha 1	Czech Republic
Patria investiční společnost, a.s.	Jungmannova 745/24, 110 00 Praha 1	Czech Republic
Radlice Rozvojová, a.s.	Radlická 333/150, 150 57 Praha 5	Czech Republic
SousedeCZ s.r.o.	Drahobejlova 2433/12, 190 00 Praha 9	Czech Republic

4. Role of the Controlled Entity, Measures and Means of Control

The KBC Group NV (legal entity), specifically KBC Bank NV, controls ČSOB through decisions made by the sole shareholder within the competence of the General Meeting according to the Act No. 90/2012 Coll., on Commercial Companies and Cooperatives (Corporations Act) (hereinafter abbreviated to "CA").

The controlling entity also exercises its influence through its representatives on the governing bodies of ČSOB, i.e. the Supervisory Board and/or the Board of Directors. First and foremost, this involves cooperation and coordination of activities related to consolidated risk management, auditing and compliance with the prudential rules that apply to banks and other financial institutions, and the legal requirements.

ČSOB is a bank within the meaning of the Act No. 21/1992 Coll., on banks operating on the Czech financial services market. It specializes in banking services for individuals and business entities. ČSOB is subject to supervision by the Czech National Bank.

ČSOB is a controlling entity of the most companies within the ČSOB Group (the Czech part of the multinational KBC Group) and it usually provides these highly specialized companies (factoring, leasing, asset management etc.) with a range of support services (e.g. HR and Personnel, IT, Internal Audit).

ČSOB operates a large network of branches, is also a point of distribution for the products offered by these companies. Within the ČSOB Group, ČSOB also ensures that prudential rules are followed on a consolidated basis.

5. Review of Activities in the Accounting Period, Induced by the Interest of the Controlling Entity or its Controlled Entities

Unless otherwise stated, no activities were carried out in the accounting period initiated by or in the interest of the controlling entity or its controlled entities that would affect more than 10% of the equity of ČSOB, including transactions in the ordinary course of business.

During the accounting period, ČSOB repeatedly accepted liabilities towards KBC Bank NV, including short-term money market trading deposits and promissory notes, the value of which exceeded 10% of the company's equity. These activities aim at improving the efficiency of the use of the financial assets within the group. The aforementioned commitments arise from current transactions and are subject to comparable terms and conditions (including interest rates and securing) to transactions with third parties and as such they have not been detrimental to the Bank.

ČSOB, in cooperation with ČSOB Leasing, a.s., implements a promissory notes programme with a limit of CZK 18 billion. In 2018, the highest volume of ČSOB exposure under this promissory notes programme was CZK 12.7 billion. It is a standard banking product that is also provided to unrelated persons under comparable terms and conditions, and the Bank has not incurred any damage or loss as a result of the performance of the contract.

6. Review of Mutual Agreements between the Controlled Entity and the Controlling Entity or among the Controlled Entities

During the accounting period, ČSOB had various relations with the controlling entity, as well as other companies controlled by the controlling entity (for the purpose of this Related Parties Report also referred to as "counterparties") based on common business activities.

The contractual relations took place in the following areas:

BANKING SERVICES

Accounts, Deposit Products, Domestic and International Payments Services, Domestic and International Cash Management

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods to provide services for maintaining various types of accounts, current and term accounts, interbank deposits, (including amendments on the early termination (default) of some deposits, along with settling interest and compensation payments), accounts for the deposit of funds intended to acquire or increase a partnership in a company, and to provide the following products and domestic and international payments services, such as Cash Management NightLine, Virtual Cash Pooling and Real One-Way Cash Pooling. During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods in the field of financial market trading. The contracts were concluded under standard business terms and conditions.

Payment cards

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods to issue, accept and process payment card transactions. The contracts were concluded under standard business terms and conditions.

Electronic Banking

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods under which it provided the following electronic banking products: ČSOB Phone banking, ČSOB Smartbanking, ČSOB Internet banking, ČSOB Internetbanking 24, ČSOB Businessbanking 24, ČSOB CEB, and ČSOB MultiCash 24. The contracts were concluded under standard business terms and conditions.

Cheques and Bills of Exchange

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods for procuring bills of exchange and their custody, and contracts for securing the bill-of-exchange programme. The contracts were concluded under standard business terms and conditions.

Credit Products and Guarantees

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods under which it provided the following credit products: overdrafts, commercial loans, revolving loans, specific-purpose credit facilities, subordinated loans, interbank loans (including amendments on the early termination (default) of some loan agreements, along with interest settlements and payment of compensation) and current account overdrafts, and accepted and issued guarantees, confirmed or open letters of credit, and/or bought back claims from letters of credit, and provided guarantees. The counterparties paid contractual fees, remuneration and interest for these services. The contracts were concluded under standard business terms and conditions.

Investment Services

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods for purchasing and selling investment instruments, ISDA contracts, escrow agreements, contracts for settling investment instrument transactions, contracts for administering securities, depository contracts, agreements on the contact bank, and agreements on the authorization of fax instructions for settling and administering securities. The remuneration provided by the counterparties consisted of commissions and contractual fees. The contracts were concluded under standard business terms and conditions.

Mortgage Bonds and Bonds

During the accounting period, ČSOB concluded or had concluded mandate contracts or mandate contracts for the provision of the issuance of mortgage bonds issued on the domestic market under the bond programme and mandate contracts for the provision of the issuance of bonds, contracts for subscription and the purchase of mortgage bonds/bonds and contracts for the management of the issuance and provision of payments. The counterparties provided contractual rewards for these services. The contracts were concluded under standard business terms and conditions.

Receivables

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods for the management or assignment of claims/receivables. The Bank provided contractual rewards to the counterparties for these services. The contracts were concluded under standard business terms and conditions.

OTHER RELATIONS

Insurance Policies

During the accounting period, ČSOB concluded insurance policies or had concluded insurance policies in previous accounting periods. The consideration consisted of insurance and indemnity. The contracts were concluded under standard business terms and conditions.

Lease and Rent Contracts

During the accounting period, ČSOB concluded contracts or had concluded contracts in previous accounting periods for renting/leasing non-residential areas, parking places and movable assets. The consideration consisted of contractual prices or the lease of certain items, parts thereof or groups of items. The contracts were concluded under standard business terms and conditions.

Cooperation Agreements – Employee Benefits

During the accounting period, ČSOB concluded cooperation agreements – employee benefits – or had concluded contracts in previous accounting periods. The consideration consisted of providing employee benefits. The contracts were concluded under standard business terms and conditions.

Cooperation Agreements – Selling Products and Services

During the accounting period, ČSOB concluded cooperation agreements and framework, mandate and commission agent's contracts or had concluded these contracts and agreements in previous accounting periods, particularly concerning cooperation on product sales, product sales agency, sales support and the use of technology for this purpose, consultancy, and opportunity-seeking. The consideration consisted of cooperation, contractual commissions, contractual rewards or the sale of products. The contracts were concluded under standard business terms and conditions.

Cooperation Agreements – Joint Observance of Tax Obligations (VAT)

On 9 December 2016, ČSOB concluded an agreement with some of the entities controlled by the same controlling entity on cooperation in the joint observance of tax obligations (VAT) on behalf of the group. The agreement remained valid and effective during the accounting period. The consideration consisted of observance of tax obligations. The agreement was entered into under standard business terms and conditions.

In 2018, the agreement covered ČSOB, ČMSS, ČSOB Advisory, ČSOB AM, ČSOB Penzijní společnost, ČSOB Pojišťovna, Hypoteční banka, Patria Finance, Patria investiční společnost.

Agreements in the field of ICT Services

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods on providing ICT services. The consideration consisted of contractual rewards. The contracts were concluded under standard business terms and conditions.

Agreements on Providing Services – Call Centre

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods to provide call centre services. The consideration consisted of contractual rewards. The contracts were concluded under standard business terms and conditions.

Agreements on Providing Services – Back Office and Other Related Services

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods to provide back-office services and supporting processes, i.e. risk management cooperation, developing models, management consultancy, central procurement, accounting and tax services and processing foreign payments. The consideration consisted of contractual rewards and consultations. The contracts were concluded under standard business terms and conditions.

Agreements on Providing Services – Facilities Management

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods to provide management services for facilities, i.e. accounting and asset administration, food vouchers and catering, accommodation, postal services, document archiving, telephone exchange, fleet management and parking administration and transferring or purchasing movable assets. The consideration consisted of contractual rewards. The contracts were concluded under standard business terms and conditions.

Agreements on Providing Services – Processing Financial Reporting

During the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods to provide the processing of financial reports for external users services, especially for the Czech National Bank. The consideration consisted of contractual rewards. The contracts were concluded under standard business terms and conditions.

Agreements on Providing Services – advertising, marketing, internal and external communication

During the accounting period, ČSOB concluded agreements in the fields of advertising, marketing and internal and external communication with clients, e.g. purchasing of media, communication strategies, event marketing, sponsorship and clients' trade name (brand) management. The consideration consisted of contractual rewards. The contracts were concluded under standard business terms and conditions.

Agreements on Providing Services – other support services

In the accounting period, ČSOB concluded agreements or had concluded agreements in previous accounting periods for cooperation and the provision of services in the fields of internal auditing, compliance, risk management, legal support, project management, administrative support in finances, including accounting, human resources management, including labour relations and the use of the workforce and administrative support. In the accounting period, ČSOB entered into agreements for cooperation and the processing and exchange of information in the field of macroeconomic analyses, scenarios and forecasts. The consideration consisted of services and contractual rewards. ČSOB also entered into agreements for the processing of personal data or information provision, confidentiality agreements, etc. The contracts were concluded under standard business terms and conditions.

Miscellaneous

Effective as of 1 October 2018, ČSOB Leasing pojišťovací makléř, s.r.o. has changed its business name to ČSOB Pojišťovací makléř, s.r.o.

On 6 December 2018, a merger of STRM Delta, as a dissolved company, and Pardubická Rozvojová, a.s., as a successor company, came into force. STRM Delta, a.s. was dissolved without liquidation and ceased to operate upon its removal from the Commercial Register, with the subsequent transfer of its assets to Pardubická Rozvojová, a.s.

On 24 November 2018, IP Exit, a.s. ceased to operate and was removed from the Commercial Register.

Effective as of 4 July 2018, Hypoteční banka, a.s. transferred 100% of its ownership interest to SousedeCZ s.r.o. and to Mangrove Holdings a.s.

On the basis of the Agreement on the Transfer of Ownership Interest and Assignment of Claims, Československá obchodní banka, a.s., acquired a 100% share in Ušetřeno.cz, s.r.o. as of 3 April 2018.

On the day of March 1, 2019, the ČSOB has published in accordance with Sec 79/3 of the Act No. 90/2012 Coll., the corporations act ("CA"), on its web site the existence of ČSOB Holding, where ČSOB is a controlling person within the meaning of Sec 79/1 of the CA. More detailed information about ČSOB Holding can be found here https://www.csob.cz/portal/csob/about-the-csob-group/csob-holding.

SHARE IN PROFITS AND OTHER FACTS

KBC Bank NV, as the sole shareholder, decided on 25 April 2018, within the competence of the General Meeting, to distribute the profit for the fiscal year 2017, in such a way that a share of the profit amounting to CZK 15.356 billion was paid to the sole shareholder.

During the accounting period, ČSOB collected revenue in the form of profit shares from the following companies: ČMSS, ČSOB Factoring, Hypoteční banka, ČSOB Advisory, ČSOB Leasing, ČSOB Penzijní společnost, ČSOB Pojišťovna and Patria Corporate Finance.

In addition, ČSOB made a decision within the competence of the sole shareholder/partner of the companies where it is the sole shareholder/partner. The decision primarily concerns the approval of the financial statements, decisions about the settlement of profits, payment of shares in profit, election and removal of members of the bodies, including approval of their remuneration, changes in the Articles of Association, appointment of the auditor, an increase/decrease in capital stock and changes in the form of shares.

7. Assessing the occurrence of the loss incurred by the Controlled Entity

The contractual and other relations between ČSOB and the controlling entity, or other related entities, have not caused any damage to ČSOB.

8. Evaluation of the relationships between the Controlling Entity and the Controlled Entity, as well as between the Controlled Entity and the Entities Controlled by the same Controlling Entity

Joint synergy within the ČSOB financial Group or KBC Group brings positive effects in the areas of cost-effectiveness and human resources and it helps set up the processes so that they are in line with ČSOB corporate strategy. The cooperation also helps limit certain transactional risks, such as the risks associated with the provision of sensitive information and data to third parties.

The Bank primarily provides banking services to companies within the ČSOB Group, which mainly include loans, overdrafts, interest-bearing deposits, current accounts and other services.

Receivables and payables with KBC Bank NV and the enterprises under joint control mainly consist of the fair value of derivative financial instruments, debt instruments, repo transactions and deposit notes.

The mutual cooperation of companies within the KBC Group and ČSOB Group and/or other companies that are controlled by ČSOB helps strengthen its common position on the market and enables the extension of the range of financial services provided to clients in the areas of building savings and mortgages, asset management, collective investment, contributory pension schemes, leasing, factoring, distribution of life and non-life insurance and services relating to securities trading in financial markets.

9. Accounting period

This report describes the relations for the accounting period from 1 January 2018 to 31 December 2018.

10. Conclusion

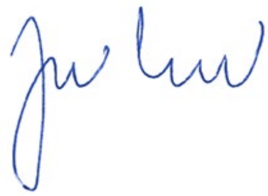
The Board of Directors of ČSOB hereby declares that this report has been prepared within the statutory time limit and in accordance with Section 82 of CA. While compiling the report, the ČSOB Board of Directors proceeded with due professional diligence and its scope reflects the purpose of the legislation governing the report under CA in relation to the ownership structure of ČSOB.

Praha, 29 March 2019

Československá obchodní banka, a.s.

For and on behalf of the Board of Directors:

John Arthur Hollows
Chairman of the Board of Directors

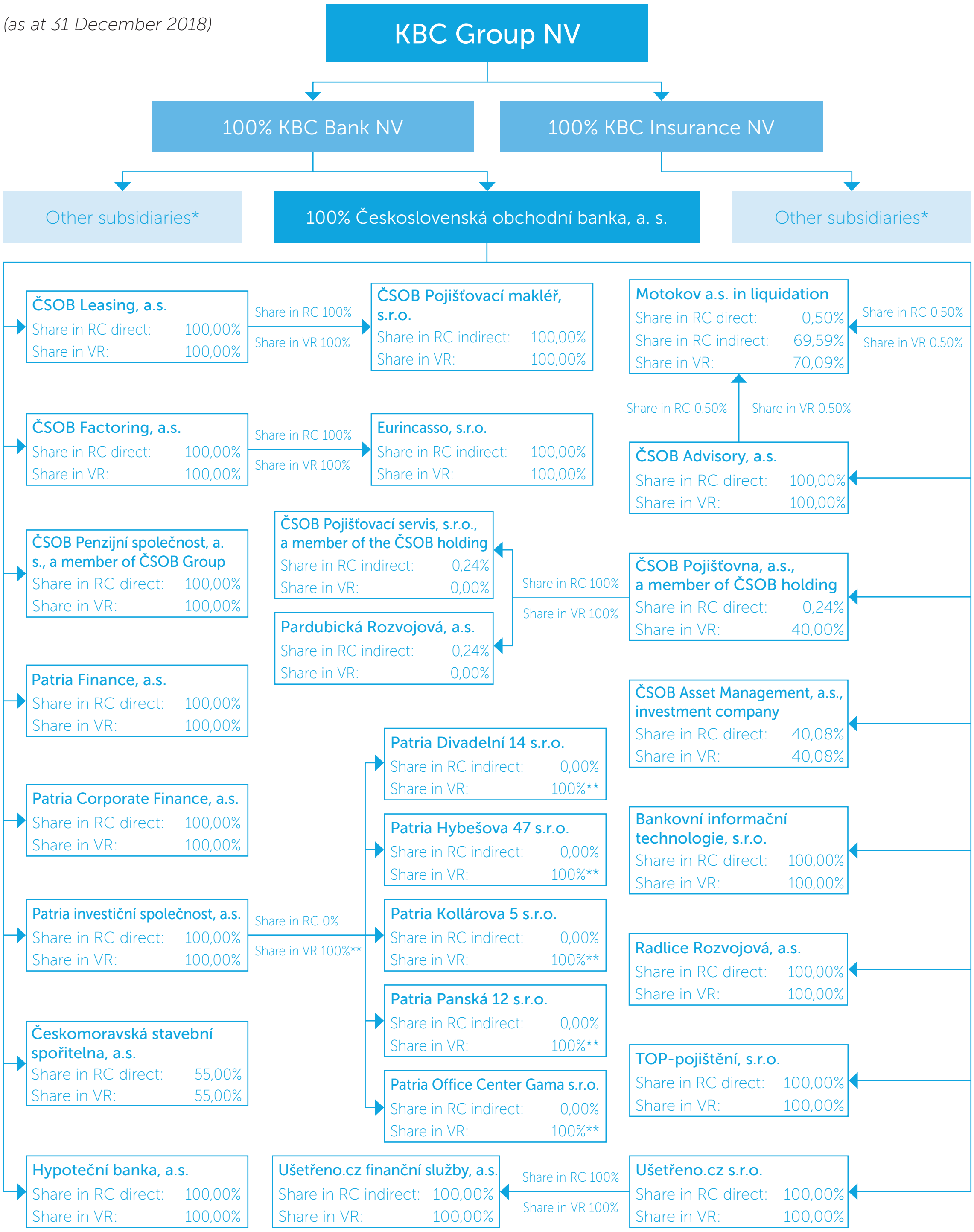


Jiří Vévoda
Member of the Board of Directors

Appendix to the Related Parties Report

List of entities controlling Československá obchodní banka, a.s. and entities controlled by the same controlling entity

(as at 31 December 2018)



Explanatory notes

Percentage shares shown for individual companies are expressed from the ČSOB point of view as a parent company.
All shares of KBC Bank and KBC Insurance are held (directly or indirectly) by the KBC Group.
ČSOB is 100% owned and fully controlled by KBC Bank.
** For complete overview of "Other subsidiaries" of the KBC Group please refer to KBC's corporate website www.kbc.com, where other details regarding the KBC Group are available.*
*** to the account of shareholders in the funds of qualified investors*

RC: registered capital (deposit)
VR: voting rights

ADDITIONAL INFORMATION

ČSOB Securities

Shares

Shares and Share Capital of ČSOB

	as at 31 December 2018
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.

Shares issued by the ČSOB (hereinafter referred to as the "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 No. 90/2012 Coll., on Commercial Companies and Cooperatives (Corporations Act). In 2018, ČSOB neither held any own shares, nor issued stock certificates.

Rights Attached to ČSOB Shares

Rights and obligations of a shareholder are stipulated by legal regulations, in particular by the Act on Commercial Companies and Cooperatives and the Articles of Association of ČSOB.

Shareholder rights attached to ČSOB shares include in particular:

a) The right to obtain a share in the company's profit (dividend) approved by the General Meeting for distribution according to the company's economic results.

b) The right to ask the Board of Directors to convene a Meeting in accordance with legal regulations.

c) The right to attend the General Meeting of Shareholders. At a General Meeting, shareholders have the right to
   1. vote;
   2. request and receive explanation to matters related to the company and controlled persons, should such explanation be necessary to assess a topic discussed by the General Meeting; and
   3. put forward proposals and counter-proposals.

d) The right to obtain a share in the liquidation balance when the company is dissolved trough liquidation.

Voting rights attached to ČSOB shares are unlimited. One share confers one vote.

ČSOB Securities

Bonds and Investment Certificates

(outstanding)

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

By 31 December 2018, ČSOB recorded the following investment certificate issues in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
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 XXXV. (2nd worst - Index)	CZ0000300645	20. 5. 2015	CZKm	90.05
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 Unit link V.	CZ0000300769	10. 11. 2015	CZKm	493.00
ČSOB Investiční certifikát XLII. (Banks Defensive)	CZ0000300785	2. 12. 2015	CZKm	176.24
ČSOB Investiční certifikát XLIII. (Eurostoxx50)	CZ0000300819	9. 12. 2015	EURm	3.59
ČSOB Investiční certifikát XLIV. (Eurostoxx50)	CZ0000300827	16. 12. 2015	USDm	3.06
ČSOB Investiční certifikát Unit link VI.	CZ0000300793	21. 12. 2015	CZKm	572.70
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
ČSOB Investiční certifikát Unit link IX.	CZ0000300959	24. 5. 2016	CZKm	191.50
ČSOB Investiční certifikát Unit link X.	CZ0000300983	15. 7. 2016	CZKm	124.30
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
ČSOB Investiční certifikát Unit link XII.	CZ0000301064	24. 10. 2016	CZKm	324.95
Solactive Participation 2021	CZ0000301072	3. 11. 2016	CZKm	220.34
ČSOB Investiční certifikát Unit link XIV.	CZ0000301148	12. 12. 2016	CZKm	502.41
Gold Miners	CZ0000301163	21. 12. 2016	CZKm	194.70
ČSOB Investiční certifikát Unit link XIII.	CZ0000301130	29. 12. 2016	CZKm	582.26
Defensive SX5E 4,6 2024 II.	CZ0000301171	29. 12. 2016	CZKm	118.09
ČSOB Investiční certifikát Unit link XV.	CZ0000301189	30. 12. 2016	CZKm	129.80
ČSOB Investiční certifikát Unit link XVI.	CZ0000301197	10. 2. 2017	CZKm	191.23
Autocall Euro iSTOXX 70 EWD5 6,8 2022	CZ0000301213	8. 3. 2017	CZKm	430.36
Defensive Euro iSTOXX 70 EWD5 4 2024	CZ0000301205	8. 3. 2017	CZKm	248.60

Issue Name	ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
ČSOB Investiční certifikát Unit link XVII.	CZ0000301239	10. 3. 2017	CZKm	125.18
Defensive Eurostoxx 4,6 2024 III.	CZ0000301254	15. 3. 2017	CZKm	308.85
NYSE Arca Gold BUGS 5,1 2022	CZ0000301288	15. 3. 2017	CZKm	173.55
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	19. 4. 2017	CZKm	917.64
ČSOB Investiční certifikát Unit link XIX.	CZ0000301338	10. 5. 2017	CZKm	137.20
Worst of IT 6 2022	CZ0000301346	11. 5. 2017	CZKm	177.61
ČSOB Investiční certifikát Unit link XX.	CZ0000301361	14. 6. 2017	CZKm	124.03
ČSOB Investiční certifikát Unit link XXII.	CZ0000301387	13. 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
Autocall iStoxx Transatlantic 100 EWD 6,1 2022	CZ0000301411	21. 7. 2017	CZKm	327.00
Defensive Eurostoxx 4,3 2024	CZ0000301403	26. 7. 2017	CZKm	241.00
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	14. 8. 2017	CZKm	86.57
ČSOB Investiční certifikát Unit link XXIV.	CZ0000301445	14. 9. 2017	CZKm	193.20
ČSOB Investiční certifikát Unit link XXV.	CZ0000301460	23. 10. 2017	CZKm	16.74
ČSOB Investiční certifikát Unit link XXVI.	CZ0000301478	11. 10. 2017	CZKm	233.94
ČSOB Investiční certifikát Unit link XXVII.	CZ0000301536	22. 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	28. 12. 2017	CZKm	438.74
Europe 5 2024	CZ0000301544	27. 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
Defensive SX5E USD 5,4 2025	CZ0000301650	7. 3. 2018	USDm	3.11
Autocall SX5E EUR 4,6 2023	CZ0000301668	7. 3. 2018	EURm	2.01
ČSOB Investiční certifikát Unit link XXXII.	CZ0000301635	12. 3. 2018	CZKm	96.70
Banky 5 2023	CZ0000301643	21. 3. 2018	CZKm	416.92
Evropský výběr 1	CZ0000301718	23. 4. 2018	CZKm	201.90
Autocall Defensive SX5E 4,6 2025	CZ0000301692	2. 5. 2018	CZKm	181.00
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 Klasik iSTOXX 70 EWD5 6,2 2023	CZ0000301700	16. 5. 2018	CZKm	327.00
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	200.00
Defensive SX5E 3 rok 4,6 2025	CZ0000301783	3. 8. 2018	CZKm	103.70
Evropské banky 2023	CZ0000301809	18. 9. 2018	CZKm	75.00
Defensive Eurostoxx 4,6 10/2025	CZ0000301825	19. 9. 2018	CZKm	209.00

Issue Name	ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
Autocall iSTOXX Transatlantic 100 EWD 6,3 2023	CZ0000301817	19. 9. 2018	CZKm	340.00
Ropné společnosti 2023	CZ0000301791	24. 10. 2018	CZKm	127.00
ČSOB Investiční certifikát Unit link XXXIII.	CZ0000301841	24. 10. 2018	CZKm	397.70
Capped PRIBOR Floater 05/2022	CZ0000301858	7. 11. 2018	CZKm	865.00
Defensive EURO 50 ESG EWD 50 2026	CZ0000301866	28. 11. 2018	CZKm	103.83
ČSOB Investiční certifikát Unit link XXXV.	CZ0000301882	20. 12. 2018	CZKm	351.86
ČSOB Investiční certifikát Unit link XXXIV.	CZ0000301874	27. 12. 2018	CZKm	149.43
Capped Pribor Floater 2022 2	CZ0000301890	27. 12. 2018	CZKm	1,650.00

In the first three months 2019*, ČSOB issued the following investment certificates issues in the Czech Republic:

Issue Name	ISIN	Issue Date	Volume of Investment Certificates Issued (Nominal Value)	
Capped PRIBOR Floater 09/2022	CZ0000301924	6. 3. 2019	CZKm	782.00
100 % Sustainable Development Goals World 2024	CZ0000301940	7. 3. 2019	CZKm	52.37
ČSOB Investiční certifikát Unit link XXXVI.	CZ0000301932	12. 3. 2019	CZKm	233.64

** Issued until 31 March 2019*

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 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 investment certificates by ČSOB is mainly to enlarge the offer of investment products for the Bank's clients.

Activity of ČSOB

ČSOB is active as a universal bank in the Czech Republic.

As a legal entity subject to the Czech law, ČSOB follows the applicable legislation in force in the territory of the Czech Republic. Its activities are regulated primarily under the Banking Act, the Capital Market Undertakings Act and by the Corporations Act. **A single banking licence** is of fundamental importance for ČSOB's business activities. ČSOB is also authorized to provide services of a tied insurance intermediary and is participant of the Central Depository.

Main Areas of Activities

ČSOB's Scope of Business is defined in the Articles of Association of ČSOB (in the part III. Scope of Business).

ČSOB, being a universal bank, carries out banking transactions and renders financial services according to the generally binding legal regulations of the Czech Republic regulating the domestic and foreign activities of banks. In particular, **it accepts deposits from the public and provides loans**.

In addition to these basic services, ČSOB is authorized to carry out the following activities according to the applicable Czech legal regulations:

- Investment in securities on the Bank's own account,
- Financial leasing,
- Payments and clearance,
- Issuance and administration of payment instruments,
- Provision of guarantees,
- Issuance of letters of credit,
- Provision of collection services,
- Provision of all investment services according to a special law,
- Issuance of mortgage bonds,
- Financial brokerage,
- Provision of depository services,
- Exchange office services (purchase of foreign exchange),
- Provision of banking information,
- Trading in foreign exchange values and gold on the Bank's own account or on a client's account,
- Rental of safe-deposit boxes,
- Activities directly related to the activities mentioned above, and
- Activities carried out for other parties if they relate to the running of the company and operation of other banks, financial institutions and enterprises providing ancillary banking services, controlled by the company.

Significant Contracts

Out of the ordinary course of ČSOB's business, the Bank has entered into no contracts which could result in any group member being under an obligation or entitlement that is material to ČSOB's ability to meet its obligation to security holders in respect of the securities being issued.

On 1 September 2005, ČSOB and Česká pošta, s.p. (the "Czech Post Office") entered into the Agreement on the Provision of Services, which governs the cooperation between ČSOB and the Czech Post Office with respect to the distribution of ČSOB products in the network of post offices in the Czech Republic under the PSB brand. The Agreement on the Provision of Services is concluded for a fixed period and was effective until the end of 2017. It was replaced by a new ten-year agreement with effect from January 1, 2018.

Trademarks, Licenses, Patents

Being aware of the ever-growing importance of intellectual property as a vital and integral part of the modern society, ČSOB pays extraordinary attention to the intellectual property rights and their protection.

ČSOB is the applicant/owner of more than a hundred **trademarks** registered with the trademark authorities established to protect industrial or other intellectual property rights and uses the trademarks for product and service identification when performing its business activities.

ČSOB is a holder of many **licenses**, mainly software products licenses, to support ČSOB's business activities.

ČSOB is not a **patent** applicant/owner.

Governmental, Legal or Arbitration Proceedings

which may have, or have had in the recent past, significant effects on ČSOB's and / or the ČSOB group's financial position or profitability

Information on Court Disputes

For information on court disputes please refer to the Separate Financial Statements for the year 2018 (Notes 27 and 33) and to the Consolidated Financial Statements for the year 2018 (Notes 29 and 35).

The most significant ČSOB's court disputes as at 31 December 2018, are shown in the following table including the dispute amount (with accessories).

Litigation against ČSOB (the Defendant)

Counterparty of the Dispute	Liability (CZKm)
ICEC-HOLDING, a.s., Boleslavova 710/19, Ostrava	23,205

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

Expenses on Research and Development

In 2018, ČSOB had outlays of CZK 1,458 m for research and development (2017: CZK 1,362 m). Most of these outlays were related to investments into large information technologies projects and smaller development of existing applications as well as development studies and implementation of individual projects, mainly in the area of information technologies and systems, including development of internet applications.

Other Information

Remuneration Charged by Auditors for 2018

Information in accordance with Section 118 (4) (k) of the Act No. 256/2004 Coll., Capital Market Undertakings Act

(CZKths; excl. VAT*)	Audit services	Other assurance services	Other services	Total
ČSOB	16,847	1,551	1,271	19,669
Other consolidated companies	8,624	-	-	8,624
Total	**25,471**	**1,551**	**1,271**	**28,293**

Services in addition to the Statutory Audit Provided by Statutory Auditor and its Affiliated Company during 2018

Company	Recipient of the service	Service description	Price without VAT* (CZKths.)
PricewaterhouseCoopers Audit, s.r.o	ČSOB, a.s.	Review of accounting information for special purposes	1,450
PricewaterhouseCoopers Česká republika, s.r.o.	ČSOB, a.s.	Verification of the Data Center Project progress	833
PricewaterhouseCoopers Audit, s.r.o	ČSOB, a.s.	Accounting consultancy	399
PricewaterhouseCoopers Audit, s.r.o	ČSOB, a.s.	Auditor's confirmations for insolvency proceedings	101
PricewaterhouseCoopers Česká republika, s.r.o.	ČSOB, a.s.	Training and conferences	39
Total			**2,822**

** Published information includes relevant part of VAT, which is not deductible*

Contribution to the Securities Traders Guarantee Fund

Information in accordance with Section 16 (1) of the Act No. 256/2004 Coll., Capital Market Undertakings Act

As a securities trader, ČSOB contributes to the Guarantee Fund, which ensures the guarantee system from which compensation is paid to the clients of a securities trader that is not able to fulfil its obligations to its clients.

Contribution to the Securities Traders Guarantee Fund for 2018 (CZKths)	ČSOB	Consolidated ČSOB Unit*
Basis for calculation of the contribution	1,095,205	1,344,962
The contribution	**21,904**	**26,899**

** Including Patria Finance (the company started to be consolidated from 1 January 2015).*
Contribution of ČSOB AM (CZK 1,442 ths) is not included in the total amount of the contribution of the consolidated ČSOB Unit, since the company is included in the Consolidated Financial Statements of the ČSOB group using the equity method of consolidation in 2018.

Information Published within this Annual Report

Information	Reference [1]
Important Events and Significant Changes in 2018	Report of the Board of Directors
	Corporate Governance Policy
	Note 3 [2]
New Products and Services Introduced in 2018	Report of the Board of Directors
Description of Markets where ČSOB Competes	Company Profile
	Report of the Board of Directors
Profit Distribution	Note 13
Activities Undertaken in the Area of Environmental Protection [3]	Corporate Social Responsibility
Information on Entities Included into the ČSOB Consolidated Financial Statements as at 31 December 2018	Companies of the ČSOB group
	Note 3 [2]
Expected Economic and Financial Situation of ČSOB in 2019	Report of the Board of Directors

1) The content refers to another section of this Annual Report or to a note in Notes to the Separate Financial Statements for the year 2018 (unless stated otherwise).
2) The content refers to a note in Notes to the Consolidated Financial Statements for the year 2018.
3) Together with this Annual Report, ČSOB also publishes the ČSOB Social Responsibility Report 2018.

Annex to Additional Information

Information according to Annex 14 of the Decree No. 163/2014 Coll., on the Performance of the Activities of Banks, Credit Unions and Investment Firms

Events after the Reporting Period

Chapter	Part
Corporate Governance	Managing and Supervisory Bodies, ČSOB's Organisation Chart
Additional Information	Bonds and Investment Certificates
Notes to the Consolidated Financial Statements for the year 2018	Events after the Reporting Period (Note 39)
Notes to the Separate Financial Statements for the year 2018	Events after the Reporting Period (Note 37)

Since February 13, 2019 Belgium based company KBC Asset Management NV has become the sole shareholder of ČSOB Asset Management, a.s., investment company through acquiring 100% of its shares from the previous owners – ČSOB and Luxemburg based company KBC Asset Management Participations.

KBC Asset Management NV established with effect from January 1, 2019 its branch KBC AM, ČSOB branch to which part of ČSOB AM's activities were transferred, specifically sales support, product development and digital channels support. ČSOB AM will remain responsible for portfolio management, risk management, legal and compliance issues, financial management and administration of funds.

On the day of March 1, 2019, the ČSOB has published in accordance with Sec 79/3 of the Act No. 90/2012 Coll., the Corporations Act ("CA"), on its web site the existence of ČSOB Holding, where ČSOB is a controlling person within the meaning of Sec 79/1 of the CA. More detailed information about ČSOB Holding can be found here https://www.csob.cz/portal/csob/about-the-csob-group/csob-holding.

Information on the Publication of the ČSOB Annual Report 2018

ČSOB will publish its Annual Report 2018 on its Internet website at www.csob.cz.

The **Czech National Bank** will add the ČSOB Annual Report 2018 to the collection of deeds of the **Register of Companies** pursuant to Section 21a of the Accounting Act.

Information in accordance with Section 99 of Decree No. 163/2014 Coll., on the Performance of the Activities of Banks, Credit Unions and Investment Firms

Annual reports and other obligatory information are available (by the date of release of this Annual Report) on ČSOB's Internet website in the section ČSOB – **Obligatory Published Information** (Povinně uveřejňované informace):

https://www.csob.cz/portal/csob/obligatory-published-information#annual-reports.

Annex to Additional Information

List of material aspects

This Report integrates the mandatory information as traditionally published in the Annual Report with additional non-financial information as required by Directive 2014/95/EU of the European Parliament and of the Council as regards disclosure of non-financial reporting, implemented in the territory of the Czech Republic by means of the Act on Accounting.

The Report describes ČSOB's approach to socially responsible sustainable business undertaken in the form of not only economy-oriented activities but also a number of related non-business activities which take into consideration the needs and interests of society in the Czech Republic where ČSOB is doing business. To be able to identify and respond to them accordingly, we regularly communicate with our key partners through questionnaires, public surveys or specific events targeting relevant addressees. These are clients, employees, investors, suppliers, representatives of state institutions and NGOs and, last but not least, our competitors, the regulator and government authorities.

The Report applies to all members of ČSOB Group and reports events in the period of January 1 – December 31, 2018. This means it links to the time reported by the preceding Annual Report and ČSOB Group Report to Society for 2017.

We have chosen the globally recognised Global Reporting Initiative, specifically the GRI Standards, Core Option, as the most appropriate inspiration for our Report compilation. The non-financial information in the Report has not been verified by an external auditor.

Key Themes from the Stakeholders' Perspective (Material Aspects)

Aspect	Justification	Solution
Integrity	Ethical behaviour and integrity form fundamental components of sound business practice. Honesty and integrity are incorporated in the ethical standards we respect.	Integrity Policy, Code of Conduct.
Compliance	Compliance is part of CSOB Group's corporate culture and emphasises particularly the support for ethical standards and compliance with legal regulations in business.	Status Compliance ČSOB, Code of Conduct, Act on the Protection of Competition, Anti-Money Laundering Act, Tax Fraud Prevention, Anti-Corruption Programme, Gift Policy, Whistle Blowing Policy.
Privacy and Data Protection	Credibility is a basic prerequisite for a bank undertaking business in the financial sector.	MiFID regulations for investor protection, consumer right protection in the field of consumer loans and mortgages, unfair business practices, client complaint handling.
Economic performance	Striving to ensure sustainable profit growth.	Developing a unique collaboration between the banking and insurance business to allow us to better understand our clients and devise suitable, complex solutions.
Risk management	Respecting the limits for the determining the risk, capital and liquidity in our business activities.	Risk management rules, principles and measures, activities of the Risk and Compliance Committee.
Product and service quality	Aiming to become the first company to come to mind when people think about financial products and services or consider purchasing investment instruments.	Placing the client's interest first, honesty in our business and correctness in our relationships; discretion and responsibility in business handlings.

Strategic Objectives and Fundamental Corporate Values (Management Approach)

Social

Stimulating Czech economy, preparing solutions to potential future problems and developing innovative tools to manage the current social challenges, we aim to contribute to the whole Czech society and are involved in socially sensitive topics. We intend to become the first company that springs to mind when people think about financial products and services, or search for an interesting job. We wish to be first choice for investors considering a purchase of investment instruments.

Economic

Striving to ensure sustainable profit growth, intending to defend and further facilitate our corporate existence in the long term. Respecting the limits for the determination of risk, capital and liquidity in our business activities. Developing a unique collaboration between banking and insurance businesses to allow us to better understand our clients and devise suitable complex solutions. We wish to be the quality standard in the field of bankinsurance in the Czech market.

Environmental

ČSOB has its own environmental and energy policies incorporating the company's commitments to environmental protection, pollution prevention, permanent improvement of the environmental management system and other specific commitments in full compliance with the requirements of ČSN EN ISO 14001:2016 (EMS) and ISO 50001 (EnMS).

Ways of Achieving This

Strictly complying with legal standards and regulations on one hand, and acting politely and respectfully to express equal partnership on the other hand. We approach mutual collaboration with our partners with an open mind, we listen to them and learn about their needs in order to be able to meet them. We place the client's interest first; we are honest in business and correct in relationships, discreet and responsible in negotiations. We believe that respect to those values reflected in our behaviour will not only help us build trust in our company but will also serve as a reference for both existing and new partners.

Global Reporting Initiative (GRI) Content index*

General Standard Disclosures

General disclosures 2018	Description	cross-reference
Organizational Profile		
102-1	Name of the organization	Annual Report 2018, p. 1.
102-2	Activities, brands, products, and services	Annual Report 2018, p. 20-26, 28, 37-45.
102-3	Location of headquarters	Annual Report 2018, p. 1.
102-4	Location of operations	Annual Report 2018, p. 6, 12, 28.
102-5	Ownership and legal form	Annual Report 2018, p. 1, 28, 30-31.
102-6	Markets served	Annual Report 2018, p. 6, 19, 28, 30.
102-7	Scale of the organization	Annual Report 2018, p. 2, 12, 29.
102-8	Information on employees and other workers	Annual Report 2018, p. 16, 29, 32-36; ČSOB Group Report to Society 2018.
102-9	Supply chain	Suppliers Policy, ČSOB Group Report to Society 2018.
102-10	Significant changes to the organization and its supply chain	Annual Report 2018, p. 9, 47, 49-50.
102-11	Precautionary Principle or approach	Integrity Policy ČSOB, ČSOB Compliance Statut, Ethical Code, Annual Report 2018, p. 12, 61-66; ČSOB Group Report to Society 2018.
102-12	External initiatives	Annual Report 2018, p. 32-35; ČSOB Group Report to Society 2018.
102-13	Members of associations	not stated
Strategy		
102-14	Statement from CEO	Annual Report 2018, p. 3-4.
Ethics and Integrity		
102-16	Values, principles, standards and norms of behavior	Ethical Code, Integrity Policy ČSOB, ČSOB Compliance Statut, Annual Report 2018, p. 12-13, 32-33, 36, 61, 66; ČSOB Group Report to Society 2018.
Governance		
102-18	Governance structure	Annual Report 2018, p. 67-68.
Stakeholder Engagement		
102-40	List of stakeholder groups	Annual Report 2018, p. 34, 46-47, 335; ČSOB Group Report to Society 2018.
102-42	Identifying and selecting stakeholders	ČSOB Group Report to Society 2018.
102-43	Approach to stakeholder engagement	ČSOB Group Report to Society 2018.
102-44	Key topics and concerns raised	ČSOB Group Report to Society 2018.

General disclosures 2018	Description	cross-reference
Report Profile		
102-45	Entities included in the consolidated financial statements	Annual Report 2018, p. 46-47.
102-46	Defining report content and topic boundaries	Annual Report 2018, p. 5.
102-47	List of material topics	Annual Report 2018, p. 353; ČSOB Group Report to Society 2018.
102-49	Changes in reporting	Annual Report 2018, p. 351.
102-50	Reporting period	Annual Report 2018, p. 351–352.
102-51	Date of most recent report	Annual Report 2018, p. 352.
102-52	Reporting cycle	Annual Report 2018, p. 352.
102-53	Contact point for questions regarding the report	Annual Report 2018, p. 371.
Specific GRI Standards		
103-1	Explanation to the material topic and its boundary	Integrity Policy ČSOB, ČSOB Compliance Statut, Ethical Code; ČSOB Group Report to Society 2018.
103-2	The management approach	Integrity Policy ČSOB, ČSOB Compliance Statut, Ethical Code, Annual Report 2018, p. 12-13; ČSOB Group Report to Society 2018.
103-3	Evaluation of the management approach	Integrity Policy ČSOB, ČSOB Compliance Statut, Ethical Code; ČSOB Group Report to Society 2018.
Economic (GRI 200)		
201-1	Direct economic value generated and distributed	Annual Report 2018, p. 2, 8, 15-17, 340, 348-349; ČSOB Group Report to Society 2018.
201-2	Financial implications and other risk and opportunities due to climate change	Annual Report 2018, p. 8, 11-12; ČSOB Group Report to Society 2018.
203-1	Infrastructure investments and services supported	Annual Report 2018, p. 15-17; ČSOB Group Report to Society 2018.
203-2	Significant indirect economic impacts	Annual Report 2018, p. 19.
205-1	Operations assessed for risks related to corruption	Annual Report 2018, p. 12-13, 61-62, 66.
205-2	Communication and training about anti-corruption policies and procedures	ČSOB Anticorruption Policy, ČSOB Whistle-blowing Policy, Ethical Code, ČSOB Anticorruption programme, ČSOB Policy for Donations and Similar Performances, Policies for Notification, Investigation and Documentation of Unethical, Fraudulent and Criminal Law in ČSOB, Strategy for the Prevention and Detection of Fraud and Ethics of ČSOB Group; ČSOB Group Report to Society 2018.

General disclosures 2018	Description	cross-reference
Environmental (GRI 300)		
302-1	Energy consumption within the organization	Annual Report 2018, p. 32-33; ČSOB Group Report to Society 2018; ČSOB Environmental Policy.
302-4	Reduction of energy consumption	Annual Report 2018, p. 32-33; ČSOB Group Report to Society 2018; ČSOB Environmental Policy.
305-1	Direct (Scope 1) GHG emissions	Annual Report 2018, p. 32-33; ČSOB Group Report to Society 2018; ČSOB Environmental Policy.
305-2	Energy indirect (Scope 2) GHG emissions	Annual Report 2018, p. 32-33; ČSOB Group Report to Society 2018; ČSOB Environmental Policy.
305-3	Other indirect (Scope 3) GHC emissions	Annual Report 2018, p. 32-33; ČSOB Group Report to Society 2018; ČSOB Environmental Policy.
305-5	Reduction of GHG emissions	Annual Report 2018, p. 32-33; ČSOB Group Report to Society 2018; ČSOB Environmental Policy.
Social (400)		
401-1	New employee hires and employee turnover	Annual Report 2018, p. 29; ČSOB Group Report to Society 2018.
404-1	Average hours of training per year per employee	ČSOB Group Report to Society 2018.
404-3	Percentage of employees receiving regular performance and careed development reviews	100%, Collective Agreement
405-1	Diversity of governance bodies and employees	Annual Report 2018, p. 36, 48-50; ČSOB Group Report to Society 2018.
Own indicators		
	Initiatives to improve access to fianancial services for disadvantaged people	Annual Report 2018, p. 9-12, 32-33; ČSOB Group Report to Society 2018.
	Anti-corruption policies and procedures	ČSOB Anticorruption Policy, ČSOB Whistle-blowing Policy, Ethical Code, ČSOB Anticorruption programme, ČSOB Policy for Donations and Similar Performances, Policies for Notification, Investigation and Documentation of Unethical, Fraudulent and Criminal Law in ČSOB, Strategy for the Prevention and Detection of Fraud and Ethics of ČSOB Group; ČSOB Group Report to Society 2018.
	Policies with specific environmental and social components applied to business lines.	ČSOB Environmental Policy, ČSOB Energetic Policy; ČSOB Group Report to Society 2018.
	Process(es) for improving staff competency to implement the environmental and social policies and procedures as applied to business lines	ČSOB Environmental Policy, ČSOB Energetic Policy, ČSOB Anticorruption Policy, ČSOB Whistle-blowing Policy, Ethical Code, ČSOB Anticorruption programme; ČSOB Group Report to Society 2018.

** This sustainability Report has been prepared in accordance with the GRI Standards, "Core" option, non-financial data have not been externally audited.*

Annex to Additional Information

Information according to Annex 14 of Decree No. 163/2014 Coll.,

on the Performance of the Activities of Banks, Credit Unions and Investment Firms

Information about Capital and Capital Requirements pursuant to Article 437 (1) (a) of Regulation (EU) 575/2013

(CZKths)		the Bank 31. 12. 2018	Regulated Cons. Unit 31. 12. 2018
Items from Statement of Financial Position	**Total Shareholders' Equity**	**84,424,748**	**92,016,217**
	Share capital	5,855,000	5,855,000
	Share premium	20,092,666	20,928,552
	Accumulated Other comprehensive income	735,513	409,398
	Reserve funds	18,686,648	18,686,648
	Retained earnings for the previous periods	21,735,704	30,380,130
	Own shares	0	0
	Net profit for the period	17,319,219	15,756,490
	Non-controlling interest	0	0
Adjustments to CET1	**Total Adjustments to CET1**	**(20,920,524)**	**(22,868,030)**
	Gains / (losses) on hedging instruments (Cash Flow Hedging)	(24,559)	(24,558)
	Additional value adjustment	(168,648)	(113,451)
	Goodwill	(2,178,017)	(2,211,473)
	Other intangible assets, net of tax	(2,740,329)	(4,148,480)
	Insufficient coverage of expected credit losses (lack of provisions)	(52,481)	(608,679)
	Unusable profit	(15,756,490)	(15,756,490)
	Non-controlling interest	0	0
	Deferred tax assets	0	(4,899)
	Other transitional adjustments to CET 1	0	0
Tier 2 Capital	**Total Tier 2 Capital**	**0**	**0**
	IRB Excess of provisions over expected losses eligible	0	0
	Total Capital	**63,504,225**	**69,148,187**
	Tier 1 (T1) Capital	**63,504,225**	**69,148,187**
	Common Equity Tier 1 (CET1) Capital	**63,504,225**	**69,148,187**
	Tier 2 (T2) Capital	**0**	**0**

Information about Capital and Capital Requirements pursuant to Article 438 (c) to (f) of Regulation (EU) 575/2013

(CZKths)			the Bank 31. 12. 2018	Regulated Cons. Unit 31. 12. 2018
In the case of institutions that calculate the exposure values according to part three title II chapter 2. 8% of the exposure value for each category of exposure indicated in Article 112 of Regulation (EU) 575/2013	Exposures to central governments or central banks	Article 438 (c)	0	0
	Exposures to regional governments or local authorities		0	0
	Exposures to public sector entities		0	0
	Exposures to multilateral development banks		0	0
	Exposures to international organisations		0	0
	Exposures to institutions		0	28,016
	Exposures to corporates		0	534,231
	Retail exposures		0	21,160
	Exposures secured by mortgages on immovable property		0	29,656
	Exposures in default		0	4,444
	Exposures associated with particularly high risk		0	0
	Exposures in the form of covered bonds		0	0
	Items representing securitisation positions		0	0
	Exposures to institutions and corporates with a short-term credit assessment		0	0
	Exposures in the form of units or shares in collective investment undertakings		0	109,817
	Equity exposures		4,425,763	211,486
	Other items		0	0
Capital requirements calculated according to Article 92 (3) (b) and (c) of Regulation (EU) 575/2013	For position risk	Article 438 (e)	26,558	14,156
	For large exposures exceeding the limits set in Articles 395 to 401, if the institution is permitted to exceed these limits		0	0
	For currency risk		0	558
	For settlement risk		0	0
	For commodity risk		0	0
Capital requirements calculated according to part three title III chapters 2, 3 and 4 of Regulation (EU) 575/2013 and made available separately	Capital requirement pursuant to title III chapter 2	Article 438 (f)	0	0
	Capital requirement pursuant to title III chapter 3		4,243,570	4,846,420
	Capital requirement pursuant to title III chapter 4		0	0
In the case of institutions that calculate the exposure values according to part three title II chapter 3. 8% of the exposure value for each category of exposure indicated in Article 147. In the case of the retail exposure category, this requirement is used for each category of exposure that corresponds to differing correlation according to Article 154 (1) to (4) of Regulation (EU) 575/2013.	Exposures to central governments or central banks	Article 438 (d)	668,929	734,428
	Exposures to institutions		3,524,938	916,002
	Exposures to corporates		9,378,723	9,037,127
	Retail exposures		1,746,530	9,645,065
	Equity exposures		0	0
	Items representing securitisation positions		0	0
	Other assets not having the character of a credit liability		1,912,197	3,546,174
In the case of the equity exposures category this requirement is used for	Equity exposures traded on regulated markets		0	0
	Equity exposures not traded on regulated markets in sufficiently diversified portfolios and other exposures		0	0
	Exposures that in the area of capital requirements are subject to transitional supervision rules		0	0
	Exposures that in the area of capital requirements are subject to provisions relating to retention of legal effects		0	0
	Each of the approaches indicated in Article 155		0	0
*Risk exposure for credit valuation adjustment **			*146,723*	*146,723*
*Risk exposure amount for Position, foreign exchange and commodities risks under internal models **			*834,871*	*834,871*

** These items have been added in order to maintain the scope of mandatory reporting CNB.*

Capital Ratios

	the Bank 31. 12. 2018	Regulated Cons. Unit 31. 12. 2018
Common Equity Tier 1 Capital ratio	18.88%	18.04%
Tier 1 Capital ratio	18.88%	18.04%
Total Capital ratio	18.88%	18.04%

Ratios Indicators

		the Bank 31. 12. 2018
Return on average assets (ROAA)		1.18%
Return on average Tier 1 capital (ROAE)		27.83%
Assets per employee*	CZKths	185,451
Administrative costs per employee*	CZKths	1,961
Profit after tax per employee*	CZKths	2,376

** According to CNB's methodology (Registered number of employees).*

DOCUMENTS

Sworn Statement

Persons Responsible for the ČSOB Annual Report 2018

hereby declare that, to their best knowledge, the ČSOB Annual Report 2018 gives a true and fair account of ČSOB and its consolidation unit's financial situation, business activities and business results achieved in the previous financial year as well as the outlook for the future trends in the financial situation, business activities and business results and on non-financial information.

In Prague, 18 April 2019

Československá obchodní banka, a. s.

John Arthur Hollows
Chairman of the Board of Directors

Jiří Vévoda
Member of the Board of Directors

Independent Auditor's Report

pwc

Independent auditor's report

to the shareholder of Československá obchodní banka, a.s.

Report on the Audit of the Consolidated and Separate Financial Statements

Our Opinion

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Československá obchodní banka, a.s, with its registered office at Radlická 333/150, Prague 5 ("the Bank") and its subsidiaries (together "the Group") as at 31 December 2018, of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU").
- The accompanying separate financial statements give a true and fair view of the financial position of the Bank standing alone as at 31 December 2018, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

What we have audited

The Group's consolidated financial statements comprise:

- The consolidated statement of income for the year ended 31 December 2018;
- The consolidated statement of other comprehensive income for the year then ended;
- The consolidated statement of financial position as at 31 December 2018;
- The consolidated statement of changes in equity for the year then ended;
- The consolidated statement of cash flows for the year then ended; and
- The notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

The Bank's separate financial statements comprise:

- The separate statement of income for the year ended 31 December 2018;
- The separate statement of other comprehensive income for the year then ended;
- The separate statement of financial position as at 31 December 2018;
- The separate statement of changes in equity for the year then ended;
- The separate statement of cash flows for the year then ended; and
- The notes to the separate financial statements, which include significant accounting policies and other explanatory information.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council ("the EU Regulation") and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, Identification Number 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No. 021.

Shareholder of Československá obchodní banka, a.s.
Independent auditor's report

Independence

We are independent of the Group and Bank in accordance with the Act on Auditors, EU Regulation and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have not provided any prohibited non-audit services and we fulfilled our other ethical responsibilities in accordance with these regulations.

Our audit approach

Overview

Overall materiality for the consolidated financial statements represents 5% of the Group's profit before tax and has been determined as CZK 947 million.

Overall materiality for the separate financial statements represents 5% of the Bank's profit before tax and has been determined as CZK 998 million.

Our audit work addressed 98% of the Group's assets and 95% of the Group's profit before tax.

- Risk of impairment of loans and advances;
- Implementation of the new standard IFRS 9 for classification and measurement of financial assets;
- Valuation of complex financial instruments.

As part of designing our audit, we determined the materiality and assessed the risks of material misstatement in the consolidated and separate financial statements (together the "financial statements"). In particular, we considered where management made subjective judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance as to whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for each set of financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on each set of financial statements.

Overall Group materiality	CZK 947 million (31 December 2017: CZK 1,044 million)
How we determined it	Overall materiality figures represents 5% of the Group's profit before tax.
Rationale for the materiality benchmark applied	We have chosen the profit before tax as a benchmark for estimating materiality, as the Group is a profit-oriented entity. We understand that profit before tax is one of the key performance indicators for the Group's stakeholders. Profit before tax has been developing consistently over last years. We have chosen 5%, which is within the range of acceptable quantitative materiality thresholds for Public Interest Entities.
Overall materiality for the separate financial statements	CZK 998 million (31 December 2017: CZK 886 million)
How we determined it	Overall materiality figures represents 5% of the Bank's profit before tax.

Shareholder of Československá obchodní banka, a.s.
Independent auditor's report

Rationale for the materiality benchmark applied	We have chosen the profit before tax as a benchmark for estimating materiality, as the Bank is a profit-oriented entity. We understand that profit before tax is one of the key performance indicators for the Bank's stakeholders. Profit before tax has been developing consistently over last years. We have chosen 5%, which is within the range of acceptable quantitative materiality thresholds for Public Interest Entities.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Risk of impairment of loans and advances	
The risk of loan irrecoverability is an inherent part of banking activities. The estimation of provisions for impairment of loans is a highly complex area with a significant impact on the financial statements. In 2018, the Group and the Bank were required to implement a new accounting standard - IFRS 9 Financial instruments, which brought significant changes to the complex process of impairment of loans measurement. The main reason is, that the standard requires recognition of expected credit losses rather than losses already incurred. This mostly affected the probabilities of default and also led to incorporation of forward looking information. The process used by management to determine the expected credit losses is disclosed in Notes 2 and 40 to the consolidated financial statements and Notes 2 and 38 to the separate financial statements.	Our audit approach was focused specifically on the credit risk and impairment of loans in order to obtain comfort over the measurement of loans and receivables to clients including the quantification of adequate impairment provisions. Since IFRS 9 brought a large number of changes, we primarily assessed the policies that the Group and the Bank applied and the process of development of new expected credit loss impairment models. We used our financial risk modelling experts to assess the design and back-testing results of the most important impairment models. Because of the size of the Group and the Bank and the complexity of their processes, IT systems and internal control systems play a major part in the identification of credit quality deterioration and estimation of the expected credit losses. We involved our information technology specialists in order to verify, on a sample basis, accuracy of data inputs, data processing and automated calculations inside the core systems and data transfers between these systems. Our testing incorporated the loan granting process, so that we could verify, that the system uses appropriate and complete data and that the processes are in line with the current regulatory requirements, generally accepted principles and internal guidelines. IFRS 9 brought the concept of allocation of loans into three stages based on credit quality developments. This part is critical for the process of the estimation of expected credit losses. We therefore assessed the policies adopted by the Group and the Bank in regard to staging and verified that they are correctly applied in practice. We also thoroughly assessed the credit risk disclosures required by the new and amended financial reporting standards.
Implementation of the IFRS 9 standard for classification and measurement of financial assets	
Financial assets represent the majority of the assets of the Group and the Bank. The IFRS 9 standard uses a principles based classification model, which considers both the financial	We verified the accounting policies of the Group and the Bank, the opening adjustments and the set up and changes in classification categories. We focused both on the classification based on the financial

Shareholder of Československá obchodní banka, a.s.
Independent auditor's report

characteristics of each financial instrument and the business model under which the asset has been acquired and is held.

This meant a significant change in the classification of the financial assets, which are now classified within the following categories: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), and amortised cost (AC). The changes for financial liabilities were insignificant.

The financial characteristics are subject to the SPPI test, which verifies whether the asset generates cash-flows solely from payment of principal and interest (SPPI). Those that do not pass this test, need to be measured at FVTPL.

If an instrument meets the SPPI criteria, the business model used for that instrument is key in determining its classification. The business model "hold to collect" triggers the AC classification and "hold to collect or sell" triggers the FVOCI classification.

The complexity brought by IFRS 9 greatly affects the classification of the financial assets and represents an area of significant impact on the financial statements.

Details on the IFRS 9 adoption process, as well as the relevant accounting policies, can be found in Note 2 to the consolidated and separate financial statements.

characteristics and on the classification based on the business model applicable for all groups of financial assets.

We assessed the Group's and the Bank's methodology with regard to the SPPI test and its analyses of financial instruments. We also examined samples of contracts for main types of financial instruments.

With the assistance of our technical accounting specialists, we assessed the Group's and the Bank's business model analyses and verified the information therein with the Group's and the Bank's asset management strategies and practice. These procedures also included an assessment of management's KPIs and asset sales history.

We also performed a thorough assessment of the disclosures related to financial instruments and compared it with the requirements of the relevant accounting standards.

Valuation of complex financial instruments

The fair value of securities and derivatives (including Asset Liability Management derivatives and Asset Liability Management swap positions) involves use of a number of observable and unobservable inputs, which are subjective in nature.

In addition, in accordance with IFRS 13, the Group and the Bank need to disclose mandatory information about the fair values of financial instruments in the financial statements. Major area of our focus were financial instruments classified in the level 3 of the fair value hierarchy. These financial instruments include non-liquid financial instruments, exotic financial derivatives and structured derivative products.

See Note 32 to the consolidated financial statements and Note 30 to the separate financial statements for fair value disclosures, valuation techniques and significant unobservable inputs used by management to determine fair values of these financial instruments.

We focused our audit procedures in respect of fair values of these financial instruments on the adequacy of the valuation methodology, completeness and accuracy of amounts representing these financial instruments in the Group's and the Bank's information systems and on the valuation inputs.

In particular, our procedures consisted of:

- Assessment of valuation methodology and valuation models.
- Detailed reconciliation of a sample of market observable inputs to the independent market data.
- Detailed reconciliation of valuation adjustment inputs to the independent market sources.
- Assessment of reasonableness of significant unobservable valuation inputs.
- Testing of a set of automated, IT dependent and manual controls aimed on completeness and accuracy of data held within the Group's and the Banks's information systems.
- Circularisation of a sample of counterparties to confirm the existence of financial instruments.
- Independent recalculation of fair value on a sample of financial instruments.

Shareholder of Československá obchodní banka, a.s.
Independent auditor's report

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on each set of financial statements as a whole, taking into account the structure of the Group and the Bank, the accounting processes and controls, the share of individual subsidiaries on the Group financial position and performance and specifics of the industry in which the Group operates.

Decisions regarding multi-location scoping require a significant degree of professional judgment based on the unique facts and circumstances of each entity. Most importantly, we considered each entity's contribution to total assets and profit before tax of the Group.

Our coverage for the 2018 year-end audit of the consolidated financial statements of the Group is 98% of total consolidated assets (after eliminations), which is covered by full scope audit procedures, and additional 1% covered by specified procedures on ČSOB Leasing, a.s. At the same time this also represents more than 95% of the consolidated profit before tax covered by full scope audit procedures and 2% covered by specified procedures on ČSOB Leasing, a.s.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than both of the financial statements and auditor's report therein. The Board of Directors is responsible for the other information.

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

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

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable laws and regulations.

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

Responsibilities of the Board of Directors and the Supervisory Board for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Supervisory Board is responsible for overseeing the financial reporting process. The Audit Committee is responsible for monitoring of the financial statements preparation process.

Shareholder of Československá obchodní banka, a.s.
Independent auditor's report

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with the above-stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

We communicate with the Board of Directors, Supervisory Board and Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Shareholder of Československá obchodní banka, a.s.
Independent auditor's report

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

From the matters communicated with the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of the EU Regulation, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Consistency of the Audit Opinion with the Additional Report to the Audit Committee

We confirm that the audit opinion expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued in accordance with Article 11 of the EU Regulation.

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Bank and the Group by the General Meeting of Shareholders on 22 April 2016 for three-year period and our uninterrupted engagement has lasted for 3 years.

Provided Non-audit Services

The non-audit services are disclosed in the chapter "Additional information" of the Annual Report. PwC Network did not provide to the Group and the Bank prohibited services referred to in the Article 5.1 of the EU Regulation.

18 April 2019

PricewaterhouseCoopers Audit, s.r.o.

represented by

Marek Richter

Marek Richter, FCCA
Statutory Auditor, Licence No. 1800

Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

ABBREVIATIONS

Abbreviation	Business Company
ČSOB the Bank	Československá obchodní banka, a. s.
PSB	Poštovní spořitelna (Postal Savings Bank; part of ČSOB)
ČSOB group	group of companies of the ČSOB group (not a legal entity)

Abbreviation	Business Company
BANIT	Bankovní informační technologie, s.r.o.
Bausparkasse Schwäbisch Hall	Bausparkasse Schwäbisch Hall AG
CBCB	CBCB - Czech Banking Credit Bureau, a.s.
Centrum Radlická	Centrum Radlická a.s.
CNB	Czech National Bank
CZSO	Czech Statistical Office
ČMSS	Českomoravská stavební spořitelna, a.s.
ČSOB Advisory	ČSOB Advisory, a.s.
ČSOB AM / ČSOB Asset Management	ČSOB Asset Management, a.s., investment company
ČSOB Factoring	ČSOB Factoring, a.s.
ČSOB Leasing	ČSOB Leasing, a.s.
ČSOB Leasing pojišťovací makléř	ČSOB Leasing pojišťovací makléř, s.r.o.
ČSOB PF Stabilita	ČSOB Penzijní fond Stabilita, a. s., a member of the ČSOB group
ČSOB PS / ČSOB Penzijní společnost	ČSOB Penzijní společnost, a. s., a member of the ČSOB group
ČSOB Pojišťovna	ČSOB Pojišťovna, a. s., a member of the ČSOB holding
ČSOB Pojišťovací makléř	ČSOB Pojišťovací makléř, s.r.o.
ČSOB Pojišťovací servis	ČSOB Pojišťovací servis, s.r.o., a member of the ČSOB holding
ČSOB Property fund	ČSOB Property fund, a.s.
ČSOB SK	Československá obchodná banka, a. s. (Slovak Republic)
Hypoteční banka	Hypoteční banka, a.s.
IPB	Investiční a Poštovní banka, a.s.
KBC Bank	KBC Bank NV
KBC Group	KBC Group NV (legal entity)
KBC group	group of companies of the KBC Group NV
KBC Group Czech Branch	KBC Group NV Czech Branch, organizational unit
KBC Insurance / KBC Verzekeringen	KBC Insurance NV (i.e. KBC Verzekeringen NV)
KBC Lease Holding	KBC Lease Holding NV
KBC Participations Renta C	KBC Participations Renta C SA
KBC Securities	KBC Securities NV
Merrion Properties	Merrion Properties s.r.o.
MF CR	Ministry of Finance of the Czech Republic
Motokov	MOTOKOV a.s. in liquidation
Patria Corporate Finance	Patria Corporate Finance, a.s.
Patria Finance	Patria Finance, a.s.
Patria group	group of companies of parent company Patria Online (not a legal entity)
Patria investiční společnost / Patria IS	Patria investiční společnost, a.s.
Patria Online	Patrina Online, a.s.
Radlice Rozvojová	Radlice Rozvojová, a.s.
SousedeCZ	SousedeCZ s.r.o.
Top-Pojištění	Top-Pojištění.cz s.r.o.
Transformed fund / Transformed pension fund	Transformovaný fond Stabilita ČSOB Penzijní společnosti, a. s., a member of the ČSOB group
Ušetřeno	Ušetřeno.cz, s.r.o.
Ušetřeno finanční služby	Ušetřeno.cz finanční služby, a.s.

FINANCIAL CALENDAR

Financial Calendar for 2019

ČSOB Group Unaudited Financial Results Releases
(according to EU IFRS)

Financial Results		Date of Release
as at 31 December 2018	4Q / FY 2018	14 February 2019
as at 31 March 2019	1Q 2019	16 May 2019
as at 30 June 2019	2Q / 1H 2019	8 August 2019
as at 30 September 2019	3Q / 9M 2019	14 November 2019
as at 31 December 2019	4Q / FY 2019	13 February 2020

Note:
This schedule is indicative only; terms might be subject to change during the year.

CONTACT DETAILS

Investor Relations

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The 2018 ČSOB Annual Report was released in electronic version at www.csob.cz on 26 April 2019.