Separate Financial Statements

for the year ended 31 December 2017

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

and Independent Auditor's Report

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Independent Auditor's Report

To the Shareholder, Supervisory Board, and Board of Directors of Československá obchodná banka, a.s.

Report on the Audit of the Separate Financial Statements

Our opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of Československá obchodná banka, a.s. (the "Bank") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

What we have audited

The separate financial statements of Československá obchodná banka, a.s. comprise:

- the Separate Statement of Financial Position as at 31 December 2017;
- the Separate Statement of Profit or Loss and Other Comprehensive Income for the year then ended;
- 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 International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the separate 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.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("Code of Ethics") and other requirements of legislation that are relevant to our audit of the separate financial statements in the Slovak Republic. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Bank are in accordance with the applicable law and regulations in the Slovak Republic and that we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No.537/2014.

The non-audit services that we have provided to the Bank, in the period from 1 January 2017 to 31 December 2017, are disclosed in Note 30 to the separate financial statements.

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The firm's ID No. (IČO): 35 739 347.
Tax identification No. of PricewaterhouseCoopers Slovensko, s.r.o. (DIČ): 2020270021.
VAT Reg. No. of PricewaterhouseCoopers Slovensko, s.r.o. (IČ DPH): SK2020270021.
Spoločnosť je zapísaná v Obchodnom registri Okresného súdu Bratislava I, pod Vložkou č.: 16611/B, Oddiel: Sro.
The firm is registered in the Commercial Register of Bratislava I District Court, Ref. No.: 16611/B, Section: Sro.

Our audit approach

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the separate 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. As in all of our audits, 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.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate financial statements as a whole, taking into account the Bank's internal structure, the accounting processes and controls, and the financial services industry in which the Bank operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the separate 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 separate financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality 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 the separate financial statements as a whole.

The qualitative considerations and assessment of the overall impact of the misstatements, which relate to reclassification within the primary statements might be considered not material even if they are quantitatively in excess of the materiality thresholds disclosed below.

Overall materiality	EUR 5.5 million
How we determined it	We based the materiality on a combination of two benchmarks, profit before tax and equity, each carrying 50% weight.
Rationale for the materiality benchmark applied	The performance of the Bank is most commonly evaluated by financial statements users based on the Bank's profitability. However, the Bank's capital is also an important indicator for many users of the financial statements and shareholder return is also commonly expressed relative to the amount of the Bank's capital, that is, as a return on equity. We applied quantitative thresholds of approximately 5% to profit before tax and 1% to equity, which in our experience represent acceptable benchmarks.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate 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
Loan loss provisions estimate	
The loan loss provisions are a critical estimate and involve considerable management judgement, as explained in more detail in Note 2.2 in the separate financial statements. The identification of loans that are deteriorating, the assessment of objective evidence for impairment, the value of collateral and the determination of the recoverable amount of loans are inherently uncertain. The Bank recognized portfolio provisions for loans, which are not individually significant, and a provision for impairment losses incurred but not yet reported or identified with a specific loan. The loan provisions required our significant attention given the inherent uncertainty and significance of this estimate for the separate financial statements.	We verified that the Bank's methodology for estimating loan loss provisions was appropriate and was being applied consistently. We assessed and tested the design, implementation, and operating effectiveness of the controls related to the timely identification of impaired loans, performed an independent validation of models used by management for calculation of loan loss provisions, and reviewed the process of annual back-testing of the models. We examined a sample of individually significant loan exposures, both unimpaired and impaired, in order to test loan loss provisions calculated on an individual basis. We tested and critically assessed management's assumptions, including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default. We assessed the underlying models, reasonableness of assumptions, and completeness and accuracy of the underlying data, which were used by the Bank to estimate portfolio loan loss provisions for loans that share similar credit risk characteristics. We inspected the results of back testing of provisions for losses incurred but not yet reported or identified with a specific loan. We read the separate financial statements to assess the relevant loan impairment and credit quality disclosures. Our procedures did not lead to any material adjustments to the loan loss provisions at 31 December 2017.

Reporting on other information in the annual report

Management is responsible for the annual report prepared in accordance with the Slovak Act on Accounting No. 431/2002 as amended (the "Accounting Act"), the Slovak Act on Stock Exchanges No. 429/2002 as amended and the Slovak Act on Securities and Investment Services No. 566/2001 as amended. The annual report comprises (a) the separate financial statements and (b) other information. Management has not prepared the annual report by the date of our audit report.

Our opinion on the separate financial statements does not cover the other information.

When the annual report becomes available to us, our responsibility will be to read the other information identified above and, in doing so, to consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the annual report, we will also consider whether annual report includes the disclosures required by the Accounting Act, when it becomes available to us. This will include checking the consistency of the annual report with the separate financial statements, and whether the annual report has been prepared in accordance with the Accounting Act.

In addition, our updated report will either state that we have nothing to report in respect of the above, or will describe any material misstatements we identified in the annual report based on our knowledge and understanding of the Bank and its environment, which we obtained during our audit.

Responsibilities of management and those charged with governance for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of our audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 those charged with governance, we determine those matters that were of most significance in the audit of the separate 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.

Reporting on Other Legal and Regulatory Requirements

Appointment

We were first appointed as auditors of the Bank by the General assembly on 27 May 2016. Our appointment has been renewed annually by General assembly representing a total period of uninterrupted engagement appointment of two years.

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Mgr. Martin Gallovič
UDVA licence No. 1180

Bratislava, 26 March 2018

Separate Statement of Financial Position at 31 December 2017

(in accordance with the International Financial Reporting Standards as adopted by the EU)

(EUR '000)	Note	31 Dec 2017	31 Dec 2016 Reclassified
Assets			
Cash, balances with central bank and other demand deposits with banks	3	273,556	226,562
Financial assets at fair value through profit or loss	4	52,562	60,330
Available-for-sale financial assets	5	453,334	458,652
Available-for-sale financial assets pledged as collateral	5, 16	-	17,661
Loans and receivables to financial institutions	6	102,103	23,155
Loans and receivables to customers	7	5,528,390	5,093,474
Held-to-maturity investments	8	1,284,710	1,349,045
Held-to-maturity investments pledged as collateral	8, 16	186,486	108,841
Investments in subsidiaries	9	76,202	75,202
Current income tax asset		3,637	2,123
Deferred income tax asset	31	13,431	15,136
Property and equipment	10	39,643	42,485
Intangible assets	11	7,656	9,026
Assets held for sale	12	-	3,602
Other assets	13	10,225	13,650
Total assets		**8,031,935**	**7,498,944**
Liabilities and equity			
Financial liabilities at fair value through profit or loss	15	81,205	222,592
Amounts owed to financial institutions	16	687,496	679,873
Amounts owed to customers	17	5,853,233	5,403,111
Debt securities issued	18	517,926	480,882
Provisions	14, 19	6,756	6,812
Other liabilities	20	34,480	39,460
Subordinated debt	21	87,543	-
Total liabilities		**7,268,639**	**6,832,730**
Share capital		295,015	248,004
Share premium		484,726	484,726
Reserve funds		49,601	49,601
Revaluation reserve		(200,162)	(198,795)
Retained earnings		82,632	4,190
Net profit for year		51,484	78,488
Total equity	**23**	**763,296**	**666,214**
Total liabilities and equity		**8,031,935**	**7,498,944**

Daniel Kollár
Chief Executive Officer

Marcela Výbohová
Chief Officer for Risk, Legal and Compliance

The Notes number 1 to 40 form an integral part of these Separate Financial Statements.

Separate Statement of Profit or Loss and Other Comprehensive Income for year ended 31 December 2017

(in accordance with the International Financial Reporting Standards as adopted by the EU)

(EUR '000)	Note	31 Dec 2017	31 Dec 2016
Interest income		189,088	197,520
Interest expense		(22,941)	(30,718)
Net interest income	**25**	**166,147**	**166,802**
Fee and commission income		61,001	54,021
Fee and commission expense		(8,438)	(7,825)
Net fee and commission income	**26**	**52,563**	**46,196**
Net trading result and exchange differences	27	16,786	17,713
Net realized result from available-for-sale financial assets	23.4	-	15,816
Dividend income		1,081	17,537
Other operating result	28	2,798	1,126
Total income		**239,375**	**265,190**
Personnel expenses	29	(68,804)	(68,528)
Depreciation and amortization	10, 11	(10,442)	(10,597)
Other operating expenses	30	(84,215)	(80,607)
Operating expenses		**(163,461)**	**(159,732)**
Profit for year before impairment losses, financial guarantees and tax		**75,914**	**105,458**
Impairment losses and financial guarantees	14	(8,900)	(9,729)
Profit for year before tax		**67,014**	**95,729**
Income tax expense	31	(15,530)	(17,241)
Net profit for year		**51,484**	**78,488**
Other comprehensive loss:			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets	23.4	(1,730)	(16,995)
Income tax relating to items that may be reclassified subsequently to profit or loss	23.4	363	3,908
Other comprehensive loss for year, net of tax		**(1,367)**	**(13,087)**
Total comprehensive income for year		**50,117**	**65,401**

The Notes number 1 to 40 form an integral part of these Separate Financial Statements.

Separate Statement of Changes in Equity for year ended 31 December 2017

(in accordance with the International Financial Reporting Standards as adopted by the EU)

(EUR '000)	Share capital	Share premium	Reserve funds	Revaluation reserve on available-for-sale financial assets	Other revaluation reserve	Retained earnings	Total
Equity as at 1 January 2016	**248,004**	**484,726**	**49,601**	**30,454**	**(216,162)**	**75,547**	**672,170**
Total comprehensive income/(loss) for year	-	-	-	(13,087)	-	78,488	**65,401**
Net profit for the year	-	-	-	-	-	*78,488*	***78,488***
Other comprehensive loss for the year, net of tax	-	-	-	*(13,087)*	-	-	***(13,087)***
Transfer on merger	-	-	-	-	-	372	**372**
Dividends paid	-	-	-	-	-	(71,729)	**(71,729)**
Equity as at 31 December 2016	**248,004**	**484,726**	**49,601**	**17,367**	**(216,162)**	**82,678**	**666,214**
Equity as at 1 January 2017	**248,004**	**484,726**	**49,601**	**17,367**	**(216,162)**	**82,678**	**666,214**
Total comprehensive income/(loss) for year	-	-	-	(1,367)	-	51,484	**50,117**
Net profit for the year	-	-	-	-	-	*51,484*	**51,484**
Other comprehensive loss for the year, net of tax	-	-	-	*(1,367)*	-	-	**(1,367)**
Contribution from shareholder	47,011	-	-	-	-	-	**47,011**
Other	-	-	-	-	-	(46)	**(46)**
Equity as at 31 December 2017	**295,015**	**484,726**	**49,601**	**16,000**	**(216,162)**	**134,116**	**763,296**

The Notes number 1 to 40 form an integral part of these Separate Financial Statements.

Separate Statement of Cash Flows for year ended 31 December 2017

(in accordance with the International Financial Reporting Standards as adopted by the EU)

(EUR ’000)	**Note**	**31 Dec 2017**	**31 Dec 2016 Reclassified**
Profit before taxes		**67,014**	**95,729**
Adjustments for:			
Depreciation and amortization		10,442	10,597
Unrealized losses from financial instruments		5,473	5,466
Dividend income		(1,081)	(17,537)
Interest income		(189,088)	(197,520)
Interest expense		22,941	30,718
Impairment losses and provisions		9,017	10,578
Loss on disposal of property and equipment, intangible assets and assets held for sale		(33)	330
Cash flow from operations before changes in operating assets and liabilities		***(75,315)***	**(61,639)**
Changes in operating assets and liabilities:			
Loans and receivables to financial institutions		6,112	(14,950)
Financial assets at fair value through profit or loss		13,313	13,926
Available-for-sale financial assets		20,029	14,583
Loans and receivables to customers		(444,388)	(645,951)
Other assets		(626)	(3,457)
Amounts owed to financial institutions		8,406	299,099
Financial liabilities at fair value through profit or loss		(138,090)	(66,570)
Amounts owed to customers		452,472	532,421
Provisions		(1)	(22)
Other liabilities		(1,251)	2,019
Cash flow from operations before interest and taxes		***(159,339)***	**69,459**
Interest received		199,473	208,148
Interest paid		(26,506)	(30,711)
Income taxes paid		(14,976)	(26,009)
Net cash flow from/ (on) operating activities		**(1,348)**	**220,887**
Cash flow from investing activities:			
Acquisition of held-to-maturity investments		(126,281)	(244,785)
Repayment of held-to-maturity investments		101,995	30,205
Dividends received		1,081	17,537
Purchase of property and equipment, intangible assets		(6,299)	(7,768)
Proceeds from sale of property and equipment, intangible assets and assets held for sale		3,704	245
Net cash flows from investments in subsidiaries		(1,000)	(1,000)
Net cash flow on investing activities		**(26,800)**	**(205,566)**
Cash flow from financing activities:			
Subordinated debt		87,500	-
Proceeds from issue of share capital		47,011	-
Proceeds from issue of debt securities		143,000	128,985
Repayment of debt securities		(104,540)	(112,609)
Dividends paid		-	(71,729)
Net cash flow from/(on) financing activities		**172,971**	**(55,353)**
Transfer on merger		-	17
Net change in cash and cash equivalents		**144,823**	**(40,015)**
Cash and cash equivalents at beginning of year	39	228,782	268,797
Cash and cash equivalents at end of year	39	373,605	228,782
Net change		**144,823**	**(40,015)**

The Notes number 1 to 40 form an integral part of these Separate Financial Statements.

Notes to the Separate Financial Statements

1 Introduction

Československá obchodná banka, a.s., ('ČSOB SR' or 'the Bank'), is a universal commercial bank conducting its operations in the Slovak Republic. As at 31 December 2017, the Bank had 131 branches.

Československá obchodná banka, a.s., is a universal commercial bank with its business name Československá obchodná banka, a.s., and registered office at Žižkova 11, 811 02 Bratislava, identification number 36 854 140, legal entity identifier code ('LEI code') 52990096Q5LMCH1WU462.

ČSOB SR is a part of the group of KBC Bank NV, with its registered office at Havenlaan 2, 1080 Brussels, Belgium ('KBC'). The consolidated financial statements of this immediate parent company are deposited at Nationale Bank van België NV, Balanscentrale, de Berlaimontlaan 14, 1000 Brussels, Belgium.

The ultimate parent and controlling company of ČSOB SR is KBC GROUP NV, with its registered seat at Havenlaan 2, 1080 Brussels, Belgium. The consolidated financial statements of the ultimate parent company are deposited at the same place, Nationale Bank van België NV, Balanscentrale, de Berlaimontlaan 14, 1000 Brussels, Belgium.

The main aim of KBC is to ensure that ČSOB SR is a strong independent economic subject with equal rights, position and responsibilities as other entities within the KBC group in Europe. ČSOB SR provides a wide range of financial and banking services for retail, small and medium-sized entrepreneurs, corporate and private banking domestic and foreign customers in both local and foreign currencies.

ČSOB SR has the following subsidiaries within its group ('ČSOB Group SR') as at 31 December 2017:

- ČSOB Stavebná sporiteľňa, a.s.
- ČSOB Leasing, a.s. and its subsidiary ('ČSOB Leasing Group')
- ČSOB Nadácia (non-consolidated)
- ČSOB Real, s. r. o.

With effect from 12 October 2017, the name of the subsidiary ČSOB Centrála, s.r.o. was changed to ČSOB Real, s. r. o.

The Chief Executive Officer and Chairman of the ČSOB SR Board of Directors as at 31 December 2017 was Daniel Kollár. Other members of the Board of Directors were: Branislav Straka, Ľuboš Ondrejko, Juraj Ebringer, Stefan Delaet and Marcela Výbohová.

The Chairman of the Supervisory Board as at 31 December 2017 was Luc Popelier. The members of the Supervisory Board were Peter Leška and Ladislav Mejzlík.

2 Significant accounting principles and methods

2.1 Basic accounting principles

The Bank's Separate Financial Statements for the year ended 31 December 2017 ('separate financial statements') have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and Act No 431/2002 Coll. on Accounting. The Bank also prepares Consolidated Financial Statements for the ČSOB Group SR in accordance with the International Financial Reporting Standards as adopted by the EU and Act No 431/2002 Coll. on Accounting.

The Bank prepared and issued Separate and Consolidated Financial Statements for the year ended 31 December 2017 on 20 March 2018.

Separate and Consolidated Financial Statements for the preceding accounting period (as at 31 December 2016) were approved and authorized for issue on 21 March 2017.

These separate financial statements have been prepared under the going-concern assumption that the Bank will continue in operation for the foreseeable future, using the historical cost method except as modified by revaluations of available-for-sale financial assets and financial assets and financial liabilities revalued at fair value through profit or loss.

Balances in brackets represent negative amounts. The presentation currency in the separate financial statements is the Euro ('EUR') and the amounts are rounded to thousands of EUR, unless stated otherwise.

2.2 Significant accounting judgments and estimates

The preparation of the separate financial statements in conformity with IFRS requires the use of certain significant accounting estimates. While applying the Bank's accounting methods, management has also made other judgments in addition to those involving estimates which have a significant impact on the amounts recognized in the separate financial statements. The most significant judgments and estimates are as follows:

(i) Impairment losses on loans

The Bank reviews its loan portfolio at each reporting date and assesses whether an allowance for impairment should be recorded in the separate statement of profit or loss and other comprehensive income. In particular, judgment is required on the part of the management to estimate the amount and timing of future cash flows and to determine the level of allowance required. Such estimates are based on assumptions using a number of factors. The actual results may differ from these estimates. For more information see Notes 2.10, 7, 14 and 36.2.

The Bank creates individual impairment for individually significant loans and portfolio impairment for those loans which are not individually significant or where no impairment was identified on the basis of an individual assessment. The Bank monitors and evaluates loan portfolios in terms of concentration in sectors, industries, their distribution to individual ratings, the existence of collateral and territorial exposure.

2.3 Foreign currencies

The EUR is the currency of the primary economic environment in which the Bank operates (functional currency).

Foreign currency transactions are translated into the functional currency at the exchange rates of the European Central Bank ('ECB') prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies as at the balance sheet date are recognized in the separate statement of profit or loss and other comprehensive income under 'Net trading result and exchange differences'.

2.4 Financial instruments – accounting for recognition and derecognition

Financial assets and liabilities are recognized in the separate 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.

A financial asset is derecognized from the separate 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) has transferred the contractual rights to receive the asset's cash flows; or
b) has retained the contractual rights to receive the asset's cash flows but has assumed 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 derecognized from the separate 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 delivery of the asset is made within the time-frame generally established by regulation or within the convention of the particular market. For all categories of financial assets, the Bank recognizes 'regular way' purchases and sales using settlement date accounting. In settlement date accounting, a financial asset is recognized or derecognized in the separate statement of financial position on the date it is physically transferred to or from the Bank ('settlement date'). For financial assets at fair value through profit or loss and available-for-sale financial assets, fair value movements between 'trade date' and 'settlement date' in connection with purchases and sales are recognized in the separate statement of profit or loss and other comprehensive income.

2.5 Financial instruments – classification, initial and subsequent measurement

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, these are increased by transaction costs.

The classification of financial instruments depends on the purpose for which the financial instruments were acquired and their characteristics. The Bank classifies financial assets in the following categories:

- Financial assets and liabilities at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial assets
- Financial liabilities at amortized cost

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

The category has two sub-categories:

- Financial assets and liabilities held for trading. This category also includes all derivatives entered into by the Bank.
- Financial assets and financial liabilities designated at fair value through profit or loss on initial recognition. Financial assets and liabilities may be classified in this sub-category when at least one of the following criteria is met:
  - The classification eliminates or significantly reduces inconsistencies in treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis.
  - The assets and liabilities are a 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.
  - The financial instruments contain an embedded derivative, unless the embedded derivative does not significantly modify the cash flow, or it is obvious, with little or no analysis, that it could not be recorded separately.

Financial assets and liabilities designated at fair value through profit or loss are recorded in the separate statement of financial position at fair value. Gains and losses resulting from changes in fair value are recorded in the separate statement of profit or loss and other comprehensive income as 'Net trading result and exchange differences' as incurred. Interest income or expense is recorded in the separate statement of profit or loss and other comprehensive income as 'Net interest income' for those held in the banking book (hedging derivatives and ALM derivatives) or in 'Net trading result and exchange differences' for those held in the trading book (trading derivatives).

Where the transaction price differs from the fair value evidenced by quoted price in an active market for identical items or based on a valuation technique that uses only data from observable markets, the Bank immediately recognizes the difference between the transaction price and the fair value (a Day 1 profit) in the separate statement of profit or loss and other comprehensive income as 'Net trading result and exchange differences'. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the separate statement of profit or loss and other comprehensive income when the inputs become observable, or when the instrument is derecognized.

(ii) Loans and receivables to financial institutions and Loans and receivables to customers

Loans and receivables to financial institutions and loans and receivables to customers are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market and where the Bank has no intention of trading the financial asset.

Loans and receivables to financial institutions and loans and receivables to customers are recorded in the separate statement of financial position at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium and fees that are an integral part of the effective interest rate.

The amortization is included in the separate statement of profit or loss and other comprehensive income as 'Interest income'. Losses arising from the impairment of these investments are recognized in the separate statement of profit or loss and other comprehensive income as 'Impairment losses and financial guarantees'.

(iii) 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. Where the Bank plans to sell more than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale financial assets.

Held-to-maturity investments are recognized in the separate statement of financial position at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium and fees that are an integral part of the effective interest rate. The amortization is included in the separate statement of profit or loss and other comprehensive income under 'Interest income'. Any losses arising from the impairment of these investments are recognized in the separate statement of profit or loss and other comprehensive income under 'Impairment losses and financial guarantees'.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are assets which are classified under this category on acquisition, or which do not qualify for classification at fair value through profit or loss, held-to-maturity investments or loans and receivables.

Available-for-sale financial assets are recognized in the separate statement of financial position at fair value. Unrealized gains and losses arising from changes in fair value of these financial assets are recognized in other comprehensive income. When an asset is derecognized, the unrealized gain or loss is reclassified from other comprehensive income to 'Net realized result from available-for-sale financial assets' in the separate statement of profit or loss. Interest income arising from available-for-sale assets calculated using the effective interest rate method is recorded in the separate statement of profit or loss and other comprehensive income as 'Interest income'. Equity investments whose fair value cannot be reliably measured are held at cost less impairment (Note 5). For impairment of available-for-sale financial assets, see Note 2.10.

(v) Financial liabilities at amortized cost

Financial liabilities at amortized cost are non-derivative financial liabilities where the substance of the contractual arrangement results in the Bank being under an obligation to deliver either cash or another financial asset to the counterparty.

These liabilities are measured in the separate statement of financial position at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium and fees that are an integral part of the effective interest rate. The amortization is included in the separate statement of profit or loss and other comprehensive income as 'Interest expense'.

2.6 Embedded derivatives

The Bank occasionally purchases or issues financial instruments containing embedded derivatives. An embedded derivative is separated from the host contract and carried separately 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 at fair value through profit or loss.

If a separated derivative does not qualify as a hedging derivative, it is classified as a trading derivative. When the Bank cannot reliably separate the embedded derivative, the entire hybrid instrument is classified at fair value through profit or loss.

2.7 Hedging derivative financial instruments

Within the Bank's strategy hedging derivatives are determined for hedging some risks and meet all criteria for the classification of hedging derivatives in compliance with IFRS. 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 hedging period;
- the hedge is highly effective on an ongoing basis. The hedge is considered to be highly effective if the changes in fair value attributable to the hedged risk during the period for which the hedge is designated are expected to offset the fair value changes of the hedging instrument in a range of 80% to 125% based on materiality threshold set at the beginning of the hedge contract depending on a basis point value ('BPV').

The Bank designates hedging derivatives as hedges of the fair value of recognized assets or liabilities. Changes in the fair value of hedging instruments are recognized in the separate statement of profit or loss and other comprehensive income in 'Net trading result and exchange differences' together with any changes in the fair value of the hedged items (assets or liabilities) that are attributable to the hedged risk. Interest income/interest expense of hedging instrument is presented in the separate statement of profit or loss and other comprehensive income together with interest income/interest expense of hedged item. The positive fair value of hedging instruments and the revaluation of assets hedged is presented in the separate statement of financial position as 'Other assets'. Negative value of hedging instruments and revaluation of liability hedged items is presented as 'Other liabilities'. For an overview of hedging derivatives, see Note 33.

Hedge accounting is discontinued, when the Bank revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

2.8 Securities funded under repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date ('repos') remain in the separate statement of financial position as assets. The corresponding cash received is recognized in the separate statement of financial position in 'Financial liabilities at fair value through profit or loss', 'Amounts owed to financial institutions' or 'Amounts owed to customers', depending on the counterparty and reflecting the economic substance of the loan. The difference between the sale and repurchase prices is treated as 'Interest expense' and is accrued using the effective interest rate method in the separate statement of profit or loss and other comprehensive income over the life of the agreement. When the counterparty has the right to sell or repledge the securities, the Bank reclassifies those securities in the separate statement of financial position to 'Available-for-sale financial assets pledged as collateral' or 'Held-to-maturity investments pledged as collateral', as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the separate statement of financial position. The corresponding cash paid is recognized in the separate statement of financial position in 'Financial assets at fair value through profit or loss', 'Loans and receivables to financial institutions' or 'Loans and receivables to customers', depending on the counterparty and the economic substance of the loan. The difference between the purchase and resale prices is treated as 'Interest income' and is accrued using the effective interest rate method in the separate statement of profit or loss and other comprehensive income over the life of the agreement.

2.9 Fair value of financial instruments

The fair value of the 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Financial instruments classified as financial assets and financial liabilities at fair value through profit or loss or available-for-sale are fair valued using the quoted market prices if a price is quoted in an active market. For financial instruments that are not traded in an active market, their fair values are estimated using pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows. These fair value estimation techniques may be affected by assumptions made by the Bank, including the discount rate, liquidity and credit spreads and estimates of future cash flows. See Note 35.

2.10 Impairment of financial assets

At each balance sheet date, the Bank assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or 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 subsequent to the initial recognition of the asset (a 'loss event') and that the loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of assets which can be reliably estimated.

Objective evidence that a financial asset or a group of assets is impaired includes observable data that is available to the Bank on the following loss events:

- significant financial difficulty of the issuer or obligor;
- 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 lender would not otherwise have considered;
- the probability that the borrower will enter into bankruptcy or other financial restructuring procedures;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets subsequent to the initial recognition of those assets, although the decrease cannot yet be identified with the separate 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 assets in the group.

(i) Held-to-maturity investments, Loans and receivables to financial institutions and Loans and receivables to customers

The Bank assesses impairment of these categories of financial assets on an individual basis for financial assets that are individually significant, and collectively for financial assets that are not individually significant. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and assesses them for impairment collectively. Assets that are assessed for impairment individually and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

An impairment loss is measured as the difference between the asset's carrying value 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 (in the case of assets with a fixed interest rate), or current effective interest rate (in the case of assets with a variable interest rate). The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that will result from foreclosure, less the costs of obtaining and selling the collateral.

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 the historical loss experience for assets with credit risk characteristics similar to those in the group. The 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 currently exist.

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

Where possible, the Bank seeks to restructure loans rather than to assume possession of collateral. This may involve the agreement of new contractual conditions and the need for a loan maturity extension. The Bank's management continually reviews renegotiated loans to ensure that all criteria concerning the recovery of such assets and the minimisation of credit risk are met.

Impairment losses as well as changes to the amount of the loss are recorded in the form of allowances with a corresponding entry in the separate statement of profit or loss and other comprehensive income under 'Impairment losses and financial guarantees'.

When a loan is uncollectable, it is written off against the related allowance for impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recorded in the separate statement of profit or loss and other comprehensive income under 'Impairment losses and financial guarantees'.

(ii) Available-for-sale financial assets

For available-for-sale equity investments, the Bank assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale financial assets, a significant or prolonged decline in the fair value of the security below its cost represents objective evidence that the asset is impaired. The Bank treats 'significant' generally as 20% and 'prolonged' as greater than 1 year. In the case of debt financial instruments classified as available-for-sale financial assets, impairment is determined based on expected cash flows.

The amount of loss is determined as the difference between the acquisition cost and the current fair value. Impairment losses are recognized as allowances and in the separate statement of profit or loss and other comprehensive income under 'Impairment losses and financial guarantees'. 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 recognized in profit or loss, the impairment loss is reversed through the profit or loss line 'Impairment losses and financial guarantees'. Any loss from equity instruments classified as available-for-sale may not be reduced through profit or loss.

2.11 Offsetting financial instruments

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

Such a right of set off:

- must not be contingent on a future event and
- must be legally enforceable in all of the following circumstances:
    - the normal course of business,
    - the event of default and
    - the event of insolvency or bankruptcy

2.12 Investments in subsidiaries

A subsidiary is a subject controlled by the Bank (parent company). The Bank controls an entity if, and only if, the Bank has all the following:

- power over the entity;
- exposure, or rights, to variable returns from its involvement with the entity;
- the ability to use its power over the entity to affect the amount of the entity´s return.

Investments in subsidiaries are presented at cost less impairment losses. Impairment losses are recognized as differences between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets. Impairment losses on investments in subsidiaries are recognized in the separate statement of profit or loss and other comprehensive income as 'Impairment losses and financial guarantees'. Dividends from subsidiaries are recorded as 'Dividend income'.

2.13 Leasing

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

The leases entered into by the Bank as a lessee are primarily operating leases. The total payments made under operating leases are charged to profit or loss 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 made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

2.14 Recognition of income and expenses

Revenue is recognized in the separate statement of profit or loss and other comprehensive income to the extent that it is probable that economic benefits will flow to the Bank and the revenue can be reliably measured.

(i) Interest received and interest paid

Interest income and interest expense are recognized in the separate statement of profit or loss and other comprehensive income on an accrual basis, using the effective interest rate method.

The effective interest rate method is a method for calculating the amortized cost of a financial asset or financial liability and for allocating the interest income or interest expense over the respective period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument to the net carrying value of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows taking into consideration all the contractual terms of the financial instrument but excluding any future credit losses. The early redemption options are not considered, unless management determined that their impact on the carrying value would be material to the financial statements and reliable estimates can be made. The calculation includes all material fees and amounts paid or received between the contractual parties which are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(ii) Fees and commissions paid and received

Fees and commissions, such as securities related fees and payment services fees, are generally recognized on an accrual basis when the service has been provided. Loan origination fees for loans which may be drawn down are deferred and recognized as part of the loan's effective interest rate. Commissions and fees arising from transactions for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction.

Portfolio and other management advisory and service fees are recognized based on the valid service contracts. Custodial and fiduciary services fees relating to investment funds or securities are accrued proportionally over the period for which the service is provided.

(iii) Dividend income

Revenue is recognized when the Bank's right to dividends is established.

2.15 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, deposits of banks due and payable forthwith on demand measured at amortised cost and at fair value ('Other demand deposits with banks'), loans and receivables to banks measured at amortised cost and fair value through profit or loss with original maturity of up to three months, government treasury bills and treasury bills of the National Bank of Slovakia ('NBS') with original maturity of up to three months.

2.16 Property, equipment and intangible assets

Land, buildings, equipment and intangible assets include real estate used by the Bank, software, IT and communications and other machines and equipment.

Property and equipment are carried at cost less accumulated depreciation and impairment losses. The cost includes the acquisition price and other related ancillary costs, e.g. transportation costs, customs duties or commissions. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life for the following periods:

Buildings	30 years
Equipment	3 – 12 years
Other tangible assets	4 – 20 years

Intangible assets are carried at cost less accumulated amortization and impairment losses. Amortization is calculated using the straight-line method over the estimated useful life of assets. Amortization periods are determined on an individual basis (3 - 15 years).

Assets' residual values and useful lives are reviewed and adjusted, where appropriate, as at the balance sheet date.

Assets that are subject to depreciation are reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

(i) Investment property

Investment properties are properties, land or building, held to earn rentals or for capital appreciation. Investment property is stated at historical cost less impairment provisions and accumulated depreciation using depreciation on a straight-line basis over the estimated useful lives. The depreciation of investment property is presented in the separate statement of profit or loss and other comprehensive income under 'Other operating result'. The estimated useful life of buildings classified as investment property is 30 years. The carrying amount of investment property and its depreciation are disclosed in Note 10.

(ii) Internally generated intangible assets

Internally generated intangible assets are outputs of internal projects created through a development phase.

Expenditures on internal generated intangible assets comprise all directly attributable necessary expenditures to create, produce, and prepare the assets to be capable of operating in the manner intended by management. Intangible assets are reported at cost (internal and external expenditures) less any accumulated amortization. The amortization is used for straight-line amortization during the estimated useful life of the assets. Periods of the amortization are set individually.

Assets that are subject to amortization are reviewed for impairment at each balance sheet date or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An asset's carrying value is reduced immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

2.17 Financial guarantees

In the normal course of business, the Bank provides financial guarantees consisting of letters of credit and letters of guarantee. If the Bank is a guarantee holder (financial guarantee received), the financial guarantee is not recorded on the balance sheet, but is taken into consideration as collateral when determining impairment of the guaranteed asset. If the Bank is a guarantor, financial guarantees given are recognized in the separate financial statements at the higher of the deferred guarantee fee and the best estimates of the expenditure required to settle any financial obligation arising as a result of the guarantee and are presented in 'Provisions'. The fees accepted for guarantee issues are recognized in the separate statement of profit or loss and other comprehensive income under 'Fee and commission income'. Any increase and any decrease in the liability relating to financial guarantees is included in the separate statement of profit or loss and other comprehensive income under 'Impairment losses and financial guarantees'.

2.18 Employee benefits

Pensions to the Bank's former employees are paid through the pensions system valid in the Slovak Republic. This system is funded from gross salary-derived social insurance contributions from employees and employers.

In addition to these contributions, the Bank contributes to the employees' additional pension insurance beyond the framework of legal social security. Contributions are charged to the separate statement of profit or loss and other comprehensive income as they are made.

The Bank also operates other post-employment benefits comprising lump sum retirement benefits, long service and jubilee benefits. The cost of providing pensions is charged to the separate statement of profit or loss and other comprehensive income so as to spread the regular cost over the service lives of employees. The liabilities related to the benefits are measured at the present value of the estimated future cash outflows discounted to the maturity periods of benefits.

2.19 Provisions

Provisions are created when the Bank has a current 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.

2.20 Income tax

There are two components of income tax expense: current and deferred. Current income tax expense entails the amounts to be paid or refunded within income taxes for the respective period. The taxable profit is determined from profit/loss for the current accounting period, adding tax non-deductible expenses and deducting income which is not subject to income tax.

Deferred tax assets and liabilities are recognized due to the different valuation of assets and liabilities in accordance with the Income Tax Act and their carrying values in the separate financial statements. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the end of the reporting period.

Deferred tax is calculated using the balance sheet liability method. All deferred tax assets are recognized to the extent that it is probable that a future taxable profit will be available against which the deferred tax assets can be utilized. Deferred tax liabilities represent income taxes to be paid in future periods due to taxable temporary differences. Deferred taxes are disclosed in the separate financial statements at their net values.

The Bank also pays various indirect operating taxes which are a part of ‘Other operating expenses’. Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

2.21 Fiduciary activities

The Bank commonly acts in fiduciary activities that result in the holding or placing of assets on the accounts of individuals and institutions. Assets under management or custody are not recognized as assets or liabilities in the separate statement of financial position but are accounted for as off-balance sheet items, since the Bank does not bear the risks and rewards of ownership associated with such items.

The fee income arising thereon is recognized in the separate statement of profit or loss and other comprehensive income under ‘Fee and commission income’.

2.22 Changes in accounting policies

(i) Effective from 1 January 2017

The accounting policies adopted are consistent with those used in the previous financial period except that the Bank has adopted the following standards, amendments and interpretations.

Amendments to IFRS 12 (Disclosure of Interests in Other Entities): Clarification of the scope of disclosure requirements in IFRS 12 from Annual Improvements Cycle – 2014-2016. The adoption did not affect the Bank's financial statements.

Amendments to IAS 12 (Income Taxes): Recognition of Deferred Tax Assets for Unrealised Losses. The adoption did not affect the Bank's financial statements.

Amendments to IAS 7 (Statement of Cash Flows) - Disclosure Initiative: These amendments require entities to provide disclosures about changes in liabilities arising from financing activities. The adoption did not have a significant impact on the Bank's financial statements.

(ii) Issued but not effective at year-end 2017

The following standards, amendments and interpretations have been issued and are effective after the year-end 2017. 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´s financial statements.

IFRS 9 Financial Instruments (2014) is effective for periods beginning on or after 1 January 2018.

In July 2014, the IASB issued IFRS 9 on the classification and measurement of financial instruments, as a replacement for the relevant requirements of the present IAS 39 (Financial Instruments: Recognition and Measurement). The mandatory effective date for IFRS 9 is 1 January 2018. A project led by KBC relating to IFRS 9 had been running for some time in the Bank and the system and process implementation was finalised in 2017 with further minor enhancements expected in 2018. The Bank will make use of transition relief as regards disclosing comparative information at the date of initial application.

Classification and measurement of financial instruments: Classification and measurement of financial assets under IFRS 9 depends on the specific business model in place and the assets' contractual cash flow characteristics. The impact of first time application is due primarily to a reclassification of part of the treasury bond portfolio from 'Available-for-sale' category under IAS 39 to 'Amortised cost' category under IFRS 9.

Impairment of financial instruments: Financial instruments that are subject to impairment will be classified into three stages, namely Stage 1: Performing; Stage 2: Underperforming (where lifetime expected credit losses are required to be measured); and Stage 3: Non-performing or impaired.

The Bank has established policies and processes to assess whether credit risk has increased significantly at the end of each reporting period and, therefore, whether 'staging' is required (i.e. moving from one stage to another). For the loan portfolio, a multi-tier approach has been adopted to staging, based on internal credit ratings, forbearance measures, collective assessment and days past due as a backstop. A similar multi-tier approach is used for the investment portfolio, except that the Bank will use the low credit risk exemption, meaning that all investment grade bonds in scope are considered to be in 'Stage 1', unless any of the other triggers indicate otherwise. For 'Stage 1' and 'Stage 2' – under IAS 39 – the Bank records incurred-but-not-reported (IBNR) impairment losses, which are influenced by emergence periods. Under IFRS 9, impairment of financial assets is calculated on a 12-month expected credit loss (ECL) basis for 'Stage 1' and on a lifetime ECL basis for 'Stage 2'. As a consequence, impairment levels will generally increase for the portfolios in Stage 1 and Stage 2. Forward looking information is incorporated into the staging criteria and measurement of ECL. Different macroeconomic factors are taken into consideration and the Bank applies three scenarios to evaluate a range of possible outcomes. The impact of first time application has been positively influenced by the current benign macroeconomic environment. Impairment levels under IFRS 9 will differ from current prudential requirements because of (i) application of a through-the-cycle estimate for prudential purposes as opposed to a point-in-time estimate under IFRS 9, (ii) application of a 12-month probability of default (PD) for prudential purposes as opposed to a lifetime PD under IFRS 9 (for 'Stage 2' and 'Stage 3') and (iii) inclusion of prudential floors and downturn adjustments in the PD, exposure at default (EAD) and loss given default (LGD) estimates for prudential purposes.

Hedge accounting: The Bank will use the option to continue with hedge accounting under IAS 39 and will await further developments at the IASB regarding macro hedging.

The Bank will not make use of any transitional arrangements with regard to the impact of IFRS 9 on capital, as it wants to provide full transparency. Consequently, own funds, capital and the leverage ratio will reflect the full impact of IFRS 9.

The first time application of IFRS 9 will have an estimated negative impact of 64 basis points on common equity Tier-1 capital, due to recalculation of ECL and rebalancing of part of the treasury bond portfolio. Including this impact, the Bank will be still sufficiently capitalized under all regulatory requirements. The Bank will provide further transition disclosures in the separate financial statements for the first quarter of 2018.

IFRS 15 Revenue from Contracts with Customers is effective for periods beginning on or after 1 January 2018. In May 2014, the IASB issued IFRS 15 concerning the recognition of revenue. During 2017, the analysis of its impact has been performed. The Bank has identified the relevant contracts and assessed them using the new five-step model for revenue recognition. However, as expected, no major impact was identified.

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

The IASB published several other limited amendments to existing IFRSs in the course of 2017 and before, which have effective date after the 2017 year-end. They will be applied by the Bank when they become mandatory, but their impact is currently estimated to be negligible.

2.23 Reclassification of Separate Statement of Financial Position at 31 December 2016

In 2017, the Bank performed a review of the presentation of the financial statements. The Bank decided to change the presentation of some items in Separate Statement of Financial Position. The changed presentation is in compliance with the IFRS and provides reliable and more relevant information to the users of the financial statements.

Due to the amended presentation of the financial statements, some comparative amounts in Separate Statement of Financial Position at 31 December 2016 were reclassified.

The explanation for reclassifications of Separate Statement of Financial Position as at 31 December 2016 is as follows:

1. The Bank reclassified deposits of financial institutions due and payable forthwith on demand from the lines 'Loans and receivables to financial institutions' and 'Financial assets at fair value through profit or loss' to the renamed line 'Cash, balances with central bank and other demand deposits with banks'.
2. The Bank reclassified cash pledged as collateral from the line 'Other assets' to the line 'Loans and receivables to financial institutions'.

(EUR '000)	Note	31 Dec 2016 Before reclass.	Note of reclass.	Changes in presentation	31 Dec 2016 After reclass.
Cash, balances with central bank and other demand deposits with banks	3	201,170	1	25,392	**226,562**
Financial assets at fair value through profit or loss	4	60,443	1	(113)	**60,330**
Loans and receivables to financial institutions	6	41,674	1, 2	(18,519)	**23,155**
Other assets	13	20,410	2	(6,760)	**13,650**

3 Cash, balances with central bank and other demand deposits with banks

(EUR '000)	31 Dec 2017	31 Dec 2016 Reclassified
At cost		
Cash balances	200,328	185,692
Mandatory minimum reserves	24,348	15,478
Other demand deposits with banks	36,825	25,279
	261,501	***226,449***
At fair value		
Other demand deposits with banks	12,055	113
	12,055	***113***
Total	**273,556**	**226,562**

Mandatory minimum reserves ('MMR') are maintained in the amount required by the regulations of the NBS and are not designed for daily use. They are accounted for as interest-bearing deposits in accordance with the regulations of the NBS. The NBS paid interest on the mandatory minimum reserve balances at 0.00% p.a. as at 31 December 2017 (2016: 0.00% p.a.). The amount of the reserves depends on the volume of deposits received.

4 Financial assets at fair value through profit or loss

(EUR '000)	31 Dec 2017	31 Dec 2016 Reclassified
Financial assets held for trading		
Loans and receivables to banks	12,775	-
Financial trading derivatives (Note 33)	10,776	17,721
Government debt securities	1	1
Bank bonds	15,219	24,093
Other bonds	13,791	18,515
Total	**52,562**	**60,330**

5 Available-for-sale financial assets

(EUR '000)	31 Dec 2017	31 Dec 2016
At fair value		
Government debt securities	288,065	339,582
Bank bonds	51,555	51,086
Other bonds	107,050	80,443
Shares	6,653	5,072
VISA Inc.	*3,858*	*2,902*
MasterCard	*2,795*	*2,170*
	453,323	***476,183***
At cost		
Shares	676	888
Impairment losses (Note 14)	*(665)*	(758)
	11	***130***
Total	**453,334**	**476,313**

As at 31 December 2016, the Bank held in its portfolio of securities available-for-sale, other bonds with a market value of EUR 17,661 thousand placed as collateral for a loan received from banks. These securities were presented separately from securities available-for-sale in the separate statement of financial position in line 'Available-for-sale financial assets pledged as collateral'. As at 31 December 2017, the Bank did not hold available-for-sale securities pledged as collateral. See Notes 16 and 34.

6 Loans and receivables to financial institutions

(EUR '000)	31 Dec 2017	31 Dec 2016 Reclassified
Loans and receivables to banks	99,297	16,515
Other receivables to banks	2,920	6,760
	102,217	***23,275***
Impairment losses (Note 14)	(114)	(120)
Total	**102,103**	**23,155**

As at 11 June 2014, the ECB introduced a negative deposit facility interest rate in excess of the MMR at the end of period. It is derived from the deposit facility interest rate, at 31 December 2017 (0.40%) p.a. (2016: (0.40%) p.a.).

As at 31 December 2016, the Bank held in its portfolio of loans and receivables to financial institutions the amount of EUR 6,760 thousand of cash pledged as collateral for a loan received from banks. See Notes 16 and 34.

7 Loans and receivables to customers

As at 31 December 2017, loans and receivables to customers, according to risk categories based on individual assessment, are as follows:

(EUR '000)	Exposure	Impairment losses (Note 14)	Net carrying amount
Unimpaired loans and receivables to customers	5,485,618	(8,278)	5,477,340
Impaired loans and receivables to customers	159,888	(108,838)	51,050
Total	**5,645,506**	**(117,116)**	**5,528,390**

As at 31 December 2016, loans and receivables to customers, according to risk categories based on individual assessment, are as follows:

(EUR '000)	Exposure	Impairment losses (Note 14)	Net carrying amount
Unimpaired loans and receivables to customers	5,038,710	(8,281)	5,030,429
Impaired loans and receivables to customers	173,333	(110,288)	63,045
Total	**5,212,043**	**(118,569)**	**5,093,474**

8 Held-to-maturity investments

(EUR '000)	31 Dec 2017	31 Dec 2016
Government debt securities	1,367,842	1,354,642
Bank bonds	103,383	103,272
	1,471,225	***1,457,914***
Impairment losses (Note 14)	(29)	(28)
Total	**1,471,196**	**1,457,886**

As at 31 December 2017, the Bank held in its portfolio of held-to-maturity investments government debt securities with the carrying amount of EUR 186,486 thousand (2016: EUR 108,841 thousand) placed as collateral for a loan received from banks. These securities are presented separately from securities held-to-maturity in the separate statement of financial position in line 'Held-to-maturity investments pledged as collateral'. See Notes 16 and 34.

9 Investments in subsidiaries

As at 31 December 2017 and 31 December 2016, investments in subsidiaries are as follows:

(EUR '000)	Share in %	Acquisition price and Carrying value	
		31 Dec 2017	31 Dec 2016
ČSOB stavebná sporiteľňa, a.s.	100%	23,899	23,899
ČSOB Leasing Group	100%	49,791	49,791
ČSOB Real, s. r. o.	100%	2,505	1,505
ČSOB Nadácia	100%	7	7
Total		**76,202**	**75,202**

The percentage-share in subsidiaries equates to the percentage of voting rights.

(i) Impairment of investments in subsidiaries

The management of the subsidiaries which are subject to the impairment test provide a projection of business plan of their companies for a period of 3 years. For the subsequent 7 years, an estimated growth rate determined by KBC is used to assess the business development. The model calculates the present value of these cash flows discounting them at the interest rate resulting from the CAPM model based principles (Capital Asset Pricing Model). Cash flows after the projection period are determined by a present value of the perpetuity with the particular estimated growth rate, determined at KBC. The discount rate used is derived from the long term risk-free rate adjusted by business risk and country risk (9.77% - 10.36%). The model is most sensitive on changes of discount rate and earnings growth rate.

In 2017 and 2016, the Bank did not create or release any impairment losses for investments in subsidiaries.

10 Property and equipment

(EUR '000)	Investment property	Land and buildings	ICT equipment	Office equipment	Other	Acquisition	Total
Cost at 1 January 2017	**1,474**	**78,930**	**10,820**	**6,984**	**16,841**	**1,485**	**116,534**
Additions	-	-	-	-	-	2,858	**2,858**
Transfers	-	537	991	38	1,990	(3,556)	**-**
Disposals	-	(810)	(3,923)	(750)	(1,402)	-	**(6,885)**
Cost at 31 December 2017	**1,474**	**78,657**	**7,888**	**6,272**	**17,429**	**787**	**112,507**
Accumulated depreciation at 1 January 2017	**(944)**	**(45,316)**	**(8,907)**	**(6,651)**	**(10,565)**	**-**	**(72,383)**
Depreciation	(53)	(2,504)	(1,231)	(78)	(1,756)	-	**(5,622)**
Disposals	-	760	3 923	748	1,376	-	**6,807**
Accumulated depreciation at 31 December 2017	**(997)**	**(47,060)**	**(6,215)**	**(5,981)**	**(10,945)**	-	**(71,198)**
Impairment loss at 1 January 2017	**(241)**	**(1,150)**	**-**	**-**	**(275)**	**-**	**(1,666)**
Impairment loss at 31 December 2017	**(241)**	**(1,150)**	**-**	**-**	**(275)**	-	**(1,666)**
Net book value at 31 December 2017	**236**	**30,447**	**1,673**	**291**	**6,209**	**787**	**39,643**

(EUR '000)	Investment property	Land and buildings	ICT equipment	Office equipment	Other	Acquisition	Total
Cost at 1 January 2016	**1,474**	**88,145**	**9,755**	**7,250**	**16,928**	**1,711**	**125,263**
Additions	-	-	-	-	-	4,535	**4,535**
Transfers	-	954	1,043	52	2,712	(4,761)	**-**
Transfer to Assets held for sale	-	(9,055)	-	-	-	-	**(9,055)**
Transfer on merger	-	-	494	15	2	-	**511**
Disposals	-	(1,114)	(472)	(333)	(2,801)	-	**(4,720)**
Cost at 31 December 2016	**1,474**	**78,930**	**10,820**	**6,984**	**16,841**	**1,485**	**116,534**
Accumulated depreciation at 1 January 2016	**(891)**	**(48,253)**	**(7,867)**	**(6,879)**	**(11,880)**	**-**	**(75,770)**
Depreciation	(53)	(2,840)	(1,017)	(88)	(1,465)	-	**(5,463)**
Transfer to Assets held for sale	-	5,221	-	-	-	-	**5,221**
Transfer on merger	-	-	(494)	(15)	(2)	-	**(511)**
Disposals	-	556	471	331	2,782	-	**4,140**
Accumulated depreciation at 31 December 2016	**(944)**	**(45,316)**	**(8,907)**	**(6,651)**	**(10,565)**	**-**	**(72,383)**
Impairment loss at 1 January 2016	**(241)**	**(1,376)**	**-**	**-**	**(275)**	**-**	**(1,892)**
Creation (Note 14)	-	(100)	-	-	-	-	**(100)**
Release/Use (Note 14)	-	94	-	-	-	-	**94**
Transfer to Assets held for sale	-	232	-	-	-	-	**232**
Impairment loss at 31 December 2016	**(241)**	**(1,150)**	**-**	**-**	**(275)**	**-**	**(1,666)**
Net book value at 31 December 2016	**289**	**32,464**	**1,913**	**333**	**6,001**	**1,485**	**42,485**

11 Intangible assets

(EUR '000)	Acquired software	Internally generated software	Other intangible assets	Acquisition	Total
Cost at 1 January 2017	**23,336**	**9,959**	**-**	**1,001**	**34,296**
Additions	-	-	-	3,503	3,503
Transfers	1,485	2,479	111	(4,075)	-
Disposals	(86)	-	-	-	**(86)**
Cost at 31 December 2017	**24,735**	**12,438**	**111**	**429**	**37,713**
Accumulated amortization at 1 January 2017	**(18,616)**	**(6,654)**	**-**	**-**	**(25,270)**
Amortization	(2,033)	(2,833)	(7)	-	(4,873)
Disposals	86	-	-	-	86
Accumulated amortization at 31 December 2017	**(20,563)**	**(9,487)**	**(7)**	**-**	**(30,057)**
Net book value at 31 December 2017	**4,172**	**2,951**	**104**	**429**	**7,656**

(EUR '000)	Acquired software	Internally generated software	Acquisition	Total
Cost at 1 January 2016	**22,435**	**7,924**	**616**	**30,975**
Additions	-	-	3,285	3,285
Transfers	865	2,035	(2 900)	-
Disposals	(98)	-	-	(98)
Transfer on merger	134	-	-	134
Cost at 31 December 2016	**23,336**	**9,959**	**1,001**	**34,296**
Accumulated amortization at 1 January 2016	**(15,959)**	**(4,177)**	**-**	**(20,136)**
Amortization	(2,710)	(2,477)	-	(5,187)
Disposals	98	-	-	98
Transfer on merger	(45)	-	-	(45)
Accumulated amortization at 31 December 2016	**(18,616)**	**(6,654)**	**-**	**(25,270)**
Net book value at 31 December 2016	**4,720**	**3,305**	**1,001**	**9,026**

(i) Insurance cover

The Bank's insurance covers all standard risks to tangible and intangible assets. Tangible and intangible assets of the Bank are insured against the following risks:

- natural disasters
- theft, robbery
- insurance of machines and electronic equipment
- insurance of transport of electronic equipment
- insurance against fire causing an interruption of operations

Tangible and intangible assets are insured up to the amount of their cost, which is recalculated by the index determined by the insurance company.

12 Assets held for sale

As at 31 December 2017 the Bank did not hold any assets classified as 'Assets held for sale'. The Bank reported gains related to the sale of Assets held for sale in the amount of EUR 98 thousand in the line 'Other operating result'.

As at 31 December 2016 the Bank reclassified assets which met the held for sale criteria from 'Property and equipment' to 'Assets held for sale'. As at 31 December 2016 the net book value of Bank's assets held for sale amounted of EUR 3,602 thousand.

(EUR '000)	Land and buildings	
	2017	2016
Net book value at 1 January	**3,602**	**-**
Transfer from Property and equipment	-	3,602
Sale of Assets held for sale	(3,602)	-
Net book value at 31 December	**-**	**3,602**

The net book value of Bank's assets held for sale represents its fair value. The discounted cash flow method, based on observable market data, was performed based on its highest and best use from a market participant's perspective. Therefore in the fair value hierarchy it is considered as a Level 2 categorisation.

13 Other assets

(EUR ’000)	31 Dec 2017	31 Dec 2016 Reclassified
Other financial assets		
Accrued non-interest income	1,720	1,520
Advances	4,555	4,712
Fair value changes of hedged item	(247)	3,530
Hedging derivatives (Note 33)	1,637	1,513
	7,665	***11,275***
Impairment losses (Note 14)	(119)	(121)
	7,546	***11,154***
Other non-financial assets		
Prepaid charges	2,679	2,493
Other assets	-	3
	2,679	***2,496***
Total	**10,225**	**13,650**

14 Impairment losses and financial guarantees

(EUR ’000)	1 Jan 2017	Use (mainly receiv. written off/ceded)*	Creation/ (Release)	Other adjustments	31 Dec 2017
Impairment losses and financial guarantees to					
Loans and receivables to financial institutions (Note 6)	120	-	(6)	-	**114**
Loans and receivables to customers (Note 7)	118,569	(10,936)	9,017	466	**117,116**
Public administration	420	-	(236)	(18)	**166**
Corporate	62,323	(7,081)	3,618	(652)	**58,208**
Retail:	55,826	(3,855)	5,635	1,136	**58,742**
Mortgage loans	*18,210*	*(535)*	*(588)*	*567*	***17,654***
Consumer loans	*11,427*	*(724)*	*1,329*	*163*	***12,195***
Credit cards	*1,760*	*(55)*	*2*	*42*	***1,749***
Overdrafts	*3,006*	*(362)*	*(75)*	*(14)*	***2,555***
MicroSME	*21,423*	*(2,179)*	*4,967*	*378*	***24,589***
Available-for-sale financial assets (Note 5)	758	(118)	25	-	**665**
Held-to-maturity investments (Note 8)	28	-	1	-	**29**
Property and equipment (Note 10)	1,666	-	-	-	**1,666**
Assets held for sale (Note 12)	232	(232)	-	-	**-**
Other assets (Note 13)	121	(37)	35	-	**119**
Provisions for off-balance sheet risks	1,826	-	(172)	-	**1,654**
Total	**123,320**	**(11,323)**	**8,900**	**466**	**121,363**

** including income from recovery of assets previously written off*

(EUR '000)	1 Jan 2016	Transfer on merger	Use (mainly receiv. written off/ceded)*	Creation/ (Release)	Other adjustments	31 Dec 2016
Impairment losses and financial guarantees to						
Loans and receivables to financial institutions (Note 6)	107	-	-	13	-	**120**
Loans and receivables to customers (Note 7)	102,368	4,367	(3,771)	13,918	1,687	**118,569**
Public administration	280	-	-	149	(9)	**420**
Corporate	52,502	4,367	(3,818)	9,009	263	**62,323**
Retail:	49,586	-	47	4,760	1,433	**55,826**
- Mortgage loans	*16,623*	-	*(264)*	*1,290*	*561*	***18,210***
- Consumer loans	*9,660*	-	*2,550*	*(1,240)*	*457*	***11,427***
- Credit cards	*1,703*	-	*193*	*(215)*	*79*	***1,760***
- Overdrafts	*2,738*	-	*(31)*	*234*	*65*	***3,006***
- MicroSME	*18,862*	-	*(2,401)*	*4,691*	*271*	***21,423***
Available-for-sale financial assets (Note 5)	627	-	-	131	-	**758**
Held-to-maturity investments (Note 8)	-	-	-	28	-	**28**
Investments in subsidiaries (Note 9)	7,565	(7,565)	-	-	-	**-**
Property and equipment (Note 10)	1,892	-	-	6	(232)	**1,666**
Assets held for sale (Note 12)	-	-	-	-	232	**232**
Other assets (Note 13)	212	6	(360)	263	-	**121**
Provisions for off-balance sheet risks	6,526	-	-	(4,630)	(70)	**1,826**
Total	**119,297**	**(3,192)**	**(4,131)**	**9,729**	**1,617**	**123,320**

** including income from recovery of assets previously written off*

(i) Provisions for off-balance sheet risks

The provisions for credit risk of off-balance sheet items have been created to cover the estimated losses on unused loan commitments, guarantees, and letters of credits.

15 Financial liabilities at fair value through profit or loss

(EUR '000)	**31 Dec 2017**	**31 Dec 2016**
Financial liabilities designated at fair value through profit or loss on initial recognition		
Current accounts – banks	12,055	-
Term deposits – banks	-	133,085
Term deposits – non-bank customers	45,662	62,700
Debt securities issued	13,848	13,618
	71,565	**209,403**
Financial liabilities held for trading		
Financial trading derivatives (Note 33)	9,640	13,189
	9,640	**13,189**
Total	**81,205**	**222,592**

Financial liabilities, which are designated at fair value through profit or loss on initial recognition, are a part of dealing room portfolio. The Bank monitors, manages, evaluates and reports them at fair value basis.

16 Amounts owed to financial institutions

(EUR '000)	**31 Dec 2017**	**31 Dec 2016**
Current accounts - banks	19,468	13,742
Term deposits and loans received from banks and multilateral banks	668,028	666,131
Total	**687,496**	**679,873**

As at 31 December 2017, loans received from banks in the amount of EUR 223,901 thousand (2016: EUR 149,741 thousand) were secured by (see Notes 8, 6 and 5):

- government debt securities in the Held-to-maturity portfolio with carrying amount of EUR 186,486 thousand (2016: EUR 108,841 thousand) and market value of EUR 224,696 thousand (2016: EUR 131,381 thousand),
- cash reported in Loans and receivables to financial institutions portfolio amounted of EUR 0 thousand (2016: EUR 6,760 thousand),
- other bonds in the Available-for-sale portfolio with a market value of EUR 0 (2016: EUR 17,661 thousand).

17 Amounts owed to customers

(EUR '000)	**31 Dec 2017**	**31 Dec 2016**
Current accounts – customers	2,971,510	2,822,959
Current accounts – government bodies and funds	123,990	106,636
Term deposits and saving accounts – customers	2,415,388	2,098,032
Term deposits and saving accounts – government bodies	243,142	274,202
Other amounts owed to customers	99,203	101,282
Total	**5,853,233**	**5,403,111**

18 Debt securities issued

(EUR '000)	**31 Dec 2017**	**31 Dec 2016**
Bills of exchange	5,092	6,874
Bank bonds	14,847	16,934
Mortgage bonds	497,987	457,074
Total	**517,926**	**480,882**

All bonds are subject to the issuance term and conditions, security prospect, bonds law and securities and investment services law. There are no pre-emptive rights, exchange rights or any other advantage. All securities under Mortgage bonds category listed below are issued in book-entry form.

The table below shows the structure of mortgage bonds and bank bonds as at 31 December 2017:

Issue name	Issue date	Currency	Coupon payment date	Interest rate fix/float	Initial nominal value 1 item (original currency)	No. of items	Total value of issue (EUR '000)	Net book value at 31 Dec 2017 (EUR '000)	Maturity
Mortgage bonds:									
ČSOB XIII.	November 11	EUR	November 11, yearly	5.50%	10,000.00	2,500	25,000	25,207	November 31
ČSOB XIX.	July 12	EUR	July 9, yearly	4.70%	10,000.00	2,500	25,000	24,959	July 36
ČSOB XXII.	May 14	EUR	May 30, yearly	1.20%	10,000.00	5,500	55,000	55,401	May 18
ČSOB XXIII.	November 14	EUR	November 27, yearly	1.65%	1,000.00	14,130	14,130	14,152	November 18
ČSOB XXIV.	February 15	EUR	February 27, yearly	1.60%	1,000.00	9,468	9,468	9,596	February 19
ČSOB XXV.	June 15	EUR	June 26, yearly	0.40%	10,000.00	5,000	50,000	49,628	June 20
ČSOB XXVI.	November 15	EUR	November 30, yearly	0.60%	10,000.00	5,000	50,000	50,210	November 20
ČSOB XXVII.	March 16	EUR	March 17, yearly	0.50%	10,000.00	5,000	50,000	50,310	March 21
ČSOB XXVIII.	July 16	EUR	July 11, yearly	0.20%	10,000.00	2,500	25,000	25,050	July 19
ČSOB XXIX.	September 16	EUR	September 27, yearly	0.30%	10,000.00	5,000	50,000	50,151	September 21
ČSOB XXX.	March 17	EUR	March 29, yearly	0.50%	10,000.00	5,000	50,000	49,959	March 22
ČSOB XXXI.	June 17	EUR	June 28, yearly	0.50%	10,000.00	4,300	43,000	43,186	June 22
ČSOB XXXII.	November 17	EUR	November 28, yearly	0.60%	10,000.00	5,000	50,000	50,178	November 22
Total								**497,987**	
Bank bonds:									
ČSOB I.	March 15	EUR	-	ZERO	1,000.00	10,000	10,000	9,403	March 21
ČSOB II.*	October 15	EUR	October 5, yearly	1.90%	1,000.00	4,810	2,405	2,444	October 19
ČSOB III.**	September 16	EUR	September 9, yearly	0.80%	1,000.00	3,957	2,968	3,000	September 20
Total								**14,847**	

** Nominal value of the bond is payable annually as 25% of the initial nominal value. The coupon is set as a given year fix rate of the remaining nominal value. The fix rate equals 0.50% p.a., 1.30% p.a., 1.90% p.a., and 2.50% p.a. for the year 1, 2, 3, 4, respectively.*

*** Nominal value of the bond is payable annually as 25% of the initial nominal value. The coupon is set as a given year fix rate of the remaining nominal value. The fix rate equals 0.40% p.a., 0.80% p.a., 1.60% p.a., and 2.80% p.a. for the year 1, 2, 3, 4, respectively.*

The table below shows the structure of mortgage bonds and bank bonds as at 31 December 2016:

Issue name	Issue date	Currency	Coupon payment date	Interest rate fix/float	Initial nominal value 1 item (original currency)	No. of items	Total value of issue (EUR '000)	Net book value at 31 Dec 2016 (EUR '000)	Maturity
Mortgage bonds:									
ČSOB XIII.	November 11	EUR	November 11, yearly	5.50%	10,000.00	2,500	25,000	25,207	November 31
ČSOB XV.	April 12	EUR	April 5, yearly	3.80%	10,000.00	4,000	40,000	41,095	April 17
ČSOB XIX.	July 12	EUR	July 9, yearly	4.70%	10,000.00	2,500	25,000	24,940	July 36
ČSOB XX.	March 13	EUR	March 20, yearly	1.60%	10,000.00	6,000	60,000	60,755	March 17
ČSOB XXII.	May 14	EUR	May 30, yearly	1.20%	10,000.00	5,500	55,000	55,428	May 18
ČSOB XXIII.	November 14	EUR	November 27, yearly	1.65%	1,000.00	14,534	14,534	14,557	November 18
ČSOB XXIV.	February 15	EUR	February 27, yearly	1.60%	1,000.00	9,657	9,657	9,787	February 19
ČSOB XXV.	June 15	EUR	June 26, yearly	0.40%	10,000.00	5,000	50,000	49,440	June 20
ČSOB XXVI.	November 15	EUR	November 30, yearly	0.60%	10,000.00	5,000	50,000	50,272	November 20
ČSOB XXVII.	March 16	EUR	March 17, yearly	0.50%	10,000.00	5,000	50,000	50,344	March 21
ČSOB XXVIII.	July 16	EUR	July 11, yearly	0.20%	10,000.00	2,500	25,000	25,068	July 19
ČSOB XXIX.	September 16	EUR	September 27, yearly	0.30%	10,000.00	5,000	50,000	50,181	September 21
Total								**457,074**	
Bank bonds:									
ČSOB I.	March 15	EUR	-	ZERO	1,000.00	10,000	10,000	9,221	March 21
ČSOB II.*	October 15	EUR	October 5, yearly	1.30%	1,000.00	4,893	3,670	3,715	October 19
ČSOB III.**	September 16	EUR	September 9, yearly	0.40%	1,000.00	3,985	3,985	3,998	September 20
								16,934	

** Nominal value of the bond is payable annually as 25% of the initial nominal value. The coupon is set as a given year fix rate of the remaining nominal value. The fix rate equals 0.50% p.a., 1.30% p.a., 1.90% p.a., and 2.50% p.a. for the year 1, 2, 3, 4, respectively.*

*** Nominal value of the bond is payable annually as 25% of the initial nominal value. The coupon is set as a given year fix rate of the remaining nominal value. The fix rate equals 0.40% p.a., 0.80% p.a., 1.60% p.a., and 2.80% p.a. for the year 1, 2, 3, 4, respectively.*

19 Provisions

(EUR '000)	1 Jan 2017	Creation/(Release)	Use	31 Dec 2017*
Provision for litigation	4,986	117	(1)	5,102
Total	**4,986**	**117**	**(1)**	**5,102**

** Provisions total does not include provision for off-balance sheet risks which is presented in Note 14.*

(EUR '000)	1 Jan 2016	Creation/(Release)	Use	31 Dec 2016*
Provision for litigation	4,159	849	(22)	4,986
Total	**4,159**	**849**	**(22)**	**4,986**

** Provisions total does not include provision for off-balance sheet risks which is presented in Note 14.*

19.1 Provision for litigation

The Bank conducted a review of legal proceedings outstanding against it as at 31 December 2017. These matters have arisen from normal banking activities. With reference to the update on the status of these matters in terms of the risk of losses and the amounts claimed, the Bank has increased the provision for these legal cases by a net amount of EUR 116 thousand (2016: increase of EUR 827 thousand). As at 31 December 2017, this provision amounts to EUR 5,102 thousand (2016: EUR 4,986 thousand). The gain/(loss) from release/creation of the provision for legal cases is presented in the separate statement of profit or loss and other comprehensive income under 'Other operating result'.

20 Other liabilities

(EUR '000)	31 Dec 2017	31 Dec 2016
Other financial liabilities		
Accrued non interest charges	7,457	7,992
Hedging derivatives (Note 33)	3,847	7,622
Other liabilities	5,742	7,193
	17,046	**22,807**
Other non-financial liabilities		
Employee benefits and other employee funds	2,837	3,104
of that:		
benefits paid on retirement	*973*	*911*
length of service benefits	*329*	*357*
anniversary benefits	*208*	*212*
Wages and social security charges	13,589	12,650
Income received in advance	1,008	899
	17,434	**16,653**
Total	**34,480**	**39,460**

21 Subordinated debt

ČSOB Bank has received a debt of a specific nature from the parent company KBC Bank NV with the amortized cost of EUR 87,543 thousand as of 31 December 2017 (2016: EUR 0), interest rate 3M EURIBOR plus 1.7% p.a., and contractual maturity on 16 June 2027. The parties agreed that, after 5 years from loan initiation (after 16 June 2022) and then every next 3 months, the borrower is allowed to early repay the loan with the minimum amount of EUR 1,000 thousand or the EUR 1,000 thousand multiple. Refer to related parties transactions. (Note 32).

The parties agreed that, in case of the borrower default or liquidation, the subordinated debt will be repaid only after all other borrower's obligations to clients and other creditors have been repaid, except for the obligations to the creditors, whose obligations include the same or similar subordinated clause.

22 Overview of contingent liabilities

22.1 Contingent liabilities

(EUR '000)	31 Dec 2017	31 Dec 2016
Credit facilities issued but not drawn	1,207,883	1,255,878
Financial guarantees given	236,111	208,822
Letters of credit given	3,702	24,775
Other*	1,015	490
Total	**1,448,711**	**1,489,965**

** Commencing 1 January 2015, the Bank is required to participate in the resolution process by paying financial contributions to European Resolution Fund. Irrevocable payment commitment to European Resolution Fund is recognized in the amount of EUR 1,015 thousand as of 31 December 2017, 15% of the annual contribution from year 2016 and 2017 (2016: EUR 490 thousand).*

Bank guarantees and letters of credit cover liabilities to customers (payment and non-payment liabilities) against beneficiaries (third parties). Bank guarantees represent an irrevocable liability on the part of the Bank to pay a certain amount as stated in the Bank guarantee in the event that the debtor fails to fulfil an obligation or other conditions as stated in the guarantee.

A letter of credit represents a written obligation on the part of the Bank to perform according to the instruction of the buyer to pay a specified amount to the seller against the documents that meet the letter of credit requirements. The Bank deals with the letters of credit subject to 'Unified Rules and Customs for Documentary Letter-of-credit', in the version published by the International Chamber of Commerce.

The primary purpose of these instruments is to ensure that funds are available as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of the goods to which they relate and, therefore, carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the probable amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards

22.2 Operating leases

The following table summarizes future minimum lease payments under non-cancellable operating leases, other than the sale and lease-back arrangements, which are explained further below:

(EUR '000)	Building and equipment	Other	Total
As at 31 December 2017			
Less than 1 year	5,196	1,587	**6,783**
From 2 year to 5 years	20,786	1,321	**22,107**
More than 5 years	125,491	-	**125,491**
Total	**151,473**	**2,908**	**154,381**
Minimum lease payments recognized as an expense for the year	*3,727*	*903*	***4,630***
As at 31 December 2016			
Less than 1 year	-	1,609	**1,609**
From 2 year to 5 years	-	923	**923**
Total	**-**	**2,532**	**2,532**
Minimum lease payments recognized as an expense for the year	-	*914*	***914***

The operating leases related to information technologies leased from KBC Group NV, are included in 'Less than 1 year' in the amount of EUR 604 thousand (2016: EUR 579 thousand). They represent expected half-year lease payments according to the contractual notice period.

In 2017 the Bank entered a long-term rental contract for the head office building with CSOB Real, s.r.o. Monthly rental cost excluding energies is EUR 333 thousand. The contract can only be terminated in case of a significant breach of terms by either of the parties. In such case, the termination period is set to 12 months.

22.3 Sale and lease-back arrangements

An operating lease-back agreement for a 3 year period ended during the year 2017. The following table summarizes future minimum lease payments under non-cancellable operating leasebacks.

(EUR '000)	**31 Dec 2017**	**31 Dec 2016**
Payable in period		
Less than 1 year	-	410
Total	**-**	**410**
Minimum lease payments recognized as an expense for the year	375	1,976

22.4 Lawsuits

In addition to the litigation for which provisions are created (Note 19), ČSOB SR is named in and is defending a number of legal actions arising in the ordinary course of business. The management of ČSOB SR does not believe that these legal actions will result in any material loss. Consequently, no provisions were created for these cases as at 31 December 2017 and 31 December 2016.

22.5 Taxation

The methodology of Slovak tax legislation and interpretation is still evolving. Consequently, in the current taxation environment, there is uncertainty concerning the interpretations and procedures that the respective tax authorities may apply in a number of areas. Due to this, ČSOB SR is obliged to develop its own interpretation of the tax legislation when setting up its plan and accounting standards. It is not possible to calculate the effect resulting from this uncertainty.

23 Equity

The structure of shareholders of the Bank is as follows:

% of share capital	**31 Dec 2017**	**31 Dec 2016**
KBC Bank NV Belgium	100.00%	100.00%
Total	**100.00%**	**100.00%**

23.1 Share capital

KBC Bank NV, the parent company of the Bank, decided during the year 2017 on the increase of share capital by issuance of new shares. The Bank issued 1,416 ordinary shares with a nominal value of EUR 33,200 each.

As at 31 December 2017 authorized and fully paid share capital consists of 8,886 ordinary shares with a nominal amount of EUR 33,200 each. Share capital was registered with the Commercial Register in the full amount of EUR 295,015 thousand. As at 31 December 2016 authorized and fully paid share capital consists of 7,470 ordinary shares with a nominal amount of EUR 33,200 each. Share capital was registered with the Commercial Register in the full amount of EUR 248,004 thousand.

23.2 Share premium

Share premium represents the difference between the nominal amount of shares and their issue price. As at 31 December 2017 and 31 December 2016 the share premium amounted to EUR 484,726 thousand.

23.3 Legal reserve fund

Under the Slovak Commercial Code, all companies are required to maintain a legal reserve fund to cover future adverse financial conditions. The legal reserve fund represents accumulated transfers from retained earnings. The Bank is obliged to contribute an amount to the fund each year which is not less than 10% of its annual net profit until the aggregate amount reaches a minimum level equal to 20% of the issued share capital. The legal reserve fund is not available for distribution to shareholders and may be used only for compensation of losses incurred. As at 31 December 2017 and 31 December 2016, the legal reserve fund was EUR 49,601 thousand.

23.4 Revaluation reserve

Revaluation reserve from available-for-sale financial assets:

(EUR ’000)	2017	2016
As at 1 January	**17,367**	**30,454**
Net gain arising on the revaluation of available-for-sale financial assets	(1,730)	(1,179)
Cumulative gain reclassified to profit or loss upon sale of available-for-sale financial assets	-	(15,816)
Income tax relating to gain arising on the revaluation and disposals	363	3,908
As at 31 December	**16,000**	**17,367**

23.5 Other revaluation reserve

In 2007, KBC Bank decided to transform the branch Československá obchodná banka, a.s., pobočka zahraničnej banky in SR into a separate legal entity with effect from 1 January 2008. Due to this, a reorganization reserve was created as a difference between the fair value of in kind contribution to the equity of the new company and the predecessor entity carrying amounts. The fair value of the in kind contribution was determined based on an expert opinion as at the date of formation of the new company. The reorganization reserve is presented within the equity of the new legal entity, as at 31 December 2017 and 31 December 2016, in the negative amount of EUR 216,162 thousand.

23.6 Profit distribution

The profit distribution of the Bank is as follows:

(EUR ’000)	Attributable from profit for the year	
	2017*	**2016**
Addition to legal reserve fund	9,402	-
Retained earnings	42,082	78,488
Total profit	**51,484**	**78,488**

** Based on the proposed profit distribution*

24 Information on segments

The Bank distinguishes between the following segments:

(i) Retail banking / Entrepreneurs and small companies ('MicroSME') / Private banking

Retail banking / Entrepreneurs and small companies ('MicroSME'): natural persons, entrepreneurs and companies with turnover below EUR 1.5 million.

Loan products: mortgages, consumer loans, credit cards and overdrafts, operating and investment loans, revolving loans.

Deposit products: current accounts and service packages, saving and term deposits, funds and savings programmes.

Retail banking offers electronic banking services and payments services (domestic, foreign, cash and non-cash transactions), investments of free financial sources of customers to portfolio of financial assets (saving and term deposits, mutual funds, life insurance and bills of exchange).

Private banking: customer with assets under management at ČSOB SR at the minimum level of EUR 200 thousand.

Products offered to private clients: current accounts, term and saving programs, funds, insurance products, bonds, bills of exchange, mortgage bonds, structured products, physical gold and other instruments of financial markets. Private banking clients can also invest into equities via the company Patria. Investment advisory is provided to private banking clients.

(ii) Corporate banking

Corporate banking: corporations with turnover above EUR 1.5 million and non-banking institutions in the financial sector.

Loan products: overdrafts, revolving loans, purpose loans, credit cards, specialized and trade finance

Deposit products: current accounts and service packages, term deposits, deposits with notice period

Corporate banking offers services of electronic banking and payments services (domestic, foreign, cash and non-cash transactions). It also provides investments into short-term financial instruments, bonds and mutual funds.

(iii) Financial markets and ALM

Financial markets and ALM: segment of assets and liabilities management, segment dealing.

This segment performs the custody and management of securities, intermediation of purchase and sale of Slovak and foreign bonds on secondary markets, participation in subscription of shares in primary sale, purchase and sale of foreign currencies. The segment also offers structured products for investments of free financial sources.

ALM is responsible for management of assets, liabilities, interest rates, risk management (currency risk, interest risk, etc.) and also management of the foreign exchange position of the Bank.

(iv) Other

Other: headquarters, banking and investment products (administration of bad debts), non-assigned net interest income, eliminations and non-material unallocated items.

Information on segments as at 31 December 2017 is as follows:

(EUR '000)	Retail banking / MicroSME / Private banking	Corporate banking	Financial markets and ALM	Other	Total
Separate statement of profit or loss and other comprehensive income					
Net interest income	102,605	43,437	18,197	1,908	**166,147**
of which: Intersegment Net Interest Income/(loss)	*29,167*	*14,050*	*(37,718)*	*(5,499)*	**-**
Net fee and commission income	36,306	14,407	1,236	614	**52,563**
Net trading result and exchange differences	4,916	3,627	6,833	1,410	**16,786**
Dividend income	-	-	-	1,081	**1,081**
Other operating result	603	(52)	107	2,140	**2,798**
Total income	**144,430**	**61,419**	**26,373**	**7,153**	**239,375**
Personnel expenses	(30,889)	(8,630)	(2,253)	(27,032)	**(68,804)**
Depreciation and amortization	(2,996)	(418)	(114)	(6,914)	**(10,442)**
Other operating expenses	(30,344)	(3,805)	468	(50,534)	**(84,215)**
Operating expenses	**(64,229)**	**(12,853)**	**(1,899)**	**(84,480)**	**(163,461)**
Profit/(loss) for year before impairment losses, financial guarantees and tax	**80,201**	**48,566**	**24,474**	**(77,327)**	**75,914**
Impairment losses and financial guarantees	(5,705)	(3,137)	(1)	(57)	**(8,900)**
Profit/(loss) for year before tax	**74,496**	**45,429**	**24,473**	**(77,384)**	**67,014**
Income tax expense					**(15,530)**
Net profit for year					**51,484**
Total assets	**3,633,864**	**1,958,783**	**2,120,052**	**319,236**	**8,031,935**
Total liabilities and equity	**3,208,294**	**2,653,997**	**1,391,599**	**778,045**	**8,031,935**

Information on segments as at 31 December 2016 is as follows:

(EUR '000)	Retail banking / MicroSME / Private banking	Corporate banking	Financial markets and ALM	Other	Total
Separate statement of profit or loss and other comprehensive income					
Net interest income	100,111	44,017	13,521	9,153	**166,802**
of which: Intersegment Net Interest Income/ (loss)	*26,892*	*18,581*	*(43,255)*	*(2,218)*	**-**
Net fee and commission income	29,701	13,627	1,103	1,765	**46,196**
Net trading result and exchange differences	6,126	4,420	6,448	719	**17,713**
Net realized result from available-for-sale financial assets	-	-	1,483	14,333	**15,816**
Dividend income	-	-	-	17,537	**17,537**
Other operating result	369	50	75	632	**1,126**
Total income	**136,307**	**62,114**	**22,630**	**44,139**	**265,190**
Personnel expenses	(31,105)	(8,583)	(2,161)	(26,679)	**(68,528)**
Depreciation and amortization	(3,363)	(386)	(59)	(6,789)	**(10,597)**
Other operating expenses	(29,834)	(3,823)	425	(47,375)	**(80,607)**
Operating expenses	**(64,302)**	**(12,792)**	**(1,795)**	**(80,843)**	**(159,732)**
Profit/(loss) for year before impairment losses, financial guarantees and tax	**72,005**	**49,322**	**20,835**	**(36,704)**	**105,458**
Impairment losses and financial guarantees	(5,179)	(4,119)	(32)	(399)	**(9,729)**
Profit/(loss) for year before tax	**66,826**	**45,203**	**20,803**	**(37,103)**	**95,729**
Income tax expense					**(17,241)**
Net profit for year					**78,488**
Total assets	**3,242,430**	**1,904,098**	**2,035,398**	**317,018**	**7,498,944**
Total liabilities and equity	**2,959,296**	**2,334,445**	**1,379,860**	**825,343**	**7,498,944**

Interest income/expense and fee and commission income/expense are not presented on a gross basis since the Bank assesses the performance of the segments primarily on the basis of the net interest income and net fee and commission income.

The Bank operates in the Slovak Republic.

25 Net interest income

(EUR '000)	31 Dec 2017	31 Dec 2016
Interest income		
Accounts and loans provided to central bank	-	5
Loans and receivables to financial institutions	353	354
Deposits and loans provided to customers	138,120	141,420
Held-to-maturity investments	37,744	40,957
Available-for-sale financial assets	8,945	12,572
Financial assets held for trading (excluding derivatives)	536	850
ALM derivatives	-	54
Financial liabilities not measured at fair value through profit or loss	2,926	785
Financial liabilities measured at fair value through profit or loss	464	523
	189,088	**197,520**
Interest expense		
Amounts owed to financial institutions and multilateral banks	(518)	(606)
Deposits and loans received from customers	(10,161)	(13,049)
Debt securities issued	(5,829)	(8,229)
Subordinated debt	(659)	-
Financial liabilities designated at fair value through profit or loss on initial recognition	(1,078)	(1,879)
ALM derivatives	(121)	(341)
Hedging derivatives	(4,561)	(6,612)
Financial assets not measured at fair value through profit or loss	(13)	-
Financial assets measured at fair value through profit or loss	(1)	(2)
	(22,941)	**(30,718)**
Total	**166,147**	**166,802**

26 Net fee and commission income

(EUR '000)	31 Dec 2017	31 Dec 2016
Fee and commission income		
Securities related fees	376	335
Asset management services – trust and fiduciary activities, entry fees	5,974	4,668
Credit and guarantee related fees*	10,867	11,397
Payment services**	37,772	32,609
Distribution fees	5,718	4,666
Other	294	346
	61,001	**54,021**
Fee and commission expense		
Securities related fees	(1,016)	(1,058)
Credit and guarantee related fees*	(192)	(550)
Payment services**	(6,057)	(5,017)
Products insurance	(263)	(277)
Other	(910)	(923)
	(8,438)	**(7,825)**
Total	**52,563**	**46,196**

** all fees related to loans and credit commitments except those included in 'Net interest income' based on the effective interest rate definition*
*** fees received and paid for payment services, which involve many different kinds of cash payment and on-time realization of agreed payments*

27 Net trading result and exchange differences

(EUR '000)	31 Dec 2017	31 Dec 2016
Held for trading interest rate instruments	2,725	3,491
Held for trading foreign exchange instruments	9,919	10,671
Held for trading commodity instruments	36	83
Net result from financial liabilities at fair value through profit or loss	(223)	28
Net result from hedging derivatives	3,903	1,560
Net result from hedged items	(3,776)	(2,649)
Foreign exchange differences	4,202	4,529
Total	**16,786**	**17,713**

28 Other operating result

(EUR '000)	31 Dec 2017	31 Dec 2016
Loss on disposal of property, plant and equipment	(65)	(330)
Gain on disposal of Assets held for sale	98	-
Income from rental	367	465
Creation of provisions for operating losses, claims and legal disputes regarding commercial activity	(117)	(849)
Losses from financial operations	(212)	(155)
Realised gain on other than available-for-sale/trading financial assets	72	38
Other operating activities	2,655	1,957
Total	**2,798**	**1,126**

29 Personnel expenses

(EUR '000)	31 Dec 2017	31 Dec 2016
Wages and salaries	(51,427)	(51,454)
Social security	(16,521)	(16,053)
of which: contributions to pension pillar I and pillar II	*(7,750)*	*(6,351)*
Pensions expenses	(503)	(474)
Other post-employment benefits	(181)	(209)
Other staff expenses	(172)	(338)
Total	**(68,804)**	**(68,528)**

The number of employees of the Bank as at 31 December 2017 was 2,210; thereof 262 managers (2016: 2,205; thereof 260 managers).

Remuneration to management is provided if accruals or other resources were created and the conditions of the Internal Remuneration Policy of ČSOB SR were met, mainly an annual bonus for the Bank's performance based on the fulfilment of financial goals and the achievement of business goals and an individual bonus for employees based on the individual's performance measured by Key Performance Indicators

Employees with whom employment was terminated in accordance with the organizational and rationalization steps stated in § 63 section 1 a) and b) of the Labour Code or whose employment was terminated by agreement are entitled to receive compensation payments in accordance with the conditions stated in the Labour Code. The conditions for compensation payments above the legal limit are included in the collective agreement. The Bank also agreed with trade union on the social programme for employees with whom employment was terminated on the basis of the above reasons.

The Bank provides contributions to the supplementary pension scheme on a monthly basis for all of its employees including senior management. The contribution of the employer and employee is calculated on the basis of the monthly salary paid for working hours of a calendar month as follows:

a) employer – 1% of salary base if the employee's contribution is from 1% to 1.99% of salary base,
b) employer – 2% of salary base if the employee's contribution is 2% and more of salary base. The monthly salary base for purposes of the supplementary pension scheme is determined from the basic monthly salary paid for working hours in the calendar month.

30 Other operating expenses

(EUR '000)	**31 Dec 2017**	**31 Dec 2016**
Information technology expenses	(26,717)	(23,285)
Rental expenses	(11,250)	(9,637)
Repair and maintenance	(2,215)	(2,574)
Marketing expenses	(8,738)	(9,353)
Professional fees	(2,532)	(3,743)
Including: Audit of Statutory Financial Statements	*(162)*	*(185)*
*Services involving the issuance of an assurance report (other than on Statutory Financial Statements)**	*(140)*	*(142)*
*Other services**	*(5)*	-
Other facilities expenses	(7,175)	(6,819)
Communication expenses	(76)	(69)
Travel expenses	(756)	(640)
Training and recruitment expenses	(385)	(459)
Personnel related expenses	(141)	(171)
Costs charged by other KBC group entities (Note 32)	(4,101)	(4,800)
Contributions to deposit protection funds	(293)	(886)
Bank levy	(13,945)	(12,653)
European Resolution Fund**	(2,971)	(2,778)
Other operating expenses	(2,920)	(2,740)
Total	**(84,215)**	**(80,607)**

**Non-audit services provided by the Auditor include trainings, HR benchmarking studies, assurance services over custody process and assurance and compliance reporting to NBS in accordance with the NBS guidance*
*** Commencing 1 January 2015, the Bank is required to participate in the resolution process by paying financial contributions to European Resolution Fund (see Note 22).*

31 Taxation

The income tax structure is as follows:

(EUR '000)	**31 Dec 2017**	**31 Dec 2016**
Current tax	13,462	17,460
Deferred tax	2,068	(219)
Total	**15,530**	**17,241**

Below is a reconciliation of income tax and the theoretical amount, applying the effective tax rate:

(EUR '000)	31 Dec 2017	31 Dec 2016
Profit before tax	**67,014**	**95,729**
Tax rate	21%	22%
Tax expense calculated using applicable tax rates	14,073	21,060
Deferred tax due to change in tax rate	-	(941)
Permanent differences between tax and accounting income	(342)	(3,963)
Permanent differences between tax and accounting expenses	1,799	1,085
Total	**15,530**	**17,241**

Commencing 1 January 2017, the basic tax rate valid in Slovak republic is changed from 22% to 21%.

The deferred tax structure as at 31 December 2017 is as follows:

(EUR '000)	Temporary differences	Deferred income tax asset/(liability)
Loans and receivables to customers – tax non-deductible impairment losses to customers	55,849	11,729
Employee benefits and accrual for unpaid bonuses	10,441	2,193
Tangible and intangible assets	7,798	1,638
Other	7,090	1,489
Losses carried forward	3,031	636
Available-for-sale financial assets	(20,253)	(4,254)
Total	**63,956**	**13,431**

The deferred tax structure as at 31 December 2016 is as follows:

(EUR '000)	Temporary differences	Deferred income tax asset/(liability)
Loans and receivables to customers – tax non-deductible impairment losses to customers	62,523	13,130
thereof: transfer on merger	*6,300*	*1,323*
Employee benefits and accrual for unpaid bonuses	9,285	1,950
Tangible and intangible assets	10,057	2,112
Other	7,650	1,606
Losses carried forward	4,546	955
Available-for-sale financial assets	(21,983)	(4,617)
Total	**72,078**	**15,136**

32 Related parties

Parties are generally considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank is controlled by KBC Bank, which holds 100% of the voting rights of the Bank's total votes. Related parties include subsidiaries of the Bank and other members of the KBC Group.

A number of banking transactions are entered into with related parties in the normal course of business. These primarily include loans and deposits.

Significant balances of transactions with related parties were as follows:

	31 Dec 2017		31 Dec 2016 Reclassified	
(EUR '000)	KBC Group	ČSOB Group	KBC Group	ČSOB Group
Other demand deposits with banks	14,590	-	4,078	-
Financial assets at fair value through profit or loss	19,073	2,074	7,176	3,140
thereof: financial trading derivatives	*6,297*	*2,074*	*7,176*	*3,140*
Loans and receivables to financial institutions	84,398	-	6,760	-
Loans and receivables to customers	-	69,071	16	35,851
Other assets	2,380	313	2,099	44
thereof: hedging derivatives	*1,637*	-	*1,513*	-
Amounts owed to financial institutions	579,044	9,229	568,412	10,482
Financial liabilities at fair value through profit or loss	6,003	18	105,412	5,000
thereof: financial trading derivatives	*5,957*	*18*	*10,439*	-
Amounts owed to customers	110,673	25,187	33,361	5,565
Debt securities issued	343,953	9,513	293,891	7,025
Other liabilities	4,790	27	8,597	33
thereof: hedging derivatives	*3,847*	-	*7,622*	-
Subordinated debt (Note 21)	87,543	-	-	-

Expenses and income from transactions with related parties were as follows:

	31 Dec 2017		31 Dec 2016	
(EUR '000)	KBC Group	ČSOB Group	KBC Group	ČSOB Group
Interest income	8,460	1,010	683	595
Fee and commission income	7,212	803	6,216	281
Net trading result and exchange differences	(8,219)	1,692	7,902	2,797
Dividend income	-	1,061	-	17,525
Other operating result	456	592	340	373
Interest expense	(7,623)	(95)	(9,686)	(319)
Fee and commission expense	(201)	-	(317)	-
Other operating expenses	(15,124)	(4,266)	(15,370)	(825)
*thereof: costs charged by other KBC group entities**	*(4,101)*	-	*(4,800)*	-

** intercompany invoices from KBC Group consolidated entities insofar they cannot be classified in other blocks of 'Other operating expenses' (Note 30).*

Terms of significant contracts with related parties:

- Loans and receivables to financial institutions – maximum maturity until 2018 (2016: until 2017) and weighted average contractual interest rate (0.08%) (2016: (0.33%)).
- Amounts owed to financial institutions – maximum maturity until 2027 (2016: until 2020) and weighted average contractual interest rate (0.17%) (2016: (0.17%)).
- Financial liabilities at fair value through profit or loss (excl. derivatives) – maximum maturity until 2021 (2016: until 2017) and weighted average contractual interest rate 1.11% (2016: (0.35%)).
- Amounts owed to customers – maximum maturity until 2021 (2016: until 2021) and weighted average contractual interest rate 0.14% (2016: 0.48%).
- Debt securities issued – maximum maturity until 2036 (2016: until 2036) and weighted average contractual interest rate 0.66% (2016: 0.93%).

As at 31 December 2017, total guarantees received (to loans and receivables to customers) from related parties represent EUR 20,824 thousand (2016: EUR 25,918 thousand).

As at 31 December 2017, guarantees given by the Bank towards related parties are in the amount of EUR 6,483 thousand (2016: EUR 9,835 thousand).

In 2017, the Bank received dividends from its subsidiaries in the amount of EUR 1,061 thousand (2016: EUR 17,525 thousand).

As at 31 December 2017 and 31 December 2016, the Bank did not create any provision for doubtful debts towards related parties.

(i) Transactions with key management personnel

As at 31 December 2017, loans granted to members of the Board of Directors and Supervisory Board represent EUR 437 thousand (2016: EUR 498 thousand). Deposits from members of the Board of Directors and Supervisory Board as at 31 December 2017 amounted to EUR 2,274 thousand (2016: EUR 486 thousand).

Personnel expenses of senior management for the year ended 31 December 2017 were EUR 2,288 thousand (2016: EUR 2,080 thousand). These personnel expenses include the total remuneration amounted to EUR 1,919 thousand (2016: EUR 1,905 thousand) and social expenses amounted to EUR 369 thousand (2016: EUR 175 thousand) of members of the Board of Directors and Supervisory Board, which are regulated by the Internal Remuneration Policy of ČSOB SR.

33 Derivative financial instruments

ČSOB SR uses derivative financial instruments for trading purposes and fair value hedging. Financial derivatives include swap, forward 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 confers on the holder 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 particular time or over a period in the future.

(i) Credit risk associated with derivative financial instruments

By utilizing derivative financial instruments, the Bank is exposed to credit risk in the event of non-performance on the part of the counterparties to the derivative instruments. If the counterparty fails to perform, the credit risk is equal to the positive fair value of the derivatives agreed upon 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. In addition, the Bank obtains collateral where appropriate, and uses bilateral master netting arrangements and in 2017 has implemented the collateral management used for the collateralisation of trades on the financial markets - OTC derivatives and REPO operations. There are no significant credit risk exposures in trading derivatives outside of standard international investment banking which are considered by the Bank as usual used in trading and managing banking risks.

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 the bilateral netting arrangements and the collateral held. The Bank's actual credit exposures are less than the positive fair value amounts shown in the derivative tables, as netting arrangements and collateral have not been taken into consideration.

(ii) Trading derivative financial instruments

The trading activities of ČSOB SR primarily involve providing its customers with various derivative products and managing trading positions on its own account. Trading derivatives also include those derivatives that are used for asset and liability management ('ALM') purposes to manage the currency or interest rate position of the Banking Book and which do not meet the criteria for hedge accounting. For these purposes, ČSOB SR uses single currency interest rate swaps to convert fixed rate assets to floating rates, cross-currency interest rate swaps for the transfer of cash flows in one currency to cash flows in another currency structure in such a way that their maturity meets the respective liabilities, or FX swaps to exchange a particular currency. The Bank minimizes its market risk when option contracts are traded through back-to-back sales.

Trading derivatives are stated at fair value. Unrealized gains and losses are reported in the separate statement of financial position as 'Financial assets at fair value through profit or loss' or 'Financial liabilities at fair value through profit or loss'. Changes in the fair value of derivatives are presented in the separate statement of profit or loss and other comprehensive income in 'Net trading result and exchange differences'. Interest income/expense related to derivative financial instruments is recognized in 'Net interest income' for those held in the banking book (hedging derivatives and ALM derivatives) or in 'Net trading result and exchange differences' for those held in the trading book (trading derivatives).

(iii) Hedging derivative financial instruments

The Bank applies the portfolio hedging of fair value related to interest rate risk. The Bank's strategy is to hedge net interest income generated from interest-bearing assets and liabilities against unexpected movements in market interest rates. The aim is also a stable development of expenses and income from market revaluation of balance sheet and off-balance sheet transactions.

The hedged item represents a portfolio of fixed interest loans and receivables to customers and the hedging instrument is a portfolio of interest rate swaps, in which the Bank pays fixed and receives floating interest rate. As at 31 December 2017, the hedge was effective in hedging the fair value exposure to interest rate movements. The Bank recognized a gain on hedging instruments in the amount of EUR 3,903 thousand (2016: gain of EUR 1,560 thousand) and a loss on hedged item attributable to the hedged risk amounted of EUR (3,776) thousand (2016: loss of EUR (2,649) thousand), which are presented in 'Net trading result and exchange differences'. See Note 27.

The contract or notional amounts and positive and negative fair values of the Bank's outstanding derivative trading and hedging positions as at 31 December 2017 and 31 December 2016 are shown below. The contract or nominal amounts represent the volume of outstanding transactions at one particular point in time; they do not represent the potential for gain or loss associated with the market risk or credit risk of such transactions.

	Nominal values		Fair values	
(EUR '000)	Receivables	Liabilities	Positive	Negative
Derivative instruments as at 31 Dec 2017				
Hedging derivatives				
Interest rate swaps	1,645,000	1,645,000	1,637	3,847
Total hedging derivatives (Notes 13 and 20)	**1,645,000**	**1,645,000**	**1,637**	**3,847**
Trading derivatives				
FX contracts				
FX forwards	5,207	5,207	46	7
FX swaps and Cross-currency interest rate swaps	405,229	405,070	1,769	1,852
FX options	109,985	109,985	412	412
Interest rate contracts				
Interest rate swaps	2,172,487	2,172,487	8,128	4,910
Interest rate options	81,793	81,793	342	2,389
Commodity contracts				
Commodity swaps and options	1,668	1,668	79	70
Total trading derivatives (Notes 4 and 15)	**2,776,369**	**2,776,210**	**10,776**	**9,640**

	Nominal values		Fair values	
(EUR '000)	Receivables	Liabilities	Positive	Negative
Derivative instruments as at 31 Dec 2016				
Hedging derivatives				
Interest rate swaps	1,670,000	1,670,000	1,513	7,622
Total hedging derivatives (Notes 13 and 20)	**1,670,000**	**1,670,000**	**1,513**	**7,622**
Trading derivatives				
FX contracts				
FX forwards	19,370	18,713	747	102
FX swaps and Cross-currency interest rate swaps	358,414	354,779	5,146	2,385
FX options	142,696	142,696	799	792
Interest rate contracts				
Interest rate swaps	2,365,843	2,365,843	10,490	6,109
Interest rate options	98,071	98,071	403	3,665
Commodity contracts				
Commodity swaps and options	1,888	1,888	136	136
Total trading derivatives (Notes 4 and 15)	**2,986,282**	**2,981,990**	**17,721**	**13,189**

34 Offsetting financial assets and liabilities

The tables below show the financial assets subject to offsetting, enforceable master netting agreements or similar agreements:

31 Dec 2017 (EUR '000)	Gross amounts of financial assets	Gross amounts of financial assets offset	Net amounts of financial assets	Related amounts not offset: Financial instruments	Cash collateral received	Securities collateral received	Net amount
Derivatives (Note 33)	12,413	-	12,413	8,027	-	-	4,386
Total	**12,413**	**-**	**12,413**	**8,027**	**-**	**-**	**4,386**

31 Dec 2016 (EUR '000)	Gross amounts of financial assets	Gross amounts of financial assets offset	Net amounts of financial assets	Related amounts not offset: Financial instruments	Cash collateral received	Securities collateral received	Net amount
Derivatives (Note 33)	19,234	-	19,234	9,152	-	-	10,082
Total	**19,234**	**-**	**19,234**	**9,152**	**-**	**-**	**10,082**

The tables below show the financial liabilities subject to offsetting, enforceable master netting agreements or similar agreements:

31 Dec 2017 (EUR '000)	Gross amounts of financial liabilities	Gross amounts of financial liabilities offset	Net amounts of financial liabilities	Related amounts not offset: Financial instruments	Cash collateral pledged	Securities collateral pledged	Net amount
Derivatives (Note 33)	13,487	-	13,487	8,027	1,948	-	3,512
Repurchase agreements (Note 16)	223,901	-	223,901	-	-	186,486	37,415
Total	**237,388**	-	**237,388**	**8,027**	**1,948**	**186,486**	**40,927**

31 Dec 2016 Reclassified (EUR '000)	Gross amounts of financial liabilities	Gross amounts of financial liabilities offset	Net amounts of financial liabilities	Related amounts not offset: Financial instruments	Cash collateral pledged	Securities collateral pledged	Net amount
Derivatives (Note 33)	20,811	-	20,811	9,152	-	-	11,659
Repurchase agreements (Note 16)	149,741	-	149,741	-	6,760	126,502	16,479
Total	**170,552**	**-**	**170,552**	**9,152**	**6,760**	**126,502**	**28,138**

35 Fair value of assets and liabilities

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where market prices were available, these were used in measurement; otherwise internal valuation models were applied, especially the discounted cash flow method.

The Bank uses the following hierarchy for the determination and presentation of the fair value of financial instruments:

Level 1 – If available, published price quotations in active markets are used to determine the fair value of financial assets and liabilities. Revaluation is obtained using prices of identical asset or liability, which means that no model is involved in the process of revaluation. Fair values of the financial assets and liabilities that are traded in active markets are based on the quoted market prices or based on the prices declared by dealers. For fair value determination of other financial instruments, valuation techniques are used.

Level 2 – Valuation techniques are based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes financial instruments valued using: quoted market prices in active markets for similar financial instruments; quoted prices for identical or similar financial 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.

Level 3 – Valuation techniques using significant unobservable inputs. This category includes all financial 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. The category includes the financial instruments that are valued based on quoted prices for similar financial instruments where significant unobservable adjustments or assumptions are required to reflect differences between the financial instruments.

The classification of the financial instrument into the fair value hierarchy is not static. Financial instruments can shift between different fair value levels for various reasons:

- Market changes: The market can become inactive (shift from Level 1 to Level 2 or 3). As a result, previously observable parameters can become unobservable (possible shift from Level 2 to Level 3);
- Model changes: The application of a new refined model that takes more observable input factors into account or reduces the fair value impact of unobservable inputs (possible shift from Level 3 to Level 2);
- Change in sensitivity: The sensitivity of a valuation input to the entire fair values may change over time. An unobservable input that used to be significant to the entire fair value measurement may become insignificant (or vice versa). The fair value classification in the hierarchy would consequently change from Level 3 to Level 2 (or vice versa).

As the fair value of the financial instrument is dynamic, the Bank regularly evaluates the changes in observability of significant inputs when measuring the financial instrument.

The best indicator of fair value is the price from an active market. If there are quoted prices on the market, fair values are based upon the quoted market prices. External sources of information (i.e. prices from stock exchange or price bids from brokers) are generally used for fair value determination. If no quoted market prices are available, fair values are estimated based on valuation methods which use observable external inputs.

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 and liquidity spreads and other premium 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 arrive at a fair value determination 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.

If no valuation model is available or a valuation model is available, but it is not validated by an entity, independent from the business unit, third party prices have to be used for determining the fair value of financial instruments. The observability of the parameters used in the third party´s model cannot be assessed, in case ČSOB SR does not have any access to information on that model. From this perspective, instruments for which the fair value is based on prices, provided by a party that is independent from ČSOB SR (a third party), are classified into Level 3.

The Market Risk and Capital Management Section and Financial Reporting, Accounting Governance and Procurement Division have responsibility for the determination of the valuation methods of financial assets and liabilities at fair value through profit or loss. The main task of Financial Reporting, Accounting Governance and Procurement Division is to objectively and independently assess whether the valuation is in accordance with IFRS and is properly used.

The Market Risks and Capital Management Section is also responsible for controlling the process of parameters used in valuation techniques and monitoring the correct implementation of valuation methods on a quarterly basis as the part of the Parameter review process. The results of the Parameter review are afterwards reported to the senior management of ČSOB SR. In addition, based on these results, possible changes are defined and implemented in the valuation methodology. Implementation of valuation methods is performed by the Financial Market Middle Office Section. All responsibilities are organized in such a manner as to guarantee the independence of the entire valuation process. A valuation methodology and the exceptions in the valuation process have to be submitted for approval to the Market risk and Capital Management Section and to the Board of Directors.

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

35.1 Fair values of financial assets and liabilities measured at amortized cost

The following table shows the hierarchy levels for determining the fair value of financial assets and liabilities measured at amortized cost (including contingent commitments) as at 31 December 2017 and comparison with carrying amount:

	Fair value				Carrying amount
(EUR '000)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
Financial assets					
Cash, balances with central bank and other demand deposits with banks	224,676	-	36,822	**261,498**	**261,501**
Loans and receivables to financial institutions	-	-	102,181	**102,181**	**102,103**
Loans and receivables to customers	-	2,736	5,671,273	**5,674,009**	**5,528,390**
Held-to-maturity investments	1,513,105	101,540	-	**1,614,645**	**1,471,196**
Total financial assets				**7,652,333**	**7,363,190**
Financial liabilities					
Amounts owed to financial institutions	-	428,462	259,958	**688,420**	**687,496**
Amounts owed to customers	-	5,795,176	61,623	**5,856,799**	**5,853,233**
Debt securities issued	-	530,027	-	**530,027**	**517,926**
Subordinated debt	-	-	87,918	**87,918**	**87,543**
Total financial liabilities				**7,163,164**	**7,146,198**

The following table shows the hierarchy levels for determining the fair value of financial assets and liabilities measured at amortized cost (including contingent commitments) as at 31 December 2016, reclassified, and comparison with carrying amount:

	Fair value				Carrying amount
(EUR '000)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Total**
Financial assets					
Cash, balances with central bank and other demand deposits with banks	201,170	-	25,279	**226,449**	**226,449**
Loans and receivables to financial institutions	-	-	23,208	**23,208**	**23,155**
Loans and receivables to customers	-	2,274	5,262,293	**5,264,567**	**5,093,474**
Held-to-maturity investments	1,517,462	100,040	-	**1,617,502**	**1,457,886**
Total financial assets				**7,131,726**	**6,800,964**
Financial liabilities					
Amounts owed to financial institutions	-	455,198	226,325	**681,523**	**679,873**
Amounts owed to customers	-	5,260,787	145,618	**5,406,405**	**5,403,111**
Debt securities issued	-	495,331	-	**495,331**	**480,882**
Total financial liabilities				**6,583,259**	**6,563,866**

(i) Loans and receivables to financial institutions and Cash, balances with central bank and other demand deposits with banks

The carrying values of cash balances are, by definition, equal to their fair values. The fair values of term placements with banks and central bank and other demand deposits with banks are estimated by discounting their future cash flows using the current inter-bank market rates including the respective credit spread derived from the Bank's own experience of probability of default and loss given default. The majority of loans are repaid within a relatively short time periods; it is assumed, therefore, that their carrying values approximate to their fair values.

(ii) Loans and receivables to customers

The fair values of fixed-rate loans to customers that relate to the substantial part of the Bank's loan portfolio are estimated by discounting their future cash flows using the current market rates including a respective credit spread derived from the Bank's own experience of probability of default and loss given default. Fair value incorporates expected future losses, while amortized cost and related impairment include only incurred losses at the end of the accounting period. The rest of loans and receivables to customers is concluded for floating rates that are fixed for a relatively short period; it is assumed, therefore, that their carrying values approximate to their fair values.

(iii) Contingent commitments

In general, the fair values of contingent commitments equal to fees charged by the Bank to its customers when these products are contracted. As at 31 December 2017 and 31 December 2016, the fair value of contingent commitments was not material. For more information about carrying amounts see Note 22.

(iv) Held-to-maturity investments

Fair values for held-to-maturity securities are based on the quoted market prices. These are used depending on the availability in the following order: Stock Exchange and Benchmark curve from ARDAL, the price from Bloomberg and the price calculated on the basis of price quotations from Bloomberg and the ARDAL. If no quoted market prices are available, the fair values of securities are determined based on the expert prices. In case of Slovak government bonds, the expert price used for the fair value is obtained by interpolation of yields from the securities that are included in the benchmark bonds' list.

If no quoted market price for mortgage bonds is available, an expert price is used. The calculation of the expert price is based on the Slovak government bond curve adjusted by the credit spread derived from trades realized on the Bratislava Stock Exchange (‘BCPB’). The expert price of other securities is gained based on the method of comparable bonds.

(v) Amounts owed to financial institutions and Subordinated debt

The carrying values of current account balances are, by definition, equal to their fair values. For other amounts owed to financial institutions with one year or less remaining to maturity, it is assumed that their carrying values approximate to their fair values. The fair values of other amounts owed to financial institutions and subordinated debt are estimated by discounting their future cash flows using interest rates modified by market unobservable credit spreads.

(vi) Amounts owed to customers

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

(vii) Debt securities issued

Mortgage bonds issued are publicly traded and their fair values are based on the quoted market prices. If no quoted market price is available, the expert price is used for determining the fair value. The calculation of the expert price is based on the Slovak government bond curve adjusted by the credit spread of the company of the issuer. The carrying values of promissory notes and the certificates of deposit approximate to their fair values.

35.2 Financial assets and liabilities measured at fair value

The following table represents an analysis of financial assets and liabilities measured at fair value based on their fair value hierarchy as at 31 December 2017:

(EUR '000)	Level 1	Level 2	Level 3	Total
Financial assets				
Other demand deposits with banks (Note 3)				
Other demand deposits with banks	-	12,055	-	**12,055**
Total				***12,055***
Financial assets at fair value through profit or loss (Note 4)				
Financial assets held for trading				
Financial trading derivatives	-	10,773	3	**10,776**
Loans and receivables to banks	-	12,775	-	**12,775**
Government debt securities	1	-	-	**1**
Bank bonds	-	15,219	-	**15,219**
Other bonds	12,957	834	-	**13,791**
Total				***52,562***
Available-for-sale financial assets (Note 5)				
At fair value				
Government debt securities	288,065	-	-	**288,065**
Bank bonds	-	51,555	-	**51,555**
Other bonds	86,587	20,463	-	**107,050**
Shares	-	2,795	3,858	**6,653**
Total				***453,323***
Other financial assets (Note 13)				
Fair value changes of hedged item (hedged risk)	-	(247)	-	**(247)**
Hedging derivatives	-	1,637	-	**1,637**
Total				***1,390***
Total financial assets				**519,330**
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 15)				
Financial liabilities designated at fair value through profit or loss on initial recognition				
Current accounts – banks	-	12,055	-	**12,055**
Term deposits – non-bank customers	-	45,662	-	**45,662**
Debt securities issued	-	13,848	-	**13,848**
				71,565
Financial liabilities held for trading				
Financial trading derivatives	-	9,636	4	**9,640**
				9,640
Total				***81,205***
Other financial liabilities (Note 20)				
Hedging derivatives	-	3,847	-	**3,847**
Total				***3,847***
Total financial liabilities				**85,052**

The following table represents an analysis of financial assets and liabilities measured at fair value based on their fair value hierarchy as at 31 December 2016, reclassified:

(EUR '000)	Level 1	Level 2	Level 3	Total
Financial assets				
Other demand deposits with banks (Note 3)				
Other demand deposits with banks	-	113	-	**113**
Total				***113***
Financial assets at fair value through profit or loss (Note 4)				
Financial assets held for trading				
Financial trading derivatives	-	17,684	37	**17,721**
Government debt securities	1	-	-	**1**
Bank bonds	-	24,093	-	**24,093**
Other bonds	14,511	4,004	-	**18,515**
Total				***60,330***
Available-for-sale financial assets (Note 5)				
At fair value				
Government debt securities	339,582	-	-	**339,582**
Bank bonds	-	51,086	-	**51,086**
Other bonds	46,140	34,303	-	**80,443**
Shares	-	2,170	2,902	**5,072**
Total				***476,183***
Other financial assets (Note 13)				
Fair value changes of hedged item (hedged risk)	-	3,530	-	**3,530**
Hedging derivatives	-	1,513	-	**1,513**
Total				***5,043***
Total financial assets				**541,669**
Financial liabilities				
Financial liabilities at fair value through profit or loss (Note 15)				
Financial liabilities designated at fair value through profit or loss on initial recognition				
Term deposits – banks	-	133,085	-	**133,085**
Term deposits – non-bank customers	-	62,700	-	**62,700**
Debt securities issued	-	13,618	-	**13,618**
				209,403
Financial liabilities held for trading				
Financial trading derivatives	-	13,118	71	**13,189**
				13,189
Total				***222,592***
Other financial liabilities (Note 20)				
Hedging derivatives	-	7,622	-	**7,622**
Total				***7,622***
Total financial liabilities				**230,214**

(i) Derivatives

Non-option derivatives are valued through an internal system of the Bank, which calculates the present value (cash flows discounted using relevant yield curves). The price of exotic derivatives is obtained from professional counterparties.

(ii) Debt securities

The Bank classifies debt securities at Level 1, if there are available reliable market quotes on BCPB, Reuters and/or Bloomberg platform.

If there is no available quotation from one of these sources, the Bank uses its internal model:

- the valuation of domestic government securities is based on the yield to maturity of comparable securities included in government benchmark curve;
- the calculation of theoretical price of mortgage bond issued by Slovak banks is based on the Slovak government bond curve adjusted by the credit spread derived from trades realized on the BCPB;
- the valuation of other securities is based on the swap curve adjusted by the related credit spread of an comparable company.

In that case the security is classified in Level 2**.**

(iii) Loans and deposits at fair value through profit or loss

Loans and deposits at fair value through profit or loss are valued using an internal system of the Bank, which calculates the present value (cash flows discounted using inter-bank yield curves).

(iv) Shares

Equity instruments at fair value in the portfolio of available-for-sale financial assets are valued using its own market prices or market prices of shares with similar characteristics. An illiquidity discount is taken into consideration where appropriate.

35.3 Transfers between Level 1 and 2

The following table shows movements between Level 1 and Level 2 in 2017:

(EUR ’000)	**Transfer from Level 2 to Level 1**
Financial assets at fair value through profit or loss (Note 4)	
Other bonds	252
Available-for-sale financial assets (Note 5)	
Other bonds	12,423

In 2017, the Bank made transfers from Level 2 to Level 1 of EUR 252 thousand of other bonds in the portfolio of financial assets at fair value through profit or loss and EUR 12,423 thousand in the portfolio of Available-for-sale financial assets. As at 31 December 2017 these bonds had prices quoted on an active market.

In 2016, the Bank did not perform any significant transfers between Level 1 and Level 2.

36 ČSOB SR risks

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The process of risk management is critical to the Bank's continuing profitability. Each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk, operational risk and the market risk of the trading and banking books.

The independent risk control process includes business risks such as changes in the environment, technology, industry and reputation risk. These are monitored through the KBC Group’s internal capital adequacy assessment process (‘ICAAP’). This process is managed centrally by the parent company, KBC, in Belgium which prepares policy and methodology for the whole KBC Group.

In accordance with NBS Regulation № 4/2015 on other types of risks, on details about the system of risk management of banks and the subsidiaries of foreign banks, which establishes the definition of sudden and unexpected change of interest rates on the market, the Bank implemented these strategies of risk management: liquidity risk management, market risk management of the banking book and trading book, credit risk management, operational risk management, reputational risk management, business risk management, strategic risk management, ICAAP management and management of asset encumbered. Risk management strategies include the main objectives and principles of the risk management of the Bank and are reassessed at least once per year and approved by the Board of Directors.

36.1 Risk management structure and basic assumptions

The Board of Directors has direct responsibility for identifying and controlling risk; however, there are also other separate independent bodies responsible for managing and monitoring risk.

The risk management structure in the Bank is based on a uniform principle of risk management applied within the KBC Group; its model, the 'KBC Risk Management Framework', defines the responsibilities and tasks of individual committees, departments and persons within the organization for guaranteeing sound risk management. Risk management includes:

- Involvement of the Bank's top bodies in the risk management process.
- The activities of specialized committees and independent departments involved in risk management at the overall level of ČSOB SR.
- Primary risk management within departments and organizational units.

(i) The organizational structure of senior bodies and committees for risk management is as follows:

Board of Directors

The Board of Directors is fully responsible for the overall risk management approach and for approving risk management strategies and principles. The Board of Directors monitors the risk profile of the Bank, liquidity, capital adequacy (regulatory and economic capital) and capital utilization and also makes decisions concerning the risk mitigation actions, setting of limits and monitoring of limit overruns.

Supervisory Board

The Supervisory Board is responsible for monitoring the overall risk management process within the Bank.

Audit Committee ('AC')

The AC is a subcommittee of the Supervisory Board and advises the Supervisory Board on the integrity of the financial reporting and the effectiveness of internal control and risk management processes.

Risk and Compliance Committee ('RCC')

The RCC is an advisory committee for the Supervisory Board in identifying current and future risk appetite and overall risk management strategy. The Committee also oversees their implementation in the Bank by senior management and oversee compliance with the rules, in order to comply with the law. The RCC also monitors products provided to clients to ensure that they are fully in line with the business model and risk strategy of the Bank.

Remuneration committee ('RC')

The RC independently assesses the remuneration principles and their impact on risk management, own funds and liquidity. The RC is responsible for preparing decisions on remuneration, including those that have implications for the risks and risk management of the Bank to be accepted by the Board of Directors.

Assets and Liabilities Committee ('ALCO')

The ALCO is an advisory committee for the Board of Directors in the area of balance sheet management (banking and trading book). The ALCO has decision-making and recommendation powers in the area of liquidity management and funding, interest rate and investment management, market and liquidity risk management and business strategy and planning. The focus, competences, membership and the decision making of ALCO are defined within the ALCO statutes. The results from ALCO meetings are submitted to the Board of Directors.

Operational Risk and Business Continuity Committee ('ORBC')

The ORBC is the platform with advisory and decision-making powers in the domains of operational risk and business continuity management. The ORBC discusses and approves the operational risk and business continuity management approach in various areas, proposed by the relevant units. The ORBC also monitors the strategy of operational risk management and business continuity management and implementation of principles and rules for management thereof. The chairman of the Committee is a member of the Board of Directors and the Chief Risk Officer.

Credit Risk Committee ('CRC')

The CRC's objective is to identify, measure and monitor credit risk arising from the Bank's lending activities and products. The CRC proposes procedures for managing credit risk, implementing principles, rules and limits for its management, addressing the core credit risk issues and proposing appropriate decisions in this area. Suggestions recommended by CRC are submitted and approved to members of the board responsible for risk management of the Bank.

Local Credit Committee ('LCC')

The LCC is a committee entrusted with the KBC Group-wide responsibility and authority for taking decisions on (individual) credit applications falling within the delegated powers of decision of the LCC. As such, in principle, it acts as the highest decision-making committee for the Bank in the area of loans.

New and active products process ('NAPP')

The NAPP covers the approval of new products from the point of view of the product factory as well as the distribution channel. The obligatory member of NAPP is the risk manager. The chairman of the committee is a member of the bank's Board of Directors (or a directly appointed manager). The Committee decides on a written basis containing the information necessary for a balanced decision between business interests, risk and operational options. There are 2 committees for new and existing products in the Bank – for Retail and Private Banking and for Corporate.

Information Risk and Security Committee ('IRSC')

The IRSC has advisory and decision-making powers in the area of information, information security and cyber security, and is subordinate to the ORBC. The IRSC's role is also to discuss and issue opinions on information, information security and cyber security, and to accept exemptions in these areas if it is a low or medium risk. In the case of high risk acceptance or escalation by the second line, the ORBC is competent authority for discussion..

(ii) Other risk management bodies:

Organizational unit of Risk and Compliance

Within the organizational unit of Risk and Compliance are the Risk and Capital Management Department and Credit Risk Management Department responsible for implementing and maintaining risk-related procedures to ensure an independent control process of risks. These departments are also responsible for the identification, quantification, monitoring, valuation and reporting of risks and for the independent control of risks, including monitoring the risk of exposure against limits and the assessment of risk from new products and structured transactions. Departments are also responsible for the strategy of risk management for particular risks and its adherence.

Asset and Liability Management Department ('ALM')

The ALM Department is responsible for managing the assets and liabilities in the banking book. It is also primarily responsible for the funding and liquidity risks of the Bank.

Financial Markets Division ('FM')

The FM Division is responsible for managing assets and liabilities on the Bank's trading book.

Internal Audit Department

Internal Audit applies a systematic, disciplined and objective approach to evaluate and improve the effectiveness of risk management, control and governance processes in the Bank. By providing independent assurance on the quality of the governance, risk management and internal control processes, Internal Audit assists to governing bodies. The internal audit regularly reports its findings and recommendations to the Board of the Directors and the Audit Committee.

(iii) Risk reporting and measurement systems

The Bank's risks are measured using methods which reflect both the anticipated 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 worst-case scenarios such as might arise in the event of the unlikely occurrence of extreme events.

Monitoring and controlling risk is performed primarily on the basis of 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. In addition, the Bank monitors and measures its overall risk-bearing capacity in relation to the aggregated risk exposure across all risk types and activities.

Information compiled from all business units is examined and processed in order to analyse, control and identify risks as they arise. This information is presented and explained to the Bank’s Board of Directors and relevant risk management committees. The reports include aggregate credit exposure, hold limit exceptions, Value at Risk (‘VaR’) analyses, interest rate sensitivities, interest rate gaps, liquidity ratios and risk profile changes.

The Board of Directors receives a monthly integrated report designed to provide all the information necessary to assess and decide on the risks of the Bank. This report is also submitted to the RCC on a quarterly basis.

The Daily Risk Report containing information regarding drawing of the limits is provided to the Board and all other relevant members of the Bank’s management.

(iv) Risk mitigation

As part of its overall risk management, the Bank uses derivative financial instruments and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risk, credit risk, and exposures arising from forecast transactions.

Bank also uses a system of limits and early warning levels for risk mitigation and these signals and levels are related to each risks types, to which the Bank is exposed.

(v) Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical 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. The concentrations of credit risk thus identified are controlled and managed accordingly. Selective hedging is used within the Bank to manage risk concentrations at both the relationship and industry levels.

36.2 Credit risk

Credit risk is the risk of loss in the event that the customer, client or counterparty fails to meet its obligations to the Bank resulting from a contractual relationship. The Bank manages and controls credit risk by determining limits to the extent to which it is willing to accept exposure in respect of one counterparty, and individual geographical and industry sectors. The Bank regularly monitors the volume and quality of the exposures in respect of the imposed limits.

The Bank uses a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties. This includes regular collateral revisions. Counterparty limits are established by a credit risk classification system, which assigns each counterparty a Probability of Default risk rating (PD rating). Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss to which it is exposed as a result of the risk and to take corrective action.

(i) Internal Rating Based approach (‘IRB’)

ČSOB SR has implemented internal rating models/tools within the credit process for corporate customers and SMEs, MicroSME customers, private persons, municipalities, housing associations and other customers. The models were developed and constructed in compliance with the Basel II and Basel III regulations as well as with valid Slovak and European legislation. The Bank uses the Internal Rating Based approach also to calculate internal capital requirement (‘ICAAP’).

The non-retail models produce rating grades on a unified KBC ‘PD master scale’. Rating grades 1-9 are used for non-default/normal customers, while rating grades 10-12 are used for customers in default. Each rating grade is associated with a predefined range of probability of default during the next 12 months (e.g. a client accorded PD rating 3 has a probability of default of between 0.20% - 0.40%). Customers with PD ratings 8 and 9 are considered as ‘weak normal’ and the management of such files is monitored by the Corporate Credits Recovery and Restructuring Section.

The IRB approach also includes the development of score-models for retail portfolios within the Bank, estimates of key parameters such as Probability of Default (‘PD’), Exposure at Default (‘EAD’) and Loss Given Default (‘LGD’) within defined homogeneous sets of exposures and a process of regular recalculation, validation and monitoring. Retail portfolio clients (private persons and MicroSMEs especially) do not have ratings assigned, but are scored and based on the derived score they are divided into pools with the same value of PD or other risk parameters for the whole pool. Score-models are used in the application process so that they influence the incoming population.

All models have to follow the standards defined within the KBC Group, to be independently validated by a specialist appointed from the Credit Risk Management Department and have to be approved by Chief Risk Officer. The Bank applies models developed by the KBC Group to assess the quality of sovereign and banking counterparties. These models are also validated in KBC.

During the first quarter of 2014, the National Bank of Slovakia granted the Bank prior approval to use the IRB approach for the calculation of the own funds requirement for credit risk. The Bank has been reporting under the IRB approach since 31 March 2014.

(ii) Corporate and SME customers

The Bank ranks companies with an annual turnover exceeding EUR 10 million, multinational companies with special treatment required, especially in terms of products provided, international clients of the KBC Group in the category of Large Corporate clients. The clients in this segment are also individually negotiated municipalities, mainly the largest regional cities.

Within the category of SME clients, the Bank classifies clients not meeting the requirements for the segment of Corporate clients, with an annual turnover from EUR 1.5 million up to EUR 10 million inclusive and companies that are economically connected with a client, belonging to SME segment. SME clients also include autonomous regions and municipal clients not belonging to Corporate segment as well as housing cooperatives.

Credit acceptance process

The acceptance process for Corporate customers is organized in three stages. In the first stage, the relationship manager of the introducing entity prepares a written credit proposal. In the second stage, an analyst independent of the business line (i.e. reporting to Credits) assesses the proposal and prepares a recommendation. The final decision is made at the appropriate decision-making level (committee). The ‘four eyes’ principle is always applied. The decision invariably includes an approved counterparty rating.

The established rating models that assign a specific probability of default to each client determine the level of risk and the acceptance process is adapted accordingly. Thus, the Bank can modify the acceptance authority, follow a simpler framework in cases of lower risk, adjust price policy, set more precise monitoring rules, implement advanced risk control based on the portfolio system, etc. Rating models are integrated into specialized rating tools which can also be used for pricing purposes.

The approval process for SME clients is either complex (similar to Corporate rating process) or simple. The simple process uses scoring models and simplified approval delegation structure. It is applicable for clients with total exposure up to EUR 0.5 million inclusive (up to EUR 1 million in case of economically connected clients) and 250 employees at the maximum.

(iii) Retail and MicroSME customers

The category of MicroSME clients consists of clients who do not qualify for inclusion into the Corporate and SME clients, their annual turnover is less than EUR 1.5 million and number of employees is 250 at the maximum. These clients are managed by retail branches and their total credit exposure from loan-drawing is less than or equals EUR 0.5 million (EUR 1 million for economically connected clients).

Credit acceptance process

The retail acceptance process is based on a number of scoring models (scorecards) that influence the loan portfolio quality. The retail acceptance process also uses access to external data sources (Credit Register) that provide additional information on a client’s risk profile. Score-models are typically based on both socio-demographic and behavioural data. The acceptance process also covers pre-approved loans for existing retail customers based on the outcome from behavioural score-models.

Portfolio risk management

A number of loss-predicting models are used to manage the risk of the retail credit portfolios. Regular back-testing of those models reveals a high degree of precision in the predicted development. The use of these modelling techniques and score-models implemented in tandem with management techniques significantly reduces the credit risk undertaken within retail portfolios.

(iv) Derivative financial instruments

Credit risk arising from derivative financial instruments is limited under the Bank's existing rules and processes and in general insignificant when compared to other instruments with credit risks.

(v) Credit risk-related receivables

The Bank grants its customers guarantees that may result in a requirement for the Bank to make payments on their behalf. Such payments are collected from customers on the terms of a letter of credit. They expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

The table below shows the maximum exposure to credit risk for the components of the balance sheet and off-balance sheet. The maximum exposure is shown without taking into account any collateral and other credit risk mitigation tools.

(EUR '000)	31 Dec 2017	31 Dec 2016 Reclassified
Mandatory minimum reserves and other demand deposits with banks (Note 3)	73,228	40,870
Financial assets at fair value through profit or loss (Note 4)	52,562	60,330
Available-for-sale financial assets, excl. shares (Note 5)	446,670	471,111
Loans and receivables to financial institutions (Note 6)	102,103	23,155
Loans and receivables to customers (Note 7)	5,528,390	5,093,474
Held-to-maturity investments (Note 8)	1,471,196	1,457,886
Other financial assets (Note 13)	7,546	11,154
Total	**7,681,695**	**7,157,980**
Credit facilities issued but not drawn	1,207,179	1,254,756
Financial guarantees given	235,161	208,118
Letters of credit given	3,702	24,775
Total (Note 22)	**1,446,042**	**1,487,649**
Total credit risk exposure	**9,127,737**	**8,645,629**

The financial assets described 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 of the assets.

(vi) Maximum credit risk exposure

The maximum exposure to the credit risk of financial assets is represented by their net carrying amount.

The maximum exposure to credit risk for off-balance sheet commitments (e.g. undrawn loan limits, financial guarantees granted) is represented by the maximum amount the Bank has to pay if the commitment is called in, which is also equal to their carrying amount.

(vii) Concentration risk in terms of credit risk

Concentration risk is monitored by client/counterparty, geographical region and industry sector from both the qualitative and quantitative perspectives.

The maximum credit exposure to a governmental counterparty as at 31 December 2017 was EUR 1,655,908 thousand (2016: EUR 1,653,077 thousand) and to a non-governmental counterparty EUR 120,458 thousand (2016: EUR 120,494 thousand) before taking collateral or other credit enhancements into account and EUR 120,458 thousand (2016: EUR 120,494 thousand) after taking them into account.

The Bank's financial assets and off-balance sheet items with credit risk, before taking any collateral or other credit enhancements into account, may be divided into the following geographical regions:

(EUR '000)	**31 Dec 2017**	**31 Dec 2016**
Slovak Republic	8,595,839	8,186,017
Belgium	39,600	15,065
Czech Republic	176,466	157,689
Germany	9,436	13,203
Netherlands	22,147	22,408
Hungary	90,607	78,443
Other	193,642	172,804
Total	**9,127,737**	**8,645,629**

The Bank's financial assets and off-balance sheet items with credit risk by industry sector are as follows:

(EUR '000)	**31 Dec 2017**	**31 Dec 2016**
Agriculture, Forestry and Fisheries	16,503	15,806
Mining and extraction	9,096	39,730
Industrial production	564,669	522,407
Supply of electricity, gas, steam and cold air	249,033	253,262
Supply of water, cleaning and transfer of wastewater, waste, related services	98,925	83,648
Construction	288,296	281,561
Wholesale, retail, repairs of motor vehicles and motorcycles	518,508	559,546
Transport and storage	265,764	283,629
Accommodation and catering	17,401	15,470
Information and communication	43,544	46,227
Financial and insurance activities	226,150	258,627
Real estate activities	543,904	501,873
Professional, scientific and technical activities	239,279	199,748
Administration and supporting services	38,747	41,264
Public administration and defence, Social insurance	1,836,751	1,846,291
Education	3,070	2,426
Health and social support	12,510	16,156
Art, entertainment and relaxation	1,425	1,115
Other activities	10,328	20,229
Household activities in role of employers	3,736,295	3,321,031
Activities of extraterritorial organizations and associations	407,539	335,583
Total	**9,127,737**	**8,645,629**

(VIII) Credit risk based on quality of financial assets

The quality of financial assets from the perspective of credit risk is managed based on internal ratings.

The net carrying amount of financial assets according to risk categories based on individual assessment as at 31 December 2017 is presented in the following table:

(EUR '000)	Unimpaired			Impaired			Total		
	Gross carrying amount	Impair. loss/ Provision	Net carrying amount	Gross carrying amount	Impair. loss/ Provision	Net carrying amount	Gross carrying amount	Impair. loss/ Provision	Net carrying amount
Mandatory minimum reserves and other demand deposits with banks (Note 3)	73,228	-	73,228	-	-	-	73,228	-	73,228
Financial assets at fair value through profit or loss (Note 4)	52,562	-	52,562	-	-	-	52,562	-	52,562
Available-for-sale financial assets, excl. shares (Note 5)	446,670	-	446,670	-	-	-	446,670	-	446,670
Loans and receivables to financial institutions (Note 6)	102,125	(22)	102,103	92	(92)	-	102,217	(114)	102,103
Loans and receivables to customers (Note 7)	5,485,618	(8,278)	5,477,340	159,888	(108,838)	51,050	5,645,506	(117,116)	5,528,390
from that:									
Public administration	190,390	(37)	190,353	129	(129)	-	190,519	(166)	190,353
Corporate	1,739,547	(1,702)	1,737,845	77,341	(56,506)	20,835	1,816,888	(58,208)	1,758,680
Retail:	3,555,681	(6,539)	3,549,142	82,418	(52,203)	30,215	3,638,099	(58,742)	3,579,357
- Mortgage loans	*3,004,091*	*(2,145)*	*3,001,946*	*40,854*	*(15,509)*	*25,345*	*3,044,945*	*(17,654)*	*3,027,291*
- Consumer loans	*228,263*	*(1,146)*	*227,117*	*12,258*	*(11,049)*	*1,209*	*240,521*	*(12,195)*	*228,326*
- Credit cards	*19,852*	*(203)*	*19,649*	*1,645*	*(1,546)*	*99*	*21,497*	*(1,749)*	*19,748*
- Overdrafts	*22,513*	*(290)*	*22,223*	*2,398*	*(2,265)*	*133*	*24,911*	*(2,555)*	*22,356*
- MicroSME	*280,962*	*(2,755)*	*278,207*	*25,263*	*(21,834)*	*3,429*	*306,225*	*(24,589)*	*281,636*
Held-to-maturity investments (Note 8)	1,471,225	(29)	1,471,196	-	-	-	1,471,225	(29)	1,471,196
Other financial assets (Note 13)	7,665	(119)	7,546	-	-	-	7,665	(119)	7,546
Total	**7,639,093**	**(8,448)**	**7,630,645**	**159,980**	**(108,930)**	**51,050**	**7,799,073**	**(117,378)**	**7,681,695**
Off-balance sheet liabilities	**1,445,015**	**(947)**	**1,444,068**	**2,681**	**(707)**	**1,974**	**1,447,696**	**(1,654)**	**1,446,042**
Total credit risk exposure	**9,084,108**	**(9,395)**	**9,074,713**	**162,661**	**(109,637)**	**53,024**	**9,246,769**	**(119,032)**	**9,127,737**

The net carrying amount of financial assets according to risk categories based on individual assessment as at 31 December 2016, reclassified, is presented in the following table:

(EUR '000)	Unimpaired			Impaired			Total		
	Gross carrying amount	Impair. loss/ Provision	Net carrying amount	Gross carrying amount	Impair. loss/ Provision	Net carrying amount	Gross carrying amount	Impair. loss/ Provision	Net carrying amount
Mandatory minimum reserves and other demand deposits with banks (Note 3)	40,870	-	40,870	-	-	-	40,870	-	40,870
Financial assets at fair value through profit or loss (Note 4)	60,330	-	60,330	-	-	-	60,330	-	60,330
Available-for-sale financial assets, excl. shares (Note 5)	471,111	-	471,111	-	-	-	471,111	-	471,111
Loans and receivables to financial institutions (Note 6)	23,183	(28)	23,155	92	(92)	-	23,275	(120)	23,155
Loans and receivables to customers (Note 7)	5,038,710	(8,281)	5,030,429	173,333	(110,288)	63,045	5,212,043	(118,569)	5,093,474
from that:									
Public administration	209,410	(54)	209,356	493	(366)	127	209,903	(420)	209,483
Corporate	1,660,450	(1,880)	1,658,570	89,241	(60,443)	28,798	1,749,691	(62,323)	1,687,368
Retail:	3,168,850	(6,347)	3,162,503	83,599	(49,479)	34,120	3,252,449	(55,826)	3,196,623
- Mortgage loans	*2,681,171*	*(1,973)*	*2,679,198*	*45,678*	*(16,237)*	*29,441*	*2,726,849*	*(18,210)*	*2,708,639*
- Consumer loans	*192,824*	*(1,242)*	*191,582*	*11,298*	*(10,185)*	*1,113*	*204,122*	*(11,427)*	*192,695*
- Credit cards	*17,380*	*(227)*	*17,153*	*1,656*	*(1,533)*	*123*	*19,036*	*(1,760)*	*17,276*
- Overdrafts	*21,110*	*(362)*	*20,748*	*2,871*	*(2,644)*	*227*	*23,981*	*(3,006)*	*20,975*
- MicroSME	*256,365*	*(2,543)*	*253,822*	*22,096*	*(18,880)*	*3,216*	*278,461*	*(21,423)*	*257,038*
Held-to-maturity investments (Note 8)	1,457,914	(28)	1,457,886	-	-	-	1,457,914	(28)	1,457,886
Other financial assets (Note 13)	11,275	(121)	11,154	-	-	-	11,275	(121)	11,154
Total	**7,103,393**	**(8,458)**	**7,094,935**	**173,425**	**(110,380)**	**63,045**	**7,276,818**	**(118,838)**	**7,157,980**
Off-balance sheet liabilities	**1,485,203**	**(1,045)**	**1,484,158**	**4,272**	**(781)**	**3,491**	**1,489,475**	**(1,826)**	**1,487,649**
Total credit risk exposure	**8,588,596**	**(9,503)**	**8,579,093**	**177,697**	**(111,161)**	**66,536**	**8,766,293**	**(120,664)**	**8,645,629**

The main considerations for loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days, or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringements of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

The local management of the Bank is responsible for deciding the length of the emergence period. In both 2017 and 2016, the Bank used a uniform emergence period of four months for all portfolios.

Individually assessed allowances

The Bank determines allowances appropriate to each individually significant loan or receivable 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 and the realizable value of collateral, and the timing of expected cash flows. The impairment losses are evaluated at each reporting date (or as at the date the reports are submitted to the Bank's management), unless extraordinary or unforeseen circumstances require more careful attention.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans and receivables that are not individually significant (including credit cards, residential mortgages and unsecured consumer loans) and for individually significant loans and receivables where there is not as yet any objective evidence of individual impairment.

The collective assessment takes account of impairments that are likely to be present in the portfolio even though there is no objective evidence of impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. Local management is responsible for deciding the length of this period which can extend for up to one year. The impairment allowance is reviewed by the credit management departments to ensure its alignment with the Bank's overall policies and procedures.

Financial guarantees and letters of credit are assessed and provisions made in a similar manner as for loans and receivables.

(ix) Ageing analysis of financial assets past due but not impaired based on individual assessment

The table shows a delinquency analysis of the Bank's past due but not impaired loans and receivables based on individual assessment as at 31 December 2017:

(EUR '000)	Not past due	Past due from 1 to 30 days	Past due from 31 to 90 days	Total
Other demand deposits with banks	48,880	-	-	**48,880**
Loans and receivables to banks at fair value through profit or loss	12,775	-	-	**12,775**
Loans and receivables to financial institutions	102,103	-	-	**102,103**
Loans and receivables to customers	5,398,650	64,755	13,935	**5,477,340**
Public administration	190,353	-	-	**190,353**
Corporate	1,725,262	11,193	1,390	**1,737,845**
Retail:	3,483,035	53,562	12,545	**3,549,142**
- Mortgage loans	*2,954,479*	*38,915*	*8,552*	***3,001,946***
- Consumer loans	*221,589*	*4,555*	*973*	***227,117***
- Credit cards	*18,658*	*870*	*121*	***19,649***
- Overdrafts	*21,875*	*-*	*348*	***22,223***
- MicroSME	*266,434*	*9,222*	*2,551*	***278,207***
Total	**5,562,408**	**64,755**	**13,935**	**5,641,098**

The table shows a delinquency analysis of the Bank's past due but not impaired loans and receivables based on individual assessment as at 31 December 2016, reclassified:

(EUR '000)	Not past due	Past due from 1 to 30 days	Past due from 31 to 90 days	Total
Other demand deposits with banks	25,392	-	-	**25,392**
Loans and receivables to financial institutions	23,155	-	-	**23,155**
Loans and receivables to customers	4,958,556	61,185	10,688	**5,030,429**
Public administration	209,356	-	-	**209,356**
Corporate	1,641,270	17,280	20	**1,658,570**
Retail:	3,107,930	43,905	10,668	**3,162,503**
- Mortgage loans	*2,640,958*	*30,481*	*7,759*	***2,679,198***
- Consumer loans	*186,842*	*3,985*	*755*	***191,582***
- Credit cards	*16,360*	*727*	*66*	***17,153***
- Overdrafts	*20,429*	*9*	*310*	***20,748***
- MicroSME	*243,341*	*8,703*	*1,778*	***253,822***
Total	**5,007,103**	**61,185**	**10,688**	**5,078,976**

The credit quality of other demand deposits with banks, loans and receivables to banks at fair value through profit or loss and loans and receivables to financial institutions that are neither past due nor impaired based on individual assessment are as follows. Each rating grade has a specified range of probability of default over the next 12 months:

(EUR '000) Rating	% possible default	31 Dec 2017	31 Dec 2016 Reclassified
1	0.00% - 0.10%	114,114	10,912
2	0.10% - 0.20%	35,637	21,588
3	0.20% - 0.40%	114	97
4	0.40% - 0.80%	224	317
5	0.80% - 1.60%	636	154
6	1.60% - 3.20%	2,107	761
7	3.20% - 6.40%	1,052	3,953
8	6.40% - 12.80%	9,874	9,785
9	12.80% - 100.00%	-	319
Undefined*	-	-	661
Total		**163,758**	**48,547**

** the rating or rating model is not assigned*

The credit quality of loans and receivables to customers as at 31 December 2017 that are neither past due nor impaired based on individual assessment are as follows. Each rating grade has a specified range of probability of default over the next 12 months:

(EUR '000) Rating	% possible default	Public administration	Corporate	Retail:	*Mortgage loans*	*Consumer loans*	*Credit cards*	*Overdrafts*	*MicroSME*	Total
1	0.00% - 0.10%	-	247,582	39,387	*13,424*	-	-	-	*25,963*	**286,969**
2	0.10% - 0.20%	164,458	92,817	-	-	-	-	-	-	**257,275**
3	0.20% - 0.40%	25,662	289,799	1,557,029	*1,481,138*	*64,625*	*6,324*	*4,367*	*575*	**1,872,490**
4	0.40% - 0.80%	-	424,296	983,004	*825,086*	*68,214*	*4,700*	*3,705*	*81,299*	**1,407,300**
5	0.80% - 1.60%	-	316,163	422,176	*416,478*	*5,442*	*121*	*135*	-	**738,339**
6	1.60% - 3.20%	-	217,772	148,810	-	*43,265*	*2,997*	*3,839*	*98,709*	**366,582**
7	3.20% - 6.40%	-	93,131	198,659	*161,883*	*28,233*	*2,622*	*5,024*	*897*	**291,790**
8	6.40% - 12.80%	-	24,651	88,271	*34,833*	*4,332*	*800*	*1,648*	*46,658*	**112,922**
9	12.80% - 100.00%	233	5,366	45,240	*21,637*	*7,478*	*1,094*	*3,157*	*11,874*	**50,839**
Undefined*	-	-	13,685	459	-	-	-	-	*459*	**14,144**
Total		**190,353**	**1,725,262**	**3,483,035**	***2,954,479***	***221,589***	***18,658***	***21,875***	***266,434***	**5,398,650**

** the rating or rating model is not assigned*

The credit quality of loans and receivables to customers as at 31 December 2016 that are neither past due nor impaired based on individual assessment are as follows. Each rating grade has a specified range of probability of default over the next 12 months:

(EUR '000) Rating	% possible default	Public administration	Corporate	Retail:	*Mortgage loans*	*Consumer loans*	*Credit cards*	*Overdrafts*	*MicroSME*	Total
1	0.00% - 0.10%	-	181,332	80,446	-	*43,080*	*5,060*	*3,153*	*29,153*	**261,778**
2	0.10% - 0.20%	175,548	95,764	-	-	-	-	-	-	**271,312**
3	0.20% - 0.40%	33,808	341,830	1,177,186	*1,176,899*	*5*	*7*	*275*	-	**1,552,824**
4	0.40% - 0.80%	-	352,726	301,355	*152,489*	*66,845*	*4,186*	*4,297*	*73,538*	**654,081**
5	0.80% - 1.60%	-	282,086	1,036,217	*994,195*	*35,491*	*2,899*	*3,632*	-	**1,318,303**
6	1.60% - 3.20%	-	207,615	246,107	*127,994*	*18,870*	*1,453*	*2,762*	*95,028*	**453,722**
7	3.20% - 6.40%	-	147,121	134,963	*134,963*	-	-	-	-	**282,084**
8	6.40% - 12.80%	-	15,048	89,987	*32,193*	*15,548*	*1,798*	*3,135*	*37,313*	**105,035**
9	12.80% - 100.00%	-	5,524	41,023	*22,225*	*7,003*	*957*	*3,175*	*7,663*	**46,547**
Undefined*	-	-	12,224	646	-	-	-	-	*646*	**12,870**
Total		**209,356**	**1,641,270**	**3,107,930**	***2,640,958***	***186,842***	***16,360***	***20,429***	***243,341***	**4,958,556**

** the rating or rating model is not assigned*

The credit quality of securities and bonds that are neither past due nor impaired based on individual assessment as at 31 December 2017 are as follows. Each rating grade has a specified range of probability of default over the next 12 months:

(EUR '000)		Net carrying amount							
		Financial assets at fair value through profit or loss (Note 4)			Available-for-sale financial assets (Note 5)			Held-to-maturity investments (Note 8)	
Rating	**% possible default**	**Government debt securities**	**Bank bonds**	**Other bonds**	**Government debt securities**	**Bank bonds**	**Other bonds**	**Government debt securities**	**Bank bonds**
1	0.00% - 0.10%	1	-	-	288,065	-	-	1,367,822	-
2	0.10% - 0.20%	-	15,219	11,468	-	51,555	12,450	-	103,374
3	0.20% - 0.40%	-	-	-	-	-	19,439	-	-
4	0.40% - 0.80%	-	-	2,220	-	-	75,161	-	-
Undefined*	-	-	-	103	-	-	-	-	-
Total		**1**	**15,219**	**13,791**	**288,065**	**51,555**	**107,050**	**1,367,822**	**103,374**

** the rating or rating model is not assigned*

The credit quality of securities and bonds that are neither past due nor impaired based on individual assessment as at 31 December 2016 are as follows. Each rating grade has a specified range of probability of default over the next 12 months:

(EUR '000)		Net carrying amount							
		Financial assets at fair value through profit or loss (Note 4)			Available-for-sale financial assets (Note 5)			Held-to-maturity investments (Note 8)	
Rating	**% possible default**	**Government debt securities**	**Bank bonds**	**Other bonds**	**Government debt securities**	**Bank bonds**	**Other bonds**	**Government debt securities**	**Bank bonds**
1	0.00% - 0.10%	1	-	-	339,582	-	-	1,354,622	-
2	0.10% - 0.20%	-	24,093	13,763	-	51,086	12,651	-	103,264
4	0.40% - 0.80%	-	-	738	-	-	56,018	-	-
5	0.80% - 1.60%	-	-	104	-	-	-	-	-
Undefined*	-	-	-	3,910	-	-	11,774	-	-
Total		**1**	**24,093**	**18,515**	**339,582**	**51,086**	**80,443**	**1,354,622**	**103,264**

** the rating or rating model is not assigned*

The credit quality of financial trading derivatives and hedging derivatives that are neither past due nor impaired based on individual assessment are as follows. Each rating grade has a specified range of probability of default over the next 12 months:

(EUR '000)		31 Dec 2017		31 Dec 2016	
Rating	**% possible default**	**Financial trading derivatives (Note 4)**	**Hedging derivatives (Note 13)**	**Financial trading derivatives (Note 4)**	**Hedging derivatives (Note 13)**
1	0.00% - 0.10%	7,904	1,637	11,402	1,513
2	0.10% - 0.20%	1,079	-	2,123	-
3	0.20% - 0.40%	533	-	1,873	-
4	0.40% - 0.80%	204	-	7	-
5	0.80% - 1.60%	174	-	480	-
6	1.60% - 3.20%	171	-	212	-
7	3.20% - 6.40%	24	-	109	-
Undefined*	-	687	-	1,515	-
Total		**10,776**	**1,637**	**17,721**	**1,513**

** the rating or rating model is not assigned*

(x) Collateral and other credit enhancements

The tables below provide the financial effect of collaterals and of other credit enhancements for all groups of financial assets. The financial effect represents the effect of mitigating the exposure to credit risk by disclosing a lower value of fair value of collateral and carrying value of asset.

(EUR '000)	**31 Dec 2017**	**31 Dec 2016**
Real estates	3,590,607	3,242,153
Cash and cash equivalents	15,906	21,945
Bank guarantees	34,165	41,177
Other	244,683	323,037
Total	**3,885,361**	**3,628,312**

(EUR '000)	**31 Dec 2017**	**31 Dec 2016**
Loans and receivables to financial institutions	9,396	9,820
Loans and receivables to customers	3,756,172	3,435,445
Undrawn credit limits provided	119,793	183,047
Total	**3,885,361**	**3,628,312**

The amount and types of collateral required depend on an assessment of the credit risk of the counterparty. The Bank has internal guidelines in place to assess the separate types of collateral and determine the valuation parameters to be employed.

The Bank accepted guarantees from its parent company and other subsidiaries within the KBC Group for credit risk mitigation of other subsidiaries of the Bank and for third parties (Note 32).

The Bank monitors the market value of collateral and requires additional collateral based on contractual conditions.

Collateral realization

The Bank employs different procedures when realizing collateral for retail and non-retail exposures. This divergent approach has resulted from legislation as well as the granularity of individual exposures in these classes of assets.

Collateral realization in the RETAIL segment

In the event of an unsuccessful early collection in respect of retail customers, the client and the owner of the collateral (usually real estate) are contacted in order to be informed of the realization of the collateral by the Bank. If the client is amenable to cooperation in resolving this problem, the Bank usually proposes that the real estate be sold under conditions which it specifies (price, legal terms, etc.).

Otherwise, the Bank enters into contracts with external auction companies. An auction company holds an auction after which the Bank obtains the funds acquired less any charges and fees for the auction company. Subsequently, this amount is used to settle the respective receivable due from the client.

Collateral realization in the NON-RETAIL segment

In the non-retail segment, the Bank obtained assets from the realization of various collaterals in the form of cash only, i.e. by using the following types of realization: direct sale, unrestricted auction, auction under distraint and auction within bankruptcy proceedings. Other types of assets (e.g. real estate) are not transferred to the Bank's assets but the Bank pursues their sale.

(xi) Forbearance measures

Based on the guidelines on non-performing exposures and forbearance measures laid down by the European Banking Authority ('EBA'), which came into effect on 30 September 2014, the Bank implemented a new definition of forborne loans.

Forbearance measures consist of concessions towards a debtor facing or about to face financial difficulties. Concession refers to either a modification of the previous terms and conditions of a contract the debtor is considered unable to comply with or a total or a partial refinancing of a troubled debt contract. Credit facilities for which forbearance measures have been extended and for which the exit criteria are not met are considered to be forborne (formerly known as 'distressed restructured credits').

The Bank has assigned defaulted PD ratings on distressed restructured loans since 2011. This approach was required by local regulator (NBS) and guaranteed conservative approach to exposures with deteriorated asset quality (forborne exposures). Despite conservative assignment of PD ratings to forborne (restructured) exposures, classification of exposures as non-performing for the purposes of IFRS disclosure was adjusted to be in line with new EBA technical standards.

Since default (and thus also non-performing) status occurs any time a forbearance measure is granted, the minimum period for assignment of the 'Forborne tag' is 36 months. This period consists of the 12 months of non-performing status and 24 months of what is referred to as 'probation period'. In addition, any time more than 30 days past due is observed at an individual receivable during the 'probation period', the receivable is re-classified as non-performing and the 36-month period is re-set.

As at 31 December 2017, the net carrying amount of forborne exposures included in the credit portfolio is presented in the following table:

	Gross amount			Impairment loss			Net amount		
(EUR '000)	Performing	Non-performing	Total	Performing	Non-performing	Total	Performing	Non-performing	Total
Public administration	233	88	**321**	-	(88)	**(88)**	233	-	**233**
Corporate	125	40,139	**40,264**	(5)	(23,626)	**(23,631)**	120	16,513	**16,633**
Retail	7,698	10,598	**18,296**	(20)	(3,060)	**(3,080)**	7,678	7,538	**15,216**
Total	**8,056**	**50,825**	**58,881**	**(25)**	**(26,774)**	**(26,799)**	**8,031**	**24,051**	**32,082**

As at 31 December 2016, the net carrying amount of forborne exposures included in the credit portfolio is presented in the following table:

	Gross amount			Impairment loss			Net amount		
(EUR '000)	Performing	Non-performing	Total	Performing	Non-performing	Total	Performing	Non-performing	Total
Public administration	-	347	**347**	-	(219)	**(219)**	-	128	**128**
Corporate	3,365	43,333	**46,698**	(2)	(25,269)	**(25,271)**	3,363	18,064	**21,427**
Retail	7,608	12,547	**20,155**	(24)	(2,841)	**(2,865)**	7,584	9,706	**17,290**
Total	**10,973**	**56,227**	**67,200**	**(26)**	**(28,329)**	**(28,355)**	**10,947**	**27,898**	**38,845**

A movement table of gross carrying amount on exposures with forbearance measures as at 31 December 2017 is presented in the following table:

(EUR '000)	1 Jan 2017	Loans which have become forborne	Loans which are no longer considered to be forborne	Repayments and recovery	Write-offs	Other	31 Dec 2017
Public administration	347	76	-	(102)	-	-	**321**
Corporate	46,698	6,999	(6,106)	(7,266)	(213)	152	**40,264**
Retail	20,155	3,812	(4,882)	(812)	(45)	68	**18,296**
Total	**67,200**	**10,887**	**(10,988)**	**(8,180)**	**(258)**	**220**	**58,881**

A movement table of gross carrying amount on exposures with forbearance measures as at 31 December 2016 is presented in the following table:

(EUR '000)	1 Jan 2016	Loans which have become forborne	Loans which are no longer considered to be forborne	Repayments and recovery	Other	31 Dec 2016
Public administration	43	320	-	(16)	-	**347**
Corporate	45,670	8,258	(4,320)	(5,339)	2,429	**46,698**
Retail	22,121	5,685	(6,739)	(1,101)	189	**20,155**
Total	**67,834**	**14,263**	**(11,059)**	**(6,456)**	**2,618**	**67,200**

A movement table of impairment loss on exposures with forbearance measures as at 31 December 2017 is presented in the following table:

(EUR '000)	1 Jan 2017	Loans which have become forborne	Loans which are no longer considered to be forborne	(Creation)/ Release on forborne loans	Other	31 Dec 2017
Public administration	(219)	(76)	-	207	-	**(88)**
Corporate	(25,271)	(2,224)	1,975	1,677	212	**(23,631)**
Retail	(2,865)	(342)	207	(117)	37	**(3,080)**
Total	**(28,355)**	**(2,642)**	**2,182**	**1,767**	**249**	**(26,799)**

A movement table of impairment loss on exposures with forbearance measures as at 31 December 2016 is presented in the following table:

(EUR '000)	1 Jan 2016	Loans which have become forborne	Loans which are no longer considered to be forborne	(Creation)/ Release on forborne loans	31 Dec 2016
Public administration	(43)	(192)	-	16	**(219)**
Corporate	(19,770)	(4,127)	1,629	(3,003)	**(25,271)**
Retail	(2,576)	(280)	194	(203)	**(2,865)**
Total	**(22,389)**	**(4,599)**	**1,823**	**(3,190)**	**(28,355)**

36.3 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will not, in effect, be able to meet its liabilities when they become due under standard and liquidity crisis developments.

The Bank limits this risk through the proper structure of the balance sheet, with the respect to the quality and maturity of assets and liabilities and through the stabilization and diversification of financial resources. Besides the stable source of primary deposits, the Bank also has available secondary financial resources to maintain a sufficient liquidity level. The Bank creates and maintains regular contacts with clients and other counterparties, important for the Bank in view of liquidity, regularly reviews the reliability of individual financial sources and the availability of high – quality collateral for additional financing.

The medium-term and long-term liquidity position of the Bank is assessed and managed under liquidity scenarios. The basic scenario reflects the expected trend in internal and external liquidity conditions (standard development in assets and liabilities of the Bank is expected), the stress scenario includes various stress factors related to the Bank and also the financial market. Short-term liquidity is in the Bank monitored through liquidity ratios based on the actual balance sheet composition.

In addition, the Bank measures and monitors short and long term liquidity indicators defined in the International framework for liquidity risk measurement, monitoring and standards issued by the Basel Committee on Banking Supervision – Liquidity Coverage Ratio ('LCR') and Net Stable Funding Ratio ('NSFR'). The Bank also plans and monitors economically adjusted indicator NSFR ('ENSFR'), which is defined and used for liquidity management within the whole KBC Group. ENSFR is also one of the key performance measures of the Bank (i.e. KPI's). The Bank monitors also the Asset encumbered ratio in the context of international methodological guidelines to the Asset encumbrance reporting.

The most important liquidity ratio for the Bank in 2017 from the perspective of fulfilment was the locally defined LCR. This regulatory short term liquidity indicator is defined by NBS Decree № 11/2014 and is derived from the international LCR indicator as defined by Basel III. It represents the ratio of the sum of highly liquid assets and the sum of net negative cash flows. LCR should not fall below the regulatory limit value 1.0. Bank met the specified minimum limit during the whole year 2017 and 2016 with a sufficient reserve.

In addition to standard liquidity trends, the Bank has also prepared an emergency plan for liquidity management in the event of a liquidity crisis situation. This emergency plan defines the indicators for early warning of a potential liquidity crisis and determines the responsibilities of relevant bodies during a liquidity crisis.

The following tables show the Bank's non-derivative financial liabilities (including contingent commitments) categorised based on the earliest period in which the Bank be can required to pay. The tables have been drawn up based on undiscounted cash flows of financial liabilities. The tables include both interest and principal cash flows. The principal cash flows are the best estimates using average effective yields. Expected remaining maturity can differ from this analysis.

(EUR '000) **31 Dec 2017**	**Less than 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**5 years and more**	**Total**
Financial liabilities at fair value through profit or loss (excluding derivatives)	32,416	26,255	5,153	7,258	-	**71,082**
Amounts owed to financial institutions	154,441	130,109	164,682	238,072	-	**687,304**
Amounts owed to customers	4,908,912	445,239	474,754	20,071	-	**5,848,976**
Debt securities issued	-	652	79,279	408,501	78,825	**567,257**
Other financial liabilities (excluding derivatives)	-	13,199	-	-	-	**13,199**
Subordinated Debt	-	299	898	4,792	92,890	**98,879**
Total financial liabilities	**5,095,769**	**615,753**	**724,766**	**678,694**	**171,715**	**7,286,697**
Credit facilities issued but not drawn	1,207,883	-	-	-	-	**1,207,883**
Financial guarantees given	236,111	-	-	-	-	**236,111**
Letters of credit given	3,702	-	-	-	-	**3,702**
Total contingent commitments	**1,447,696**	**-**	**-**	**-**	**-**	**1,447,696**

(EUR '000) **31 Dec 2016, Reclassified**	**Less than 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**5 years and more**	**Total**
Financial liabilities at fair value through profit or loss (excluding derivatives)	189,326	3,217	3,975	12,653	-	**209,171**
Amounts owed to financial institutions	13,740	195,614	269,575	199,029	-	**677,958**
Amounts owed to customers	4,430,139	809,890	116,522	47,067	266	**5,403,884**
Debt securities issued	-	60,618	44,585	342,804	80,614	**528,621**
Other financial liabilities (excluding derivatives)	-	15,185	-	-	-	**15,185**
Total financial liabilities	**4,633,205**	**1,084,524**	**434,657**	**601,553**	**80,880**	**6,834,819**
Credit facilities issued but not drawn	1,255,878	-	-	-	-	**1,255,878**
Financial guarantees given	208,822	-	-	-	-	**208,822**
Letters of credit given	24,775	-	-	-	-	**24,775**
Total contingent commitments	**1,489,475**	**-**	**-**	**-**	**-**	**1,489,475**

The table below sets out the financial assets of the Bank by expected remaining maturity as at 31 December 2017:

(EUR '000) **31 Dec 2017**	**Less than 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**5 years and more**	**Undefined**	**Total**
Cash, balances with central bank and other demand deposits with banks	273,556	-	-	-	-	-	**273,556**
Financial assets at fair value through profit or loss	12,779	4,034	9,157	15,199	617	10,776	**52,562**
Available-for-sale financial assets	900	1,298	159,778	125,458	159,236	6,664	**453,334**
Loans and receivables to financial institutions	88,005	4,187	2,133	6,785	1,006	(13)	**102,103**
Loans and receivables to customers	126,653	65,364	732,479	1,591,859	2,964,606	47,429	**5,528,390**
Held-to-maturity investments	8,529	4,064	12,228	298,183	1,148,221	(29)	**1,471,196**
Other financial assets	-	7,546	-	-	-	-	**7,546**
Total financial assets	**510 422**	**86 493**	**915,775**	**2,037,484**	**4,273,686**	**64,827**	**7,888,687**

The table below sets out the financial assets of the Bank by expected remaining maturity as at 31 December 2016, reclassified:

(EUR '000) **31 Dec 2016, Reclassified**	**Less than 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**5 years and more**	**Undefined**	**Total**
Cash, balances with central bank and other demand deposits with banks	226,562	-	-	-	-	-	**226,562**
Financial assets at fair value through profit or loss	249	2,111	12,594	23,762	3,892	17,722	**60,330**
Available-for-sale financial assets	647	1,297	2,322	252,027	214,818	5,202	**476,313**
Loans and receivables to financial institutions	8,683	4,627	1,023	2,649	6,201	(28)	**23,155**
Loans and receivables to customers	213,359	96,980	664,856	1,409,716	2,658,998	49,565	**5,093,474**
Held-to-maturity investments	15,092	4,066	111,294	399,639	927,823	(28)	**1,457,886**
Other financial assets	-	11,154	-	-	-	-	**11,154**
Total financial assets	**464,592**	**120,235**	**792,089**	**2,087,793**	**3,811,732**	**72,433**	**7,348,874**

36.4 Market risk

Market risk for financial instruments in the Bank's portfolios is defined as a change in the future cash flows and market prices of these financial instruments resulting from movements in market variables. In general, the most important variables are interest rates, foreign exchange rates and equity prices.

The Bank classifies exposures to market risk into either its trading (trading book) or non-trading portfolios (banking book). Market risk for the trading portfolio is managed and monitored based on a standard VaR rate that reflects the interdependence of risk variables. In addition to the VaR method, a further measure is an analysis of sensitivity using Basis Point Value ('BPV') indicators. Within the positions kept in the banking book, market risk is measured and managed using the BPV sensitivity analysis and cumulative interest rate GAPs.

(i) Market risk – Trading Book

The Bank's Board of Directors defines the maximum acceptable level of risk by using VaR and BPV limits. The Bank applies a VaR method to estimate the market risk in the financial instruments recorded in the Bank's portfolios and to determine the potential economic loss resulting from unfavourable movements in market variables.

The risk rate of the VaR business portfolio in terms of its present value has been defined as the maximum potential loss to which the Bank may be exposed within a precisely defined time horizon and with probability specified in advance. To estimate VaR for interest rate as well as FX risks, the Bank currently uses the method of historical simulation based over a two-year period of the development of market risk factors. The reliability level is set at 99% within a ten working-day horizon. The adequacy and accuracy of the internal model is regularly evaluated using the results of back-tests performed on a daily basis.

An overview of actual VaR along with drawing up predefined limits forms part of a daily report to the Bank's senior management.

In addition to the standard VaR calculations, the Bank also performs detailed stress-test analyses. These consist of various scenarios for unexpected movements in market risk factors and their impact on the market values of the positions currently held by the Bank. The set of predefined scenarios includes actual historical market shocks as well as artificially designed tests.

The Bank has no open position in equity, or in FX options. Technical limits are set for positions in interest rate options, permitting the opening of minor positions only.

VaR summary as at 31 December 2017 is as follows:

(EUR '000)	Interest rate	FX	Effect of correlation	Global VaR total
31 December 2017	211	82	(62)	231
Average	185	112	(53)	244
Max	305	292	-	352
Min	61	35	-	83

VaR summary as at 31 December 2016 is as follows:

(EUR '000)	Interest rate	FX	Effect of correlation	Global VaR total
31 December 2016	233	30	(32)	231
Average	337	101	(70)	368
Max	916	275	-	949
Min	122	17	-	123

Interest rate sensitivity overview (10 BPV) for trading book is following:

		Profit or Loss Sensitivity	
(EUR '000)	**Increase in basis point**	**31 Dec 2017**	**31 Dec 2016**
EUR	+10	(228)	(193)
CZK	+10	5	6
USD	+10	-	-

Risk management of the Trading Book includes, besides the VaR limit and BPV limits, also limits for open FX position, limits for back-to-back trading, stop-loss limits, volume limits, limits for unquoted prices, limits for trades without physical delivery, limits for inadequate high margins and profits, Professional limits ('PRF') linked to credit risk.

(ii) Market risk – Banking Book

Interest rate risk

The interest rate risk of financial instruments positioned in the banking book has been defined as a change in the future cash flows of these financial instruments or in their actual market value resulting from movements in interest rates. The Board of Directors approved a set of BPV sensitivity limits and maximum interest rate exposure limits for predefined time periods which are used for monitoring and managing the interest rate risk. Positions are monitored weekly and hedging strategies are used to close potential open positions.

The sensitivity of the Bank's positions to the interest rate changes (with other factors remained unchanged) is described in the tables below.

The impact of interest rate changes on the non-trading assets and liabilities is described by the sensitivity of net interest income. The impact of interest rate changes on financial assets or liabilities held for trading is expressed by the sensitivity of the separate statement of profit or loss and other comprehensive income. Sensitivity of capital results from the revaluation of financial assets available for sale. Shock parallel shifts of the yield curve are used to measure sensitivity.

Models used in interest rate risk calculation

Each position of banking book is placed to interest rate risk report according contractual repricing date or repricing date based on behavioural model. Contractual category contains positions where is exactly determined when the maturity or the nearest repricing happens (mainly purchased and issued bonds, loans, term deposits). Behavioural category contains products where is not exactly determined when the maturity/repricing happens (i.e. current accounts) or behave differently from contractual maturity/repricing. The Bank therefore created behavioural assumptions of such products based on deep analysis of historical data (analysis is re-evaluated once per year). The Bank adjusts parameters of behaviour in products current and saving accounts (internal benchmarking model), future drawdown of mortgage loans and prepayments of consumer and mortgage loans. The Bank also monitors potential risk from future mortgage loans prepayments.

Sensitivity to change in interest rates of banking book as at 31 December 2017:

(EUR '000)	Growth in basis points	Net interest income sensitivity	Profit or loss sensitivity	Capital sensitivity
EUR	+10	(2,553)	-	(1,491)
CZK	+10	-	-	(1)
USD	+10	(36)	-	(165)

Sensitivity to change in interest rates of banking book as at 31 December 2016:

(EUR '000)	Growth in basis points	Net interest income sensitivity	Profit and loss sensitivity	Capital sensitivity
EUR	+10	(1,905)	2	(1,711)
CZK	+10	2	-	-
USD	+10	(58)	-	(232)

Equity price risk

The Bank's portfolio is not exposed to material equity price risk.

(iii) Foreign exchange risk

The foreign exchange risk of financial instruments posted in the banking book has been defined as a change in the future cash flows of these financial instruments resulting from movements in foreign exchange rates. The exchange rate risk management strategy approved by the Board of Directors does not allow any significant open currency positions to be held in non-trading portfolios. Only technically minimum open positions in foreign currencies are permitted. The limits for each currency are determined by the Bank's Board of Directors. Positions are monitored daily and hedging strategies are used to close potential open currency positions.

The table below provides an analysis of the Bank´s net open foreign exchange positions. The remaining currencies are included under 'Other':

(EUR '000)	EUR	USD	CZK	Other*	Total
31 Dec 2017					
Financial assets					
Cash, balances with central bank and other demand deposits with banks (Note 3)	210,486	30,041	6,580	26,449	**273,556**
Financial assets at fair value through profit or loss (Note 4)	38,814	634	340	12,774	**52,562**
Available-for-sale financial assets, excl. shares (Note 5)	405,335	41,335	-	-	**446,670**
Loans and receivables to financial institutions (Note 6)	19,263	1,052	81,788	-	**102,103**
Loans and receivables to customers (Note 7)	5,497,768	10,018	20,604	-	**5,528,390**
Held-to-maturity investments (Note 8)	1,462,811	8,385	-	-	**1,471,196**
Other financial assets (Note 13)	7,546	-	-	-	**7,546**
Total financial assets	**7,642,023**	**91,465**	**109,312**	**39,223**	**7,882,023**
Financial liabilities					
Financial liabilities at fair value through profit or loss (Note 15)	39,746	8,411	441	32,607	**81,205**
Amounts owed to financial institutions (Note 16)	684,596	1,184	1,599	117	**687,496**
Amounts owed to customers (Note 17)	5,525,476	128,793	121,029	77,935	**5,853,233**
Debt securities issued (Note 18)	517,926	-	-	-	**517,926**
Other financial liabilities (Note 20)	17,046	-	-	-	**17,046**
Subordinated debt (Note 21)	87,543	-	-	-	**87,543**
Total financial liabilities	**6,872,333**	**138,388**	**123,069**	**110,659**	**7,244,449**
Off balance sheet items – assets	**4,031,041**	**124,763**	**126,745**	**227,827**	**4,510,376**
Off balance sheet items - liabilities	**4,168,094**	**77,487**	**112,872**	**151,766**	**4,510,219**
Net FX position at 31 Dec 2017	**632,637**	**353**	**116**	**4,625**	**637,731**
Total financial assets at 31 Dec 2016	7,174,398	88,591	66,242	14,441	**7,343,672**
Total financial liabilities at 31 Dec 2016	6,487,037	150,558	69,306	102,364	**6,809,265**
Off balance sheet items – assets at 31 Dec 2016	4,274,968	158,169	62,049	209,001	**4,704,187**
Off balance sheet items – liabilities at 31 Dec 2016	4,428,945	93,455	58,181	119,310	**4,699,891**
Net FX position at 31 Dec 2016	**533,384**	**2,747**	**804**	**1,768**	**538,703**

** mostly positions in currencies AUD, TRY, RUB and CHF*

As at 31 December 2017 and 31 December 2016, the Bank had no significant net FX position.

36.5 Operational risk

Operational risk is the risk of a potential negative deviation from the expected value of the organization resulting from inadequate or failed internal processes, people and systems or from sudden man-made or natural external events.

Operational risk also includes legal risk. In the event of failure, the reputation of the Bank may be damaged and the legal and regulatory consequences may cause financial losses. It is not possible to exclude all operational risk, but operational risk can be managed by regular monitoring actions and by actions taken against the possible risks.

Operational risk is managed by the implementation of key controls defined by the KBC Group, evaluating and addressing the risk identified in banking processes and a proactive approach to potential risks. The mitigation of operational risk is also ensured via application of insurance.

Regularly reviewed plans for business continuity performance ensure that, in the event of failure, the Bank will be able to perform its activities. The objective of these plans is to minimize the impacts of unexpected events on banking activity.

37 Current and non-current assets and liabilities

The following table shows the distribution of assets, liabilities and equity based on expected settlement:

	31 Dec 2017			31 Dec 2016, reclassified		
(EUR '000)	Current	Non-current	Total	Current	Non-current	Total
Assets						
Cash, balances with central bank and demand deposit with banks	273,556	-	**273,556**	226,562	-	**226,562**
Financial assets at fair value through profit or loss	25,970	26,592	**52,562**	14,954	45,376	**60,330**
Available-for-sale financial assets	161,976	291,358	**453,334**	4,266	472,047	**476,313**
Loans and receivables to financial institutions	94,325	7,778	**102,103**	14,333	8,822	**23,155**
Loans and receivables to customers	924,496	4,603,894	**5,528,390**	975,195	4,118,279	**5,093,474**
Held-to-maturity investments	24,821	1,446,375	**1,471,196**	130,452	1,327,434	**1,457,886**
Investments in subsidiaries	-	76,202	**76,202**	-	75,202	**75,202**
Current income tax asset	3,637	-	**3,637**	2,123	-	**2,123**
Deferred income tax asset	-	13,431	**13,431**	-	15,136	**15,136**
Property and equipment	-	39,643	**39,643**	-	42,485	**42,485**
Intangible assets	-	7,656	**7,656**	-	9,026	**9,026**
Assets held for sale	-	-	**-**	3,602	-	**3,602**
Other assets	9,518	707	**10,225**	10,734	2,916	**13,650**
Total assets	**1,518,299**	**6,513,636**	**8,031,935**	**1,382,221**	**6,116,723**	**7,498,944**
Liabilities and equity						
Financial liabilities at fair value through profit or loss	28,410	52,795	**81,205**	151,295	71,297	**222,592**
Amounts owed to financial institutions	449,594	237,902	**687,496**	479,478	200,395	**679,873**
Amounts owed to customers	2,694,801	3,158,432	**5,853,233**	2,473,721	2,929,390	**5,403,111**
Debt securities issued	74,121	443,805	**517,926**	103,617	377,265	**480,882**
Provisions	-	6,756	**6,756**	-	6,812	**6,812**
Other liabilities	29,726	4,754	**34,480**	30,885	8,575	**39,460**
Subordinated debt	43	87,500	**87,543**	-	-	-
Equity	-	763,296	**763,296**	-	666,214	**666,214**
Total liabilities and equity	**3,276,695**	**4,755,240**	**8,031,935**	**3,238,996**	**4,259,948**	**7,498,944**

38 Capital

From 1 January 2014, the Bank actively manages the volume of its capital in accordance with the Regulation of the European Parliament and of the Council (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (hereinafter 'Regulation (EU) No 575/2013' or 'CRR'). The required volume of capital requirements is set up by Joint Capital Decision (hereinafter 'JCD') and by local regulator, which is responsible for setting of capital buffers. The Bank actively manages Common Equity Tier 1 capital ratio of 4.50%, a Tier 1 capital ratio of 6.00% and a total capital ratio of 8.00% and also maintains a capital conservation buffer in the form of common equity Tier 1 capital ratio of 2.50% of its total risk exposure. The Bank maintains a systematically important institution buffer (O-SII) of 1.00% its total risk exposure and since 2017, a systemic risk buffer of 1.00%, which is applicable on exposures in Slovak republic and a countercyclical buffer of 0.50%.

The Bank regularly evaluates the adequacy of internal capital, through the Internal Capital Adequacy Assessment Process ('ICAAP'), to cover the risks to which the Bank's activity is exposed. The Bank has an integrated process of internal capital management to existing risk management systems. Within ICAAP the Bank applies a qualitative and quantitative approach to risk assessment.

The primary objectives of the Bank are to maintain strong capital resources to meet the regulatory requirements, preserve its credibility and ensure continuity in its activities. The Board of Directors regularly reviews the principles of management and distribution of the Bank's capital.

The Bank manages its capital structure with respect to the changes in economic environment and changes in risk profile of its activities.

(EUR '000)	31 Dec 2017	31 Dec 2016
Own funds	**836,278**	**646,931**
Tier 1 Capital	**730,141**	**630,783**
Common Equity Tier 1 Capital (CET 1)	**730,141**	**630,783**
Share capital	295,015	248,004
Share premium	484,726	484,726
Legal reserve fund	49,601	49,601
Retained earnings	82,632	4,190
Eligible profit	51,484	78,488
Accumulated other comprehensive income	16,000	17,367
Value adjustments due to the requirements for prudent valuation	(666)	(861)
Software	(7,656)	(9,026)
Other revaluation reserve	(216,162)	(216,162)
IRB shortfall of credit risk adjustments to expected losses	(24,833)	(25,544)
Tier 2 Capital	***106,137***	***16,148***
Subordinated debt	87,543	-
IRB Excess of impairment losses over expected losses eligible	18,594	*16,148*

As at 31 December 2017 and 31 December 2016, ČSOB SR met the obligatory capital requirements.

39 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of the following items:

(EUR '000)	Note	31 Dec 2017	31 Dec 2016
Cash, balances with central bank and other demand deposits with banks	3	273,556	226,562
Loans and receivables to financial institutions – Loans and receivables to banks		87,274	2,220
Financial assets at fair value through profit or loss - Loans and receivables to banks	4	12,775	-
Total		**373,605**	**228,782**

40 Post balance sheet events

After balance sheet date, the Bank elected two new members of Board of Directors, Ján Lučan as Chief Financial Officer replacing Stefan Delaet and Evert Vandenbussche who will be responsible for Transformation and ICT. These changes are subject to the approval by ECB.

From 31 December 2017, up to the date of issue of these financial statements, there were no other events identified that would require adjustments to or disclosure in these financial statements.

These Separate Financial Statements were approved and authorized for issue by the Board of Directors on 20 March 2018.

Daniel Kollár
Chief Executive Officer

Marcela Výbohová
Chief Officer for Risk, Legal and Compliance