ČSOB
PRE VÁS OSOBNE

Separate Financial Statements

for the year ended 31 December 2018

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 separate financial position of Československá obchodná banka, a.s. (the "Bank") as at 31 December 2018, and its separate financial performance and its separate 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 dated 21 March 2019.

What we have audited

The Bank's separate financial statements comprise:
- the separate statement of financial position at 31 December 2018;
- 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. 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 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 Regulation (EU) No. 537/2014.

The non-audit services that we have provided to the Bank, in the period from 1 January 2018 to 31 December 2018 are disclosed in Note 31 to the separate financial statements.

Our audit approach

Overview

Materiality	• Overall materiality is EUR 5.5 million and represents a combination of two benchmarks, total profit before tax from continuing operations and total equity, each carrying a 50% weight.
Key audit matters	• The audit of the expected credit losses required our significant attention given the nature of this estimate and its significance to the separate financial statements.

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 financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the 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, including the overall Bank materiality for the separate financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, 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 or within the notes to the separate financial 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 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, based on our professional judgement.

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
Expected credit losses estimate	
As explained in Note 37.2.8 to the separate financial statements, management estimated expected credit losses for financial assets totalling EUR 132,616 thousand. The carrying value of financial assets at amortised cost may be misstated if individual or collective expected credit losses are not appropriately identified and estimated. The expected credit losses are significant estimates, as explained in more detail in Note 2.2 *Significant accounting judgements and estimates* of the separate financial statements. Significant management judgement is involved in the identification of significant increase of credit risk or default; the estimation of impairment including estimates of future cash flows incorporating the impact of forward looking macroeconomic information; valuation and recoverability of collateral; implementation of comprehensive credit models. We consider this estimate as a key audit matter due to the significance of the expected credit loss allowances and related impairment losses for the year.	We assessed and tested design and operating effectiveness of manual and automated controls related to the timely identification of defaulted loans. We tested design and operating effectiveness of IT general controls, including access to programs and data, program changes and computer operations related to quantification of expected credit losses. The models used for accurate quantification of expected credit losses were critically assessed by our experts in financial risk management and modelling. They assessed whether the design and implementation of models are in line with IFRS 9 impairment requirements. Our experts assessed a validation process implemented by the Bank and challenged the results of the validation reports. We assessed the underlying models including the forward looking information incorporated in these models. On a sample basis, we tested and evaluated their consistent application during the year, reasonableness of assumptions, and completeness and accuracy of the underlying data, which were used by the Bank to estimate expected credit losses for loans that share similar credit risk characteristics. A sample of individually significant loan exposures was examined, in order to test accuracy of expected credit losses calculated on an individual basis. We considered management's assumptions, including forecasts of future cash flows by comparing them to historical performance of the customer and expected future performance as well as assessment of external and internal

Key audit matter	How our audit addressed the Key audit matter
	valuations of underlying collaterals while comparing them to values used by management in the impairment quantification. Based on the procedures performed, we have not identified material adjustments to the expected credit losses estimate.

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 (hereafter 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 it includes the disclosures required by the relevant laws and regulations, 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 relevant laws and regulations.

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 International Standards on Auditing 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 an audit in accordance with International Standards on Auditing, 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 on 27 May 2016. Our appointment has been renewed annually by shareholders resolution representing a total period of uninterrupted engagement appointment of tree years.

PricewaterhouseCoopers Slovensko, s.r.o.
PricewaterhouseCoopers Slovensko, s.r.o.
SKAU licence No. 161

Mgr. Martin Gallovič
UDVA licence No. 1180

Bratislava, 25 March 2019

Slovenská komora audítorov SKAU Č. licencie 161 PricewaterhouseCoopers Slovensko, s.r.o.

Our report has been prepared in Slovak and in English languages. In all matters of interpretation of information, views or opinions, the Slovak language version of our report takes precedence over the English language version.

Separate Statement of Financial Position at 31 December 2018

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

(EUR '000)	Note	31 Dec 2018	31 Dec 2017
Assets			
Cash, balances with central bank and other demand deposits with banks	3	223,041	273,556
Financial assets at fair value through profit or loss	4	137,340	52,562
Financial assets at fair value through other comprehensive income	5	127,718	n/a
Available-for-sale financial assets	6	n/a	453,334
Loans and receivables from financial institutions at amortised cost	7	36,520	102,103
Loans and receivables from customers at amortised cost	8	6,014,499	5,528,390
Debt securities at amortised cost	9	1,809,192	n/a
of which: pledged as collateral		*186,390*	*n/a*
Held-to-maturity investments	10	n/a	1,284,710
Held-to-maturity investments pledged as collateral	10, 17	n/a	186,486
Investments in subsidiaries	11	76,302	76,202
Current income tax asset	32	914	3,637
Deferred income tax asset	32	15,164	13,431
Property and equipment	12	37,912	39,643
Intangible assets	13	11,500	7,656
Other assets	14	16,547	10,225
Total assets		**8,506,649**	**8,031,935**
Liabilities and equity			
Financial liabilities at fair value through profit or loss	16	57,158	81,205
Amounts owed to financial institutions at amortised cost	17	967,413	687,496
Amounts owed to customers at amortised cost	18	6,115,866	5,853,233
Debt securities issued at amortised cost	19	444,640	517,926
Subordinated debt	20	87,551	87,543
Provisions	21	8,213	6,756
Other liabilities	22	40,018	34,480
Liabilities		***7,720,859***	***7,268,639***
Share capital	24.1	295,015	295,015
Share premium	24.2	484,726	484,726
Reserve funds	24.3	59,003	49,601
Revaluation reserve on Financial assets at fair value through other comprehensive income	24.4	8,476	n/a
Revaluation reserve on Available-for-sale financial assets	24.4	n/a	16,000
Other revaluation reserve	24.5	(216,162)	(216,162)
Retained earnings		101,574	82,632
Net profit for the year		53,158	51,484
Equity	***24***	***785,790***	***763,296***
Total liabilities and equity		**8,506,649**	**8,031,935**

Daniel Kollár
Chief Executive Officer

Ján Lučan
Chief Officer for Financial management, legal and central services

The notes number 1 to 41 form an integral part of these Separate Financial Statements.

* n/a – not applicable

Separate Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018

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

(EUR '000)	Note	31 Dec 2018	31 Dec 2017 Reclassified
Interest income		187,637	188,088
Similar interest income		2,078	1,000
Interest expense		(21,458)	(21,741)
Similar interest expense		(854)	(1,200)
Net interest income	**26**	**167,403**	**166,147**
Fee and commission income		71,298	64,642
Fee and commission expense		(11,697)	(9,655)
Net fee and commission income	**27**	**59,601**	**54,987**
Net trading result and exchange differences	28	10,587	14,362
Net realized result from Financial assets at fair value through other comprehensive income		216	n/a
Net realized result from financial instruments measured at amortised cost		1,048	72
Dividend income		482	1,081
Other operating result	29	(228)	2,726
Total income		**239,109**	**239,375**
Personnel expenses	30	(69,796)	(68,804)
Depreciation and amortisation	12, 13	(9,964)	(10,442)
Other operating expenses	31	(85,960)	(84,215)
Operating expenses		**(165,720)**	**(163,461)**
Impairment losses and Provisions for off-balance sheet risks	15	(4,175)	(8,900)
Profit for the year before tax		**69,214**	**67,014**
Income tax expense	32	(16,056)	(15,530)
Net profit for the year		**53,158**	**51,484**
Other comprehensive income/ (loss)			
Items that may be reclassified subsequently to profit or loss			
Available-for-sale financial assets	24.4	n/a	(1,730)
Debt securities at fair value through other comprehensive income	24.4	(3,165)	n/a
Income tax relating to items that may be reclassified subsequently to profit or loss	24.4	661	363
Items that cannot be reclassified subsequently to profit or loss			
Equity instruments at fair value through other comprehensive income	24.4	2,140	n/a
Income tax relating to items that cannot be reclassified subsequently to profit or loss	24.4	(449)	n/a
Other comprehensive loss for the year, net of tax		**(813)**	**(1,367)**
Total comprehensive income for the year		**52,345**	**50,117**

The notes number 1 to 41 form an integral part of these Separate Financial Statements.

Separate Statement of Changes in Equity for the year ended 31 December 2018

(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	Revaluation reserve on Financial assets at fair value through other comprehensive income	Other revaluation reserve	Retained earnings	Total
Equity as at 1 January 2017	**248,004**	**484,726**	**49,601**	**17,367**	**n/a**	**(216,162)**	**82,678**	**666,214**
Total comprehensive income/ (loss) for the year	-	-	-	(1,367)	n/a	-	51,484	**50,117**
Net profit for the year	-	-	-	-	*n/a*	-	*51,484*	***51,484***
Other comprehensive loss for the year, net of tax	-	-	-	*(1,367)*	*n/a*	-	-	***(1,367)***
Contribution from shareholder	47,011	-	-	-	n/a	-	-	**47,011**
Other	-	-	-	-	n/a	-	(46)	**(46)**
Equity as at 31 December 2017	**295,015**	**484,726**	**49,601**	**16,000**	**n/a**	**(216,162)**	**134,116**	**763,296**
Equity as at 1 January 2018, before reclassification	**295,015**	**484,726**	**49,601**	**16,000**	**-**	**(216,162)**	**134,116**	**763,296**
IFRS 9 First time application impact	-	-	-	(16,000)	9,289	-	(23,140)	**(29,851)**
transfer between portfolios	-	-	-	*(16,000)*	*16,000*	-	-	**-**
on equity revaluation, net of tax (phase I)	-	-	-	-	*(6,711)*	-	-	***(6,711)***
AFS equity instrument impairment reversal (phase I)	-	-	-	-	-	-	*665*	***665***
Recognition of expected credit losses, net of tax (phase II)	-	-	-	-	-	-	*(23,805)*	***(23,805)***
Equity as at 1 January 2018, Reclassified	**295,015**	**484,726**	**49,601**	**n/a**	**9,289**	**(216,162)**	**110,976**	**733,445**
Total comprehensive income/ (loss) for the year	-	-	-	n/a	(813)	-	53,158	**52,345**
Net profit for the year	-	-	-	*n/a*	-	-	*53,158*	***53,158***
Other comprehensive loss for the year, net of tax	-	-	-	*n/a*	*(813)*	-	-	***(813)***
Profit distribution – reserve funds	-	-	9,402	n/a	-	-	(9,402)	**-**
Equity as at 31 December 2018	**295,015**	**484,726**	**59,003**	**n/a**	**8,476**	**(216,162)**	**154,732**	**785,790**

The notes number 1 to 41 form an integral part of these Separate Financial Statements.

* n/a - not applicable

Separate Statement of Cash Flows for the year ended 31 December 2018

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

(EUR '000)	Note	31 Dec 2018	31 Dec 2017
Profit for the year before tax		**69,214**	**67,014**
Adjustments for			
Depreciation and amortisation		9,964	10,442
Unrealized (gains)/ losses from financial instruments		(3,580)	5,473
Dividend income		(482)	(1,081)
Interest income and Similar interest income		(189,715)	(189,088)
Interest expense and Similar interest expense		22,312	22,941
Impairment losses and Provisions		6,234	9,017
Loss/ (gain) on disposal of property and equipment, intangible assets and assets held for sale		345	(33)
Cash flow from operations before changes in operating assets and liabilities		***(85,708)***	***(75,315)***
Changes in operating assets and liabilities			
Financial assets at fair value through profit or loss		(96,799)	13,313
Financial assets at fair value through other comprehensive income		29,115	n/a
Available-for-sale financial assets		n/a	20,029
Loans and receivables from financial institutions at amortised cost		(21,205)	6,112
Loans and receivables from customers at amortised cost		(509,508)	(444,388)
Other assets		(2,040)	(626)
Financial liabilities at fair value through profit or loss		(26,152)	(138,090)
Amounts owed to financial institutions at amortised cost		280,710	8,406
Amounts owed to customers at amortised cost		264,207	452,472
Provisions		(3,201)	(1)
Other liabilities		1,019	(1,251)
Cash flow from operations before interest and taxes		***(169,562)***	***(159,339)***
Interest received		194,606	199,473
Interest paid		(24,093)	(26,506)
Income taxes paid		(10,201)	(14,976)
Net cash flow on operating activities		**(9,250)**	**(1,348)**
Cash flow from investing activities			
Debt securities at amortised cost acquisition		(192,516)	(126,281)
Debt securities at amortised cost repayment		136,641	101,995
Dividends received		482	1,081
Purchase of property and equipment, intangible assets		(12,662)	(6,299)
Proceeds from sale of property and equipment, intangible assets and assets held for sale		240	3,704
Net cash flows from investments in subsidiaries		(100)	(1,000)
Net cash flow on investing activities		**(67,915)**	**(26,800)**
Cash flow from financing activities			
Proceeds from issue of share capital		-	47,011
Proceeds from issue of Debt securities issued at amortised cost		1,885	143,000
Repayment of Debt securities issued at amortised cost		(74,810)	(104,540)
Subordinated debt		-	87,500
Net cash flow (on)/ from financing activities		**(72,925)**	**172,971**
Net change in cash and cash equivalents		**(150,090)**	**144,823**
Cash and cash equivalents at beginning of year	40	373,605	228,782
Cash and cash equivalents at end of year	40	223,515	373,605
Net change in cash and cash equivalents		**(150,090)**	**144,823**

The notes number 1 to 41 form an integral part of these Separate Financial Statements.

Notes to the Separate Financial Statements

1 Introduction

Československá obchodná banka, a.s., ("ČSOB Bank"), is a universal commercial bank conducting its operations in the Slovak Republic. As at 31 December 2018 and 31 December 2017, ČSOB 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 Bank 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 Bank is KBC GROUP NV ("KBC Group"), 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 Bank is a strong independent economic subject with equal rights, position and responsibilities as other entities within the KBC Group in Europe. ČSOB Bank 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 Bank has the following subsidiaries within its group ("ČSOB Group") as at 31 December 2018 and 31 December 2017:

- ČSOB stavebná sporiteľňa, a.s.;
- ČSOB Leasing, a.s. and its subsidiary ("ČSOB Leasing group");
- Nadácia ČSOB (non-consolidated);
- ČSOB Real, s. r. o.;
- ČSOB Advisory, s.r.o. (non-consolidated).

In 2018, ČSOB Bank incorporated a new subsidiary, ČSOB Advisory, s.r.o., with 100% voting power. The company was registered on 28 November 2018 in the Commercial Register providing strategic, economic and organizational advisory services for all business segments based on ČSOB Group synergies.

As at 31 December 2018, the Chief Executive Officer and Chairman of ČSOB Bank's Board of Directors was Daniel Kollár. Other members of the Board of Directors were: Juraj Ebringer, Ľuboš Ondrejko, Branislav Straka, Marcela Výbohová, Ján Lučan and Evert Vandenbussche.

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

The Chairman of the Supervisory Board as at 31 December 2018 and 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

ČSOB Bank's Separate Financial Statements for the year ended 31 December 2018 ("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. ČSOB Bank also prepares Consolidated Financial Statements for ČSOB Bank in accordance with the International Financial Reporting Standards as adopted by the EU and Act No 431/2002 Coll. on Accounting.

ČSOB Bank prepared and issued Separate and Consolidated Financial Statements for the year ended 31 December 2018 on 19 March 2019.

Separate and Consolidated Financial Statements for the preceding accounting period (as at 31 December 2017) were approved and authorized for issue on 20 March 2018.

These Separate Financial Statements have been prepared under the going-concern assumption that ČSOB Bank will continue in operation for the foreseeable future, using the historical cost method except as modified by revaluations of Financial assets at fair value through other comprehensive income (2017: Available-for-sale financial assets) and Financial assets and Financial liabilities 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 ČSOB 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.

2.2.1 Effective from 1 January 2018

A Business model assessment

The business model assessment is relevant for the purposes of classification and measurement of the debt securities held within portfolios "Financial assets at amortised cost" ("AC") and "Financial assets at fair value through other comprehensive income" ("FVOCI"). In performing the business model assessment, ČSOB Bank reviews the objective of a business model within which an asset is held at a portfolio level, as this best reflects the way the business is managed, and information is provided to management. The considered information includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. Whether management's strategy focuses on earning contractual interest revenue, maintaining an interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the financial assets in a portfolio is evaluated and reported to the Board of Directors of ČSOB Bank;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how ČSOB Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or whose performance is evaluated on a fair value basis are classified within portfolio Financial assets at fair value through profit or loss ("FVPL").

B Assessment whether contractual cashflows are solely payments of principal and interest (SPPI)

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

In assessing whether the contractual cash flows are solely payments of principal and interest, ČSOB Bank reviews the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows in a way that it would not meet the definition of principal and interest. In making the assessment, ČSOB Bank considers mainly:

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

C Impairment of financial assets

ČSOB Bank assesses financial assets, which are subject to impairment at the reporting date and evaluates the impairment loss that is to be recognized in the Separate Statement of Profit or Loss and Other Comprehensive Income. Special assessment of management is necessary for estimation of amount and timing of future cash flows and of stages of the financial assets, which have a direct impact on the calculation of impairment. These estimates are determined based on expectations, which are influenced by many factors. Actual outcomes may thus differ from the estimates. For more information, refer to note 2.13, 15 and 37.2.

The model for impairment of financial assets is called the Expected Credit Loss model ("ECL"), which means that all financial assets at initial recognition, unless they are already credit impaired, carry an amount of impairments.

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

- an unbiased, probability weighted amount, which is determined by using different possible outcomes;
- the time value of money; and
- adequate and demonstrable information, available at the reporting date, about past events, current conditions and forecasted economic conditions and macroeconomic factors.

ČSOB 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 based on an individual assessment.

ČSOB Bank considers three different forward looking macro-economic scenarios with different weights in the calculation of ECL. A sensitivity analysis on the impact of these multiple economic scenarios on IFRS 9 collectively calculated ECL, by calculating the delta between the probability weighted outcome (which is booked) and the base case scenario, shows a higher probability weighted ECL for the year-end 2018 of 0.23% versus the base case scenario ECL. Singling out only the portfolios for which there are statistical macroeconomic dependencies, the impact amounts to 1.76%.

2.2.2 Effective until 31 December 2017

A Impairment losses on loans

ČSOB 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. 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 several factors. The actual results may differ from these estimates. For more information see note 2.14, 15 and 37.2.

ČSOB 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 based on an individual assessment. ČSOB 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 ČSOB 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 effective from 1 January 2018

All financial instruments are measured initially at their fair value and in case of financial assets at amortised cost and financial assets at fair value through other comprehensive income the fair value is increased by transaction costs, and in case of financial liabilities at amortised cost the fair value is decreased by transaction costs.

Financial assets and liabilities are recognized in the Separate Statement of Financial Position when ČSOB 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 ČSOB 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, ČSOB 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, ČSOB Bank assesses whether it has retained control of the asset. If it has not retained control, the asset is derecognised. Where ČSOB Bank has retained control of the asset, it continues to recognise the asset to the extent of its continuing involvement.

When there is a change in the contractual terms and conditions during the life time of a financial asset, then ČSOB Bank assesses whether the new terms are substantially different to the original terms (e.g. in case of refinancing/ consolidation of existing facilities, in case the changes made to the interest rate is assessed as significant, in case of change in borrower which impacts significantly the PD of the facility, in case ČSOB Bank’s right to the cash flows of the original loan have expired or after court’s decision when new terms are agreed). When the terms are substantially different then the transaction is accounted for as financial asset derecognition, which requires derecognizing the existing financial asset and recognizing a new financial asset based on the revised terms. Conversely, when ČSOB Bank assesses that the terms are not substantially different, the transaction is accounted for as financial asset modification. Modification gains and losses are recognised in the Separate Statement of profit or Loss and Other Comprehensive Income.

A write-off is a direct reduction of the gross carrying amount of a financial asset when ČSOB Bank has no reasonable expectations of recovering the financial asset on its entirety or a portion thereof (loans are deemed to be uncollectible, the client has died and there are no assests to cover the debts, the bankruptcy proceeding was closed, the costs for court proceedings and legal fees are higher than possible recovered amount). ČSOB Bank's write-off policies reflect different aspects of local law and fiscal policies. A write-off constitutes a derecognition event. Write-offs do not constitute a debt forgiveness and ČSOB Bank retains its legally enforceable rights towards the borrower until the official legal proceedings have concluded otherwise.

A financial liability is derecognized from the Separate Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expires.

ČSOB Bank derecognizes the original financial liability and recognizes a new one, when there was a substantial change of contractual terms and conditions of the original financial liability. In assessing whether contractual terms are different, ČSOB Bank compares the discounted present value of the cash flows under the new terms discounted using the original effective interest rate, and the discounted present value of the remaining cash flows of the original financial liability. If the difference is more than 10%, ČSOB Bank derecognizes the original financial liability and recognizes a new one.

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 market. For all categories of financial assets, ČSOB 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 ČSOB Bank (“settlement date”). For Financial assets at fair value through profit or loss or through other comprehensive income (for the year 2017: 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 under “Net trading result and exchange differences“ for Financial assets at fair value through profit or loss; and eventually under “Revaluation reserve on Financial assets at fair value through other comprehensive income”. At the settlement date, the resultant financial asset or liability is recognized in the Separate Statement of Financial Position at fair value of paid or received consideration.

2.5 Financial instruments – accounting for recognition and derecognition effective until 31 December 2017

Financial assets and liabilities are recognized in the Separate Statement of Financial Position when ČSOB 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 ČSOB 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, ČSOB 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, ČSOB Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognised. Where ČSOB 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, ČSOB 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 ČSOB 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.

2.6 Financial instruments – classification, initial and subsequent measurement effective from 1 January 2018

2.6.1 Financial assets

Financial assets at amortised cost are measured initially at fair value plus transaction costs directly attributable to their acquisition. Financial assets at fair value through profit or loss and Financial assets at fair value through other comprehensive income are measured initially at fair value.

Classification of financial assets is different for debt and equity instruments, therefore an assessment of the contractual terms of the instruments is made on initial recognition of a financial asset, to classify it as an equity or debt instrument. An equity instrument is defined as any contract that evidences a residual interest in another entity's net assets. To satisfy this condition, ČSOB Bank reviews whether the instrument includes no contractual obligation for the issuer to deliver cash or exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

All instruments which do not meet the criteria of equity instruments are classified as debt instruments by ČSOB Bank.

A Financial assets – debt instruments

Classification and subsequent measurement of the debt instruments depends on the business model, within which the financial assets are held, and on the characteristics of the contractual cash flows of the financial assets.

ČSOB Bank classifies debt instruments within the following portfolios:

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

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

Portfolio consists of two sub-categories:

- financial assets held for trading ("HFT"); and
- financial assets classified at fair value through profit or loss at initial recognition ("FVPL").

Financial assets held for trading consist of:

- trading derivatives (refer to note 34); and
- financial instruments held for trading other than derivatives.

Debt instruments must be classified within the FVPL portfolio when:

- they are not held within business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, or alternatively;
- their contractual terms do not meet SPPI test. Otherwise these instruments would be held within the business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Financial assets at fair value through profit or loss are recognized in the Separate Statement of Financial Position at fair value. Gains and losses resulting from changes in fair value are recognized in the Separate Statement of Profit or Loss and Other Comprehensive Income under "Net trading result and exchange differences" in the period, in which they occurred. Interest income/expense is recognized in the Separate Statement of Profit or Loss and Other Comprehensive Income under "Similar interest income"/ "Similar interest expense" in case of the banking book or under "Net trading result and exchange differences" in case of trading book (trading assets).

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

Financial assets at fair value through other comprehensive income are financial assets held within a business model whose objective is to hold assets to collect contractual cash flows, which are solely payments of principal and interest on the principal amount outstanding, as well as to sell financial assets. The assessment of classification must be applied to the debt instrument as a whole.

These financial assets are measured at fair value through other comprehensive income in the Separate Statement of Financial Position. Unrealized gains and losses resulting from changes in fair value of these financial assets are recognized in other comprehensive income.

In case that the financial asset is derecognized, the unrealized gain or loss is derecognized from other comprehensive income and recognized under "Net realized result from Financial assets at fair value through other comprehensive income" in the Separate Statement of Profit or Loss and Other Comprehensive Income.

Interest income from financial assets calculated based on effective interest rate method are recognized in the Separate Statement of Profit or Loss and Other Comprehensive Income under "Interest income". For the impairment of assets held within this portfolio see note 2.13.

c) Financial assets at amortised cost ("AC")

Financial assets at amortised cost are non-derivative debt financial assets held within a business model whose objective is to hold assets to collect contractual cash flows, which are solely payments of principal and interest on the principal amount outstanding.

Financial assets are measured at amortised cost based on effective interest rate method in the Separate Statement of Financial Position. Amortised cost is calculated by considering any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Gross carrying amount (GCA) of a financial asset is defined as the amount at which the financial assets is measured at initial recognition minus the principal repayment plus the cumulative amortisation using the effective interest method (including on impaired exposures – so-called reserved interest) before adjusting for any impairment losses. Penalty interests of impaired financial asset are not part of GCA. Reserved interest is defined as the contractual interest on financial assets which are likely to remain unpaid.

The amortisation is included in the Separate Statement of Profit or Loss and Other Comprehensive Income under "Interest income". The losses arising from the impairment of such investments are recognized in the Separate Statement of Profit or Loss and Other Comprehensive Income under "Impairment losses and Provisions for off-balance sheet risks". See note 2.13.

d) Reclassification

Financial assets are not reclassified after their initial recognition, except in the case when ČSOB Bank changes its business model for managing financial assets, which could occur only when ČSOB Bank begins or ceases to perform an activity that is significant to its operations. The reclassification takes place from the start of the first reporting period following the change.

B Financial assets – equity instruments

Equity instruments are measured at fair value in the Separate Statement of Financial Position. In limited conditions, acquisition costs can be an appropriate measure of fair value for the unquoted equity instruments.

The basic measurement portfolio of equity instruments is FVPL. However, ČSOB Bank can make an irrevocable decision that subsequent changes in fair value (including exchange rate differences) are recognized in other comprehensive income within portfolio FVOCI. In case of sale or disposal of instrument held within FVOCI portfolio, the amounts recognized in other comprehensive income are not transferred to the Consolidated Statement of Profit or Loss. The only exception applies to the dividend income which is recognized in the Consolidated Statement of Profit or Loss.

Expected credit losses are not recognized for equity instruments.

2.6.2 Financial liabilities

ČSOB Bank classifies financial liabilities in the following portfolios:

- Financial liabilities at fair value through profit or loss (“FVPL”);
- Financial liabilities at amortised cost (“AC”).

A Financial liabilities at fair value through profit or loss (“FVPL”)

This portfolio consists of two sub-portfolios:

- Financial liabilities held for trading (“HFT”). Within this sub-portfolio, all derivatives ČSOB Bank entered are held;
- Financial liabilities classified at fair value through profit or loss at initial recognition (“FVPL”). Within this sub-portfolio, financial liabilities can be classified if they meet at least one of the following criteria:
  - classification eliminates or significantly reduces a measurement inconsistency of assets and liabilities, or inconsistency of recognizing the gains and losses from revaluation differences of assets and liabilities;
  - the liabilities represent a group of financial liabilities, which are managed and evaluated based on their fair value and in accordance with a documented risk management or investment strategy;
  - financial liabilities contain embedded derivatives; excluding the cases when these embedded derivatives do not modify the contractual cash flow in a significant manner, or they could not be recognized separately.

After initial recognition, the financial instruments cannot be reclassified to or from this portfolio.

Financial liabilities at fair value through profit or loss are recognized in the Separate Statement of Financial Position at fair value. Gains and losses resulting from fair value revaluation are recognized in the Separate Statement of Profit or Loss and Other Comprehensive Income under “Net trading result and exchange differences” in the period, in which they occur. Interest income/expense is recognized in the Separate Statement of Profit or Loss and Other Comprehensive Income under “Similar interest income”/ “Similar interest expense” in case of the banking book or under “Net trading result and exchange differences” in case of trading book (trading liabilities).

B Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities, where the substance of the contractual terms results in ČSOB Bank having an obligation either to deliver cash or another financial asset to the counterparty of this instrument.

Financial liabilities are initially measured at fair value of the consideration received including transaction costs in the Separate Statement of Financial Position. Subsequently, they are measured at amortised cost using the effective interest rate method. Amortised cost is calculated by considering any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in the Separate Statement of Profit or Loss and Other Comprehensive Income under “Interest expense”.

2.6.3 Day 1 profit/ Day 1 loss

At initial recognition, ČSOB Bank shall measure a financial asset or financial liability at its fair value, which is normally the transaction price. However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, ČSOB Bank shall account for that instrument at that date as follows: when the transaction price in a non-active market differs from the fair value of other observable market transactions in the same instrument or from the fair value based on a valuation technique whose variables include only data from observable markets, the difference between the transaction price and the fair value (day 1 profit/ day 1 loss) is reported in the Separate Statement of Profit or Loss and Other Comprehensive Income under” “Net trading result and exchange differences”. If this is not the case (i.e. the variables do not include only data from observable markets), day 1 profit/ day 1 loss is reserved and is released in the Separate Statement of Profit or Loss and Other Comprehensive Income during the life and until the maturity of the financial instrument.

2.7 Financial instruments – classification, initial and subsequent measurement effective until 31 December 2017

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. ČSOB 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 amortised cost.

2.7.1 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 by ČSOB 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 reported separately.

Financial assets and liabilities designated at fair value through profit or loss are reported in the Separate Statement of Financial Position at fair value. Gains and losses resulting from changes in fair value are reported in the Separate Statement of Profit or Loss and Other Comprehensive Income under “Net trading result and exchange differences” as incurred. Interest income/expense is recorded in the Separate Statement of Profit or Loss and Other Comprehensive Income under “Similar interest income”/ “Similar interest expense” for those held in the banking book or under “Net trading result and exchange differences” for those held in the trading book (trading assets/ liabilities).

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, ČSOB 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 under “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.

2.7.2 Loans and receivables from financial institutions at amortised cost and Loans and receivables from customers at amortised cost

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

Loans and receivables from financial institutions at amortised cost and Loans and receivables from customers at amortised cost are reported in the Separate Statement of Financial Position at amortised cost using the effective interest rate method. Amortised cost is calculated by considering any discount or premium and fees that are an integral part of the effective interest rate.

The amortisation is included in the Separate Statement of Profit or Loss and Other Comprehensive Income under “Interest income”. 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 Provisions for off-balance sheet risks”.

2.7.3 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that ČSOB Bank's management has the positive intention and ability to hold to maturity. Where ČSOB 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 amortised cost using the effective interest rate method. Amortised cost is calculated by considering any discount or premium and fees that are an integral part of the effective interest rate. The amortisation 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 Provisions for off-balance sheet risks”.

2.7.4 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 the other comprehensive income to “Net realized result from Available-for-sale financial assets” in the Separate Statement of Profit or Loss and Other Comprehensive Income. Interest income arising from Available-for-sale financial assets calculated using the effective interest rate method is reported in the Separate Statement of Profit or Loss and Other Comprehensive Income under “Interest income”. Equity investments whose fair value cannot be reliably measured are held at cost less impairment (note 6). For impairment of Available-for-sale financial assets, see note 2.14.

2.7.5 Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities where the substance of the contractual arrangement results in ČSOB 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 amortised cost using the effective interest rate method. Amortised cost is calculated by considering any discount or premium and fees that are an integral part of the effective interest rate. The amortisation is included in the Separate Statement of Profit or Loss and Other Comprehensive Income under “Interest expense”.

2.8 Embedded derivatives effective from 1 January 2018

ČSOB Bank occasionally purchases or issues financial instruments containing embedded derivatives. As the requirement for classification of a financial asset must be applied for the debt instrument, as well as when it is a hybrid instrument containing embedded derivative, the embedded derivative cannot be separated from the host contract. In this case, the entire financial instrument is assessed as a whole. When the contractual cash flows of the financial instrument as a whole represent cash flows other than principal and interest, then such financial instrument has to be categorized as financial instrument at fair value through profit or loss.

An embedded derivative into financial liability 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 instrument as a whole is not classified as financial asset or financial liability at fair value through profit or loss. If a separate derivative does not qualify as a hedging derivative, it is classified as a trading derivative. When ČSOB Bank cannot reliably separate the embedded derivative, the entire hybrid instrument is classified at fair value through profit or loss.

2.9 Embedded derivatives effective until 31 December 2017

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

2.10 Hedging derivatives

ČSOB Bank opted to use the IAS 39 hedge-accounting principles (in accordance with the EU carve-out version of IAS 39) and awaits further developments at the International Accounting Standards Board (IASB) regarding macro hedging.

Within ČSOB 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. ČSOB 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").

ČSOB 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 under "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 under "Other assets". Negative value of hedging instruments and revaluation of liability hedged items is presented under "Other liabilities". For an overview of hedging derivatives, see note 34.

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

2.11 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 under "Financial liabilities at fair value through profit or loss", "Amounts owed to financial institutions at amortised cost" or "Amounts owed to customers at amortised cost" 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"/ "Similar 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, ČSOB Bank reports those securities in the Separate Statement of Financial Position under "of which: pledged as collateral" (2017: 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 under "Financial assets at fair value through profit or loss", "Loans and receivables from financial institutions at amortised cost" or "Loans and receivables from customers at amortised cost", depending on the counterparty and the economic substance of the loan. The difference between the purchase and resale prices is treated as "Interest income"/ "Similar 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.

2.12 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 ČSOB 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 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 Financial assets at fair value through other comprehensive income (2017: Available-for-sale financial assets) 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 ČSOB Bank, including the discount rate, liquidity and credit spreads and estimates of future cash flows. See note 36.

2.13 Impairment of financial assets effective from 1 January 2018

ČSOB Bank reviews the financial assets, which are subject to impairment, and re-evaluates the impairment losses at the end of each calendar month. Determining stage of a financial asset and estimating the volume and timing of future cash flows has direct impact on the impairment calculation.

ČSOB Bank assesses impairment 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 based on similar credit risk characteristics. If ČSOB 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.

Financial assets that are subject to impairment are classified into three stages, namely Stage 1: Performing; Stage 2: Underperforming (where significant increase in credit risk since initial recognition occurs); and Stage 3: Non-performing or impaired (once an asset meets the definition of default).

2.13.1 Definition of default

ČSOB Bank uses the definition for defaulted financial assets which is used for internal risk management purposes and to be in line with guidance and standards of the financial industry regulators and to be in line with KBC Group definition of default. A financial asset is considered as defaulted if one or more of the following conditions are fulfilled:

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

ČSOB Bank applies a backstop for facilities that have at least 90 days past due status. In this context a backstop is used as a final control to ensure that all the financial assets that should have been designated as defaulted, are properly identified.

2.13.2 Expected credit loss model (ECL model) - general

A new model for recognition of impairment losses of financial assets, the expected credit loss model (“ECL model”) model, is implemented under IFRS 9. The ECL model means that all financial assets at initial recognition, unless they are already credit impaired, carry an amount of impairments. Impairment losses are calculated based on 12-month ECL for Stage 1 and based on lifetime ECL for Stage 2 and Stage 3, according to the significance of credit risk increase of the financial assets in comparison to its initial recognition.

The ECL model is applicable to the following financial assets:

- Financial assets measured at amortised cost (“AC”);
- Debt instruments measured at fair value through the other comprehensive income (“FVOCI”);
- Credit facilities issued but not drawn, financial guarantees given, and letters of credit given;
- Finance lease receivables;
- Trade and other receivables.

All financial assets at initial recognition, unless they are already credit impaired, are classified at Stage 1 and carry 12-month ECL. Once a significant increase in credit risk since initial recognition of the financial asset occurs or the borrower is impaired, the financial asset carries life-time ECL. Once a significant increase in credit risk related to the financial asset since initial recognition occurs at the reporting date, the financial asset migrates from Stage 1 to Stage 2 and carries life-time ECL. Once a financial asset meets the definition of default it migrates to Stage 3.

In line with IFRS 9, ČSOB Bank uses a practical expedient for trade receivables. The ECL for trade receivable can be measured to an amount equal to the life-time ECL. ČSOB Bank applies this practical expedient for trade and other receivables.

Financial assets measured at amortised cost are recognized in the Separate Statement of Financial Position at their carrying amount being the gross carrying amount minus impairment losses. Impairment gains and losses are recognized in the Separate Statement of Profit or Loss and Other Comprehensive Income under “Impairment losses and Provisions for off-balance sheet risks”.

Debt instruments measured at fair value through other comprehensive income are recognized in the Separate Statement of Financial Position at their carrying amount being the fair value at the reporting date. Impairment loss is is recognized in the Separate Statement of Profit or Loss and Other Comprehensive Income under “Impairment losses and Provisions for off-balance sheet risks”.

For contracts that include both a loan and an undrawn commitment and ČSOB Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan.

The expected credit losses on credit facilities issued but not drawn, financial guarantees given, and letters of credit given are recognized in the Separate Statement of Financial Position under “Provisions” and in the Separate Statement of Profit or Loss and Other Comprehensive Income under “Impairment losses and Provisions for off-balance sheet risks”.

2.13.3 Significant increase in credit risk since initial recognition

The significant increase in credit risk since initial recognition is assessed by all exposures that are subject to the general model for calculation of impairment losses. When assessing the significance of increase in credit risk, the change in risk of default of exposure is more important than change in the expected cash flows of financial asset. The assessment of a significant increase in credit risk is fully symmetrical, which means that exposure can be transferred to or returned to different stages over its life time, based on fulfilment or failure to meet the criteria for migration between stages. ČSOB Bank uses a multi-tier approach (MTA).

A Multi-tier approach (MTA) – bond portfolio

For the bond portfolio the MTA consists of three tiers:

- low credit exception - bonds always carry 12-months ECL if they have a low credit risk at the reporting date (i.e. Stage 1). ČSOB Bank uses the low credit risk exception for bonds which are graded as investment grade (note 37.2.1);
- internal rating (only applicable if the first tier is not met) - this is a relative assessment comparing the Probability of Default (“PD”) at initial recognition to the PD at the reporting date. ČSOB Bank makes the assessment on a facility level at each reporting period;
- management assessment - finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

If none of the triggers are hit the bond remains in stage 1. A financial asset is considered impaired (i.e. Stage 3) as soon as it meets the definition of default. The MTA is symmetrical, i.e. a bond that has migrated to Stage 2 or Stage 3 can return to Stage 2 or Stage 1 if the Tier that triggered the migration is not present in a subsequent reporting date.

B Multi-tier approach (MTA) – loan portfolio

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

- internal rating - the internal rating is used as the main criterion for assessing the increase in credit risk. This is a relative assessment comparing the PD at initial recognition to the PD at the reporting date. ČSOB Bank makes the assessment on a facility level at each reporting period,
- forbearance - forborne financial assets are always considered as Stage 2, unless they are already impaired. In the latter case, they migrate to Stage 3,
- days past due – a financial asset that is more than 30 days past due, migrates to Stage 2,
- internal rating backstop – ČSOB Bank uses an absolute level of PD as a backstop for financial assets to migrate to Stage 2. This backstop corresponds to the highest PD (i.e. PD 9 based on ČSOB Bank's internal rating) before a financial asset is considered to be impaired,
- management assessment - finally management reviews and assesses the significant increase in credit risk for financial assets at an individual and a portfolio level.

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

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

2.13.4 Measurement of ECL

ECL is calculated as the product of the probability of default ("PD"), the estimated exposure at default ("EAD") and the loss given default ("LGD"). Credit losses represent the differences between all contractual cash flows that are contractually due to ČSOB Bank and all expected contractual cash flows due to ČSOB Bank, discounted by original effective interest rate.

ECL is calculated to reflect:

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

The 12 months ECL represents the portion of the life time expected credit losses that result from possible events of default of a financial asset within 12-month period after the reporting date.

The life-time ECL represents the expected credit losses that result from all possible events of default over the expected life time of the financial asset.

ČSOB Bank uses specific IFRS 9 models for PD, EAD and LGD to calculate ECL. These models classify clients based on different input parameters reflecting behavioural information (the data from client's current and loan accounts), financial information (client's financial statements) and qualitative parameters. To the extent possible ČSOB Bank uses similar modelling techniques that have been developed for prudential purposes (i.e. Basel models) and ensures that the Basel models are adapted to be in compliance with IFRS 9, for example:

- removes the conservatism which is required by the regulator for Basel models;
- adjusts the way that macroeconomic parameters affect the outcome to ensure that the IFRS 9 models reflect a "point-in-time" rather than "through-the-cycle" estimate (the latter is required by the regulator);
- ČSOB Bank applies forward-looking macroeconomic information in the models' information (for instance real GDP growth, house price index or 10-year government bond yield).

ČSOB Bank also considers three different forward-looking macroeconomic scenarios with different weightings when calculating ECL. The base-case macroeconomic scenario represents ČSOB Bank's estimates for the most probable outcome and serves as primary input for other internal and external purposes.

The maximum period for measurement of ECL is usually the maximum contractual period (including extensions). For financial assets that include a drawn and an undrawn amount available on demand, and for financial assets where ČSOB Bank has contractual ability to request repayment of the drawn amount and cancel the undrawn commitment, the exposure to credit risk can extend beyond the contractual period (ČSOB Bank uses life-span between 1 and 10 years).

For financial assets at amortised cost, the impairment losses as well as changes to the amount of the loss are reported in the Separate Statement of Profit or Loss and Other Comprehensive Income under "Impairment losses and Provisions for off-balance sheet risks".

For financial assets at fair value through other comprehensive income, the impairment losses as well as changes to the amount of the loss are reported in the Separate Statement of Financial Position under "Revaluation reserve on Financial assets at fair value through other comprehensive income".

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 reported in the Separate Statement of Profit or Loss and Other Comprehensive Income under "Impairment losses and Provisions for off-balance sheet risks".

2.13.5 Purchased or originated credit impaired (POCI) assets

POCI assets are defined as financial assets purchases or originated, which are defaulted already at initial recognition (i.e. meet the definition of default). For the assessment of the extent of default, the exposures with internal rating PD 10 to 12 at initial recognition are considered POCI financial assets. Interest income is recognized in the Separate Statement of Profit or Loss and Other Comprehensive Income under "Interest income".

POCI financial assets are initially recognized at amortised cost and are measured at amortised cost using a credit-adjusted effective interest rate. ČSOB Bank recognizes changes in expected credit losses, which occurred over the whole life time since initial recognition, in the Separate Statement of Profit or Loss and Other Comprehensive Income under "Impairment losses and Provisions for off-balance sheet risks".

2.13.6 Restructured loans

Where possible, ČSOB 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. Once the terms of a loan have been renegotiated, the loan is no longer considered past due, however, the rating of the client cannot be improved solely based on the restructuring. ČSOB 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.

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 reported in the Separate Statement of Profit or Loss and Other Comprehensive Income under “Impairment losses and Provisions for off-balance sheet risks”.

2.14 Impairment of financial assets effective until 31 December 2017

At each balance sheet date, ČSOB 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 ČSOB 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;
- ČSOB 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 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 after 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.

2.14.1 Held-to-maturity investments, Loans and receivables from financial institutions at amortised cost and Loans and receivables from customers at amortised cost

ČSOB 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 based on similar credit risk characteristics. If ČSOB 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 amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (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 based on the contractual cash flows of the assets in the group and the historical loss experience for assets with credit risk characteristics like those in the group. The historical loss experience is adjusted based on 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. ČSOB 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, ČSOB 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. ČSOB 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 reported 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 Provisions for off-balance sheet risks".

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 reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income under "Impairment losses and Provisions for off-balance sheet risks".

2.14.2 Available-for-sale financial assets

For Available-for-sale equity investments, ČSOB 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. ČSOB 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 Provisions for off-balance sheet risks". If, in a subsequent period, the fair value of a debt instrument classified as Available-for-sale financial asset 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 Provisions for off-balance sheet risks". Any loss from equity instruments classified as Available-for-sale financial asset may not be reduced through profit or loss.

2.15 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 the following circumstances:
  - the normal course of business;
  - the event of default; and
  - the event of insolvency or bankruptcy.

2.16 Investments in subsidiaries

A subsidiary is a subject controlled by ČSOB Bank (parent company). ČSOB Bank controls an entity if, and only if, ČSOB 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 under "Impairment losses and financial guarantees". Dividends from subsidiaries are recorded under "Dividend income".

2.17 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 by ČSOB 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.

2.18 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 ČSOB Bank and the revenue can be reliably measured.

2.18.1 Interest income and interest expense

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 amortised 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, ČSOB 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.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest income is calculated by applying the effective interest rate to their gross carrying amount, net of the ECL provision, and (ii) POCI, for which the original credit-adjusted effective interest rate is applied to the amortised cost value.

2.18.2 Fees and commissions income and expense

Most fee and commission income fall under the scope of IFRS 15 (Revenue from Contracts with Customers), as it relates to the services that ČSOB Bank provides to its customers and is outside the scope of other IFRS standards. For the recognition of revenue, ČSOB Bank identifies the contract and defines the promises (performance obligations) in the transaction. Revenue is recognised only when ČSOB Bank has satisfied the performance obligation.

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.

Distribution fees, 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.

Credit and guarantee related fees are all fees related to loans and credit facilities issued but not drawn, except those reported under "Net interest income" based on the effective interest rate definition.

The income presented under Asset management services – trust and fiduciary activities, entry fees falls under the scope of IFRS 15.

Custodial and fiduciary services fees relating to investment funds or securities are accrued proportionally over the period for which the service is provided.

Product insurance fees are related to insurance contracts in which ČSOB Bank acts as an agent. As ČSOB Bank is not a party in an insurance contract, fee income from clients and fee expense to the insurance company are netted.

Network income/expense is the revenue from margins earned on foreign exchange transactions (related to payments, loans, deposits and investments) carried out by the network (branches and online) for customers. Network income/expense reflects the fees from margins that can be considered as part of the investment and payments business, which is fee-based.

2.18.3 Dividend income

ČSOB Bank recognizes the revenue only if:

- ČSOB Bank has the right to receive dividend payment;
- it is probable that ČSOB Bank will receive economic profit linked to dividend; and
- the dividend can be reliably measured.

2.19 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 from 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.

2.20 Property, equipment and intangible assets

Land, buildings, equipment and intangible assets include real estate used by ČSOB 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 amortisation and impairment losses. Amortisation is calculated using the straight-line method over the estimated useful life of assets. Amortisation 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 amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

2.20.1 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 losses 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 12.

2.20.2 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 amortisation. The amortisation is used for straight-line amortisation during the estimated useful life of the assets. Periods of the amortisation are set individually.

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

2.21 Financial guarantees and Credit facilities issued but not drawn effective from 1 January 2018

In the normal course of business, ČSOB Bank provides financial guarantees consisting of letters of credit and letters of guarantee. If ČSOB Bank is a guarantee holder (financial guarantee received), the financial guarantee is not reported on the balance sheet but is taken into consideration as collateral when determining impairment of the guaranteed asset. If ČSOB Bank is a guarantor, a provision for financial guarantees given are recognised in the Separate Financial Statements at the higher of (a) the amount determined in accordance with the impairment losses of IFRS 9 and (b) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition principle of IFRS 15 and are presented in the Separate Statement of Financial Position under “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 given is included in the Separate Statement of Profit or Loss and Other Comprehensive Income under “Impairment losses and Provisions for off-balance sheet risks”.

Provisions for Credit facilities issued but not drawn are measured at the amount of ECL (note 2.13) and are reported in the Separate Financial Statements of Financial Position under “Provisions”.

2.22 Financial guarantees effective until 31 December 2017

In the normal course of business, ČSOB Bank provides financial guarantees consisting of letters of credit and letters of guarantee. If ČSOB 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 ČSOB 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 under “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 Provisions for off-balance sheet risks”.

2.23 Employee benefits

Pensions to ČSOB 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, ČSOB 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.

ČSOB 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 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.

2.24 Provisions

Provisions are created when ČSOB Bank has a current legal or constructive obligation because 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.

2.25 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 amounts 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.

ČSOB 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.

2.26 Fiduciary activities

ČSOB 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 ČSOB 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".

2.27 Changes in accounting policies

2.27.1 Issued but not effective at year-end 2018

The following standards, amendments and interpretations have been issued and are effective after the year-end 2018. ČSOB Bank has decided not to early adopt them. Unless otherwise described below, the new standards, amendments and interpretations are not expected to significantly affect ČSOB Bank's financial statements.

IFRS 16 Leases endorsed by the EU on 31 October 2017 and 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 first time application of IFRS 16 will have a limited impact on "Total assets".

The IASB published several other limited amendments to existing IFRSs during 2018 and before, which have effective date after the 2018 year-end. They will be applied by ČSOB Bank when they become mandatory, but their impact is currently estimated to be negligible.

2.27.2 Effective from 1 January 2018

The accounting policies adopted are consistent with those used in the previous financial period except that ČSOB Bank has adopted the following standards, amendments and interpretations. ČSOB Bank updated accounting policies to reflect IFRSs effective from 1 January 2018.

As at 1 January 2018 ČSOB Bank adopted **IFRS 15 Revenue from Contracts with Customers** effective for periods beginning on or after 1 January 2018. ČSOB Bank has identified the relevant contracts and assessed them using the new five-step model for revenue recognition. The new requirements had no material impact on the revenue recognition.

As at 1 January 2018 ČSOB Bank adopted **IFRS 9 Financial Instruments (2014)** effective for periods beginning on or after 1 January 2018 and replacing IAS 39 (Financial Instruments: Recognition and Measurement). The IFRS 9 adoption led to changes in accounting principles and changes of carrying amount in financial statements. ČSOB Bank did not adopt IFRS 9 in the previous accounting periods. IFRS 9 significantly modified several standards related to financial instruments, e.g. **IFRS 7 Financial Instruments: Disclosures.**

ČSOB Bank used the transition relief regarding disclosing comparative information at the date of initial application. IFRS 7 amendments related to IFRS 9 adoption in Notes to financial statements were applied only to current accounting period. Comparative disclosures remained unchanged compared to the previous accounting period. As at transition date (1 January 2018), all changes of carrying amount of financial assets and liabilities were booked to the opening balances of Retained earnings and Revaluation reserve on Financial assets at fair value through other comprehensive income, see note 2.28. ČSOB Bank used the option to continue with hedge accounting under IAS 39 and will await further developments at the IASB regarding macro hedging.

2.28 IFRS 9 transition disclosures

Total impact of IFRS 9 first-time application ("FTA") as at 1 January 2018 led to the decrease in equity amounting EUR (34,504) thousand before tax (EUR (29,851) thousand after tax).

2.28.1 Transition disclosures – Financial assets

IFRS 9 FTA related to financial assets had an impact on equity of EUR (31,564) thousand before tax (EUR (26,911) thousand after tax) and consists of:

a) change in classification and measurement of financial assets of EUR (7,657) thousand before tax; and
b) increase in impairment amounting EUR (23,907) thousand before tax.

IFRS 9 FTA impact was as below:

a) Classification and measurement (phase I):
   - "Financial assets at fair value through profit or loss – held for trading" (IAS 39) were fully transferred to the portfolio "Financial assets at fair value through profit or loss – held for trading" (IFRS 9) with no impact on Retained earnings and Revaluation reserve.
   - Equity instruments in portfolio "Available-for-sale financial assets" (IAS 39) were fully transferred to the portfolio "Financial assets at fair value through other comprehensive income" (IFRS 9) with an impact amounting EUR 665 thousand on Retained earnings and EUR (665) thousand on Revaluation reserve on Financial assets at fair value through other comprehensive income (with null total impact on equity).
   - Debt securities in portfolio "Available-for-sale financial assets" (IAS 39) (EUR 446,670 thousand in total) were partially (EUR 151 743 thousand) transferred to portfolio "Financial assets at fair value through other comprehensive income" (IFRS 9) with impact amounting EUR 18 thousand on Revaluation reserve on Financial assets at fair value through other comprehensive income. Remaining debt securities (EUR 294,927 thousand) were transferred to portfolio "Debt securities at amortised cost" (IFRS 9) with impact EUR (7,675) thousand on Revaluation reserve on Financial assets at fair value through other comprehensive income.
   - "Loans and receivables from financial institutions at amortised cost" and "Loans and receivables from customers at amortised cost" had no impact on Retained earnings and Revaluation reserve on Financial assets at fair value through other comprehensive income.
   - Portfolio "Held-to-maturity investments" (IAS 39) were fully transferred to the portfolio "Debt securities at amortised cost" (IFRS 9) with no impact on Retained earnings and Revaluation reserve on Financial assets at fair value through other comprehensive income.

b) Impairments (phase II):
   - As at 1 January 2018, the adoption of IFRS 9 model for ECL led to an increase of impairment on debt instruments with an impact on Retained earnings amounting EUR (23,907) thousand. The most significant effect of EUR (24 970) thousand resulted from booking life-time ECL on Stage 2 Loans and receivables from customers at amortised cost.

Table below reconciles net carrying amount under IAS 39 as at 31 December 2017 to net carrying amount under IFRS 9 as at 1 January 2018.

(EUR '000)	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables from financial institutions at amortised cost	Loans and receivables from customers at amortised cost	Held-to-maturity investments*	Total
Carrying amount (IAS 39) as at 31 Dec 2017	**52,562**	**453,334**	**102,103**	**5,528,390**	**1,471,196**	**7,607,585**
Financial assets at fair value through profit or loss						
Carrying amount (IAS 39) as at 31 Dec 2017	52,562	-	-	-	-	**52,562**
Carrying amount (IFRS 9) as at 1 Jan 2018	**52,562**	**-**	**-**	**-**	**-**	**52,562**
Financial assets at fair value through other comprehensive income						
Carrying amount (IAS 39) as at 31 Dec 2017	**-**	**158,407**	**-**	**-**	**-**	**158,407**
remeasurement	**-**	**-**	**-**	**-**	**-**	**-**
reclassification: reversal revaluation reserve (IAS 39)	-	(12,577)	-	-	-	**(12,577)**
reclassification: impact revaluation reserve (IAS 39) on OCI-reserve (IFRS 9)	-	12,577	-	-	-	**12,577**
reclassification: other than reversal revaluation reserve	-	(647)	-	-	-	**(647)**
of which: related to equity instruments		*(665)*	-	-	-	***(665)***
impairment	-	647	-	-	-	**647**
reversal specific impairments	-	*665*	-	-	-	***665***
transfer to 12-month ECL		*(18)*	-	-	-	***(18)***
Carrying amount (IFRS 9) as at 1 Jan 2018	**-**	**158,407**	**-**	**-**	**-**	**158,407**
Financial assets at amortised cost						
Carrying amount (IAS 39) as at 31 Dec 2017	**-**	**294,927**	**102,103**	**5,528,390**	**1,471,196**	**7,396,616**
remeasurement	**-**	**(7,954)**	**(67)**	**(23,474)**	**(69)**	**(31,564)**
reclassification: reversal revaluation reserve (IAS 39)	-	(7,675)	-	-	-	**(7,675)**
Increase of GCA by reserved interest	-	-	-	18,673	-	**18,673**
impairment	-	(279)	(67)	(42,147)	(69)	**(42,562)**
reversal specific impairments and IBNR provision	-	-	*114*	*117,116*	*29*	***117,259***
transfer to lifetime ECL	-	-	*(92)*	*(152,681)*	-	***(152,773)***
of which: ECL to reserved interests	-	-	-	*(18,673)*	-	***(18,673)***
transfer to 12-month ECL	-	*(279)*	*(89)*	*(6,582)*	*(98)*	***(7,048)***
Carrying amount (IFRS 9) as at 1 Jan 2018	**-**	**286,973**	**102,036**	**5,504,916**	**1,471,127**	**7,365,052**

** Including debt securities pledged as collateral*

As at 31 December 2018, the fair value of debt securities reclassified due to the transition to IFRS 9 from Available-for-sale financial assets portfolio to Debt securities at amortised cost (as at 1 January 2018 EUR 294,927 thousand) was EUR 149,439 thousand (decrease mainly due to maturity). As at 31 December 2018, the fair value loss that would have been recognised in other comprehensive income during the reporting period was EUR (6,558) thousand.

Table below shows the impact of IFRS 9 FTA on Equity lines as at 1 January 2018.

(EUR '000)	Available-for-sale financial assets	Loans and receivables from financial institutions at amortised cost	Loans and receivables from customers at amortised cost	Held-to-maturity investments	Total (before tax)	Deferred tax	Total (after tax)
Retained earnings							
Financial assets at fair value through other comprehensive income	*647*	-	-	-	***647***		
Financial assets at amortised cost	(279)	(67)	(23,474)	(69)	**(23,889)**		
Total	**368**	**(67)**	**(23,474)**	**(69)**	**(23,242)**	**3,042**	**(20,200)**
Revaluation reserve on Financial assets at fair value through other comprehensive income							
Financial assets at fair value through other comprehensive income	(647)	-	-	-	**(647)**		
Financial assets at amortised cost	(7,675)	-	-	-	**(7,675)**		
Total	**(8,322)**	**-**	**-**	**-**	**(8,322)**	**1,611**	**(6,711)**
Total impact on Equity	**(7,954)**	**(67)**	**(23,474)**	**(69)**	**(31,564)**	**4,653**	**(26,911)**

Table below reconciles impairment loss under IAS 39 as at 31 December 2017 to impairment loss under IFRS 9 as at 1 January 2018.

(EUR '000)	31 Dec 2017 (note 15)	Reversal specific impairments	Reversal IBNR provision	Transfer to lifetime ECL	Transfer to 12-month ECL	1 Jan 2018 (note 15)
Financial assets at fair value through other comprehensive income (debt securities)	-	-	-	-	18	**18**
Financial assets at fair value through other comprehensive income (equity instruments)	665	(665)	-	-	-	**-**
Loans and receivables from financial institutions at amortised cost	114	(92)	(22)	92	89	**181**
Loans and receivables from customers at amortised cost	117,116	(108,839)	(8,277)	152,681	6,582	**159,263**
Debt securities at amortised cost	29	-	(29)	-	377	**377**
Debt securities at amortised cost (from portfolio Held-to-maturity investments under IAS 39)	*29*	-	*(29)*	-	*98*	***98***
Debt securities at amortised cost (from portfolio Available-for-sale financial assets under IAS 39)	*n/a*	*n/a*	*n/a*	-	*279*	***279***
Provisions for off-balance sheet risks	1,654	(707)	(946)	3,035	1,558	**4,594**

2.28.2 Transition disclosures – Financial liabilities

ČSOB Bank did not reclassify any financial liabilities due to IFRS 9 first-time application.

2.28.3 Transition disclosures – Provisions for off-balance sheet risks

Base on IFRS 9, provisions for off-balance sheet risks are reflected as ECL. Due to IFRS 9 FTA ČSOB Bank increased provisions for off-balance sheet risks to EUR 4,594 thousand. The impact on Retained earnings equals EUR (2,940) thousand. Table below reconciles the carrying amount as at 31 December 2017 under IAS 39 to carrying amount as at 1 January 2018 under IFRS 9 and shows the FTA impact by provisions categories.

(EUR '000)	Credit facilities issued but not drawn	Financial Guarantees	Total
Carrying amount (IAS 39) as at 31 Dec 2017	704	950	**1,654**
reversal specific impairments	*(63)*	*(643)*	***(706)***
reversal IBNR provision	*(641)*	*(307)*	***(948)***
transfer to lifetime ECL	*2,381*	*655*	***3,036***
transfer to 12-month ECL	*1,450*	*108*	***1,558***
Remeasurement due to IFRS 9 first-time application	**3,127**	**(187)**	**2,940**
Carrying amount (IFRS 9) as at 1 Jan 2018	**3,831**	**763**	**4,594**
FTA impact on Retained earnings (before tax)	*(3,127)*	*187*	***(2,940)***
FTA impact on Retained earnings (after tax)	*(3,127)*	*187*	***(2,940)***

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

In 2018, ČSOB Bank performed a review of the presentation of the financial statements. ČSOB Bank decided to change the presentation of some items in the Separate Statement of Profit or Loss and Other Comprehensive Income. The changes are not related to IFRS 9 adoption. 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 the Separate Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017 were reclassified.

The explanation for reclassifications:

1. ČSOB Bank reclassified interest income/ expense to line "Similar interest income" and "Similar interest expense" based on the substance of financial instrument.
2. ČSOB Bank reclassified Network income and Network expense from line "Net trading result and exchange differences" to lines "Fee and commission income"/ "Fee and commission expense", respectively.
3. ČSOB Bank reclassified "Net realized result from financial instruments measured at amortised cost" from line "Other operating result" to the separate line in the Separate Statement of Profit or Loss and Other Comprehensive Income.

Reconciliation of the Separate Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017 before and after reclassification is as follows.

(EUR '000)	Reclassification Note	31 Dec 2017 Before reclassification	Changes in presentation	31 Dec 2017 Reclassified
Interest income	1	189,088	(1,000)	188,088
Similar interest income	1	-	1,000	1,000
Interest expense	1	(22,941)	1,200	(21,741)
Similar interest expense	1	-	(1,200)	(1,200)
Fee and commission income	2	61,001	3,641	64,642
Fee and commission expense	2	(8,438)	(1,217)	(9,655)
Net fee and commission income	2	**52,563**	**2,424**	**54,987**
Net trading result and exchange differences	2	16,786	(2,424)	14,362
Net realized result from financial instruments measured at amortised cost	3	-	72	72
Other operating result	3	2,798	(72)	2,726

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

(EUR '000)	31 Dec 2018	31 Dec 2017
At amortised cost		
Cash balances	186,237	200,328
Mandatory minimum reserves	10,746	24,348
Other demand deposits with banks	26,058	36,825
At amortised cost Total	***223,041***	***261,501***
At fair value		
Other demand deposits with banks	-	12,055
At fair value Total	-	***12,055***
Cash, balances with central bank and other demand deposits with banks	**223,041**	**273,556**

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 2018 (31 December 2017: 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 2018	31 Dec 2017
Financial assets held for trading		
Loans and receivables from banks	-	12,775
Financial trading derivatives (note 34)	10,893	10,776
Government debt securities	107,586	1
Bank bonds	13,764	15,219
Other bonds	5,097	13,791
Financial assets at fair value through profit or loss	**137,340**	**52,562**

5 Financial assets at fair value through other comprehensive income

See note 2.28 related to reclassification due to IFRS 9 adoption.

As at 31 December 2018, all financial assets in the portfolio Financial assets at fair value through other comprehensive income were classified in Stage 1.

(EUR '000)	31 Dec 2018
Debt securities	
Government debt securities	119,226
Impairments on Government debt securities (note 15)	(2)
Net carrying amount debt securities	***119,224***
Equity instruments	
VISA Inc.	4,834
MasterCard	3,649
Other shares	11
Net carrying amount equity instruments	***8,494***
Financial assets at fair value through other comprehensive income	**127,718**

As at 31 December 2018, ČSOB Bank received dividend from financial assets in portfolio Financial assets at fair value through other comprehensive income amounting EUR 42 thousand reported in the Separate Statement of Profit or Loss and Other Comprehensive Income under "Dividend income".

As at 31 December 2018 ČSOB Bank realised gains from the sale of debt securities at fair value through other comprehensive income of EUR 216 thousand reported in the Separate Statement of Profit or Loss and Other Comprehensive Income under "Net realized result from Financial assets at fair value through other comprehensive income". See note 24.4.

6 Available-for-sale financial assets

(EUR '000)	31 Dec 2017
At fair value	
Government debt securities	288,065
Bank bonds	51,555
Other bonds	107,050
Shares	6,653
VISA Inc.	*3,858*
MasterCard	*2,795*
Total	***453,323***
At cost	
Shares	676
Impairment losses (note 15)	*(665)*
Total	***11***
Available-for-sale financial assets	**453,334**

7 Loans and receivables from financial institutions at amortised cost

See note 2.28 related to reclassification due to IFRS 9 adoption.

(EUR '000)	Stage 1	Stage 3	31 Dec 2018	31 Dec 2017
Loans and receivables from banks	14,245	92	14,337	99,297
Other receivables from banks	22,281	-	22,281	2,920
Total	***36,526***	***92***	***36,618***	***102,217***
Impairments on Loans and receivables from banks (note 15)	(6)	(92)	(98)	(114)
Loans and receivables from financial institutions at amortised cost	**36,520**	**-**	**36,520**	**102,103**

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 2018 (0.40%) p.a. (31 December 2017: (0.40%) p.a.).

As at 31 December 2018, ČSOB Bank held in its portfolio of Loans and receivables from financial institutions at amortised cost the amount of EUR 4,410 thousand of cash (31 December 2017: EUR 0) pledged as collateral for a loan received from banks. See note 17 and 35.

8 Loans and receivables from customers at amortised cost

See note 2.28 related to reclassification due to IFRS 9 adoption. For detail by class of loans see note 37.2.

As at 31 December 2018, Loans and receivables from customers at amortised cost are as follows.

(EUR '000)	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and receivables from customers	5,438,398	581,302	121,444	5,447	6,146,591
Impairment losses (note 15)	(6,868)	(27,756)	(93,040)	(4,428)	(132,092)
Loans and receivables from customers at amortised cost	**5,431,530**	**553,546**	**28,404**	**1,019**	**6,014,499**

As at 31 December 2017, Loans and receivables from customers at amortised cost are as follows.

(EUR '000)	Exposure	Impairment losses (note 15)	Net carrying amount
Unimpaired loans and receivables from customers	5,485,618	(8,278)	5,477,340
Impaired loans and receivables from customers	159,888	(108,838)	51,050
Loans and receivables from customers at amortised cost	**5,645,506**	**(117,116)**	**5,528,390**

9 Debt securities at amortised cost

See note 2.28 related to reclassification due to IFRS 9 adoption.

As at 31 December 2018, all financial assets in the portfolio Debt securities at amortised cost were classified in Stage 1.

(EUR '000)	31 Dec 2018
Government debt securities	1,566,979
Bank bonds	123,804
Other bonds	118,754
Total	***1,809,537***
Impairment losses on government debt securities	(22)
Impairment losses on bank bonds	(56)
Impairment losses on other bonds	(267)
Total (note 15)	***(345)***
Debt securities at amortised cost	**1,809,192**

As at 31 December 2018, ČSOB Bank held in the portfolio of Debt securities at amortised cost government debt securities at net carrying amount of EUR 186,390 thousand, placed as collateral for a loan received from banks and reported in the Separate Statement of Financial Position under “of which: pledged as collateral”. See note 17 and 35.

In 2018, ČSOB Bank derecognised debt securities with nominal value EUR 120,001 thousand due to the sale close to maturity date. The gain EUR 1,048 thousand from sale is reported in the Separate Statement of Profit or Loss and Other Comprehensive Income under “Net realized result from financial instruments measured at amortised cost”.

10 Held-to-maturity investments

(EUR '000)	31 Dec 2017
Government debt securities	1,367,842
Bank bonds	103,383
Total	**1,471,225**
Impairment losses (note 15)	(29)
Held-to-maturity investments	**1,471,196**

As at 31 December 2017, ČSOB Bank held in its portfolio of Held-to-maturity investments government debt securities with the carrying amount of EUR 186,486 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 under “Held-to-maturity investments pledged as collateral”. See note 17 and 35.

11 Investments in subsidiaries

Table below shows the investments in subsidiaries.

(EUR '000)	Share in %	Acquisition price and Carrying amount	
		31 Dec 2018	31 Dec 2017
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	2,505
Nadácia ČSOB	100%	7	7
ČSOB Advisory, s.r.o.	100%	100	-
Investments in subsidiaries		**76,302**	**76,202**

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

11.1 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 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 (10.08% - 10.95%). The model is most sensitive on changes of discount rate and earnings growth rate.

In 2018 and 2017, ČSOB Bank did not create or release any impairment losses for investments in subsidiaries.

12 Property and equipment

(EUR '000)	Investment property	Land and buildings	ICT equipment	Office equipment	Other	Acquisition	Total
Cost as at 1 January 2018	**1,474**	**78,657**	**7,888**	**6,272**	**17,429**	**787**	**112,507**
Additions	-	-	-	-	-	4,449	**4,449**
Transfers	-	533	820	48	1,472	(2,873)	**-**
Disposals	-	(1,623)	(1,290)	(200)	(2,043)	-	**(5,156)**
Cost as at 31 December 2018	**1,474**	**77,567**	**7,418**	**6,120**	**16,858**	**2,363**	**111,800**
Accumulated depreciation as at 1 January 2018	**(997)**	**(47,060)**	**(6,215)**	**(5,981)**	**(10,945)**	**-**	**(71,198)**
Depreciation	(53)	(2,356)	(1,148)	(70)	(1,961)	-	**(5,588)**
Disposals	-	756	1,282	200	2,014	-	**4,252**
Accumulated depreciation as at 31 December 2018	**(1,050)**	**(48,660)**	**(6,081)**	**(5,851)**	**(10,892)**	**-**	**(72,534)**
Impairment losses as at 1 January 2018	**(241)**	**(1,150)**	**-**	**-**	**(275)**	**-**	**(1,666)**
Use (note 15)	-	312	-	-	-	-	**312**
Impairment losses as at 31 December 2018	**(241)**	**(838)**	**-**	**-**	**(275)**	**-**	**(1,354)**
Net book value as at 31 December 2018	**183**	**28,069**	**1,337**	**269**	**5,691**	**2,363**	**37,912**

(EUR '000)	Investment property	Land and buildings	ICT equipment	Office equipment	Other	Acquisition	Total
Cost as 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 as at 31 December 2017	**1,474**	**78,657**	**7,888**	**6,272**	**17,429**	**787**	**112,507**
Accumulated depreciation as 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 as at 31 December 2017	**(997)**	**(47,060)**	**(6,215)**	**(5,981)**	**(10,945)**	**-**	**(71,198)**
Impairment losses as at 1 January 2017	**(241)**	**(1,150)**	**-**	**-**	**(275)**	**-**	**(1,666)**
Impairment losses as at 31 December 2017	**(241)**	**(1,150)**	**-**	**-**	**(275)**	**-**	**(1,666)**
Net book value as at 31 December 2017	**236**	**30,447**	**1,673**	**291**	**6,209**	**787**	**39,643**

13 Intangible assets

(EUR '000)	Acquired software	Internally generated software	Other intangible assets	Acquisition	Total
Cost as at 1 January 2018	**24,735**	**12,438**	**111**	**429**	**37,713**
Additions	-	-	-	8,273	**8,273**
Transfers	37	4,234	-	(4,271)	**-**
Disposals	(60)	-	-	-	**(60)**
Cost as at 31 December 2018	**24,712**	**16,672**	**111**	**4,431**	**45,926**
Accumulated amortisation as at 1 January 2018	**(20,563)**	**(9,487)**	**(7)**	**-**	**(30,057)**
Amortisation	(2,219)	(2,194)	(16)	-	**(4,429)**
Disposals	60	-	-	-	**60**
Accumulated amortisation as at 31 December 2018	**(22,722)**	**(11,681)**	**(23)**	**-**	**(34,426)**
Net book value as at 31 December 2018	**1,990**	**4,991**	**88**	**4,431**	**11,500**

(EUR '000)	Acquired software	Internally generated software	Other intangible assets	Acquisition	Total
Cost as 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 as at 31 December 2017	**24,735**	**12,438**	**111**	**429**	**37,713**
Accumulated amortisation as at 1 January 2017	**(18,616)**	**(6,654)**	**-**	**-**	**(25,270)**
Amortisation	(2,033)	(2,833)	(7)	-	**(4,873)**
Disposals	86	-	-	-	**86**
Accumulated amortisation as at 31 December 2017	**(20,563)**	**(9,487)**	**(7)**	**-**	**(30,057)**
Net book value as at 31 December 2017	**4,172**	**2,951**	**104**	**429**	**7,656**

13.1 Insurance cover

ČSOB Bank's insurance covers all standard risks to tangible and intangible assets. Tangible and intangible assets of ČSOB 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.

14 Other assets

(EUR '000)	31 Dec 2018	31 Dec 2017
Other financial assets		
Accrued non-interest income	1,617	1,720
Advances	6,370	4,555
Fair value changes of hedged item	5,792	(247)
Hedging derivatives (note 34)	35	1,637
Other	16	-
Total	***13,830***	***7,665***
Impairment losses (note 15)	(79)	(119)
Other financial assets	***13,751***	***7,546***
Other non-financial assets		
Prepaid charges	2,796	2,679
Other non-financial assets	***2,796***	***2,679***
Other assets	**16,547**	**10,225**

15 Impairment losses and Provisions for off-balance sheet risks

Tables below show Impairment losses and Provisions for off-balance sheet risks calculated as expected credit losses (ECL) and the detail of Loans and receivables from customers at amortised cost by class of financial asset, both as at 31 December 2018.

(EUR '000)	1 Jan 2018	Due to origination *	Due to derecognition *	Due to change in credit risk without transfer between Stages (change in PD/LGD/EAD) *	Due to change in credit risk with transfer between Stages *	Due to modification (forborne) *	Due to write-offs/ ceding	Movements in GCA	31 Dec 2018	Recoveries *
Financial assets at fair value through other comprehensive income (note 5)										
Stage 1	18	-	(15)	(1)	-	-	-	-	**2**	-
Total	**18**	**-**	**(15)**	**(1)**	**-**	**-**	**-**	**-**	**2**	**-**
Loans and receivables from financial institutions at amortised cost (note 7)										
Stage 1	89	3	-	(86)	-	-	-	-	**6**	-
Stage 3	92	-	-	-	-	-	-	-	**92**	-
Total	**181**	**3**	**-**	**(86)**	**-**	**-**	**-**	**-**	**98**	**-**
Loans and receivables from customers at amortised cost (note 8)										
Stage 1	6,582	2,387	(656)	(397)	(1,032)	(17)	-	1	**6,868**	**-**
Stage 2	24,970	4,303	(2,056)	(567)	1,433	(328)	-	1	**27,756**	**-**
Stage 3	121,846	595	(2,600)	(2,674)	8,221	693	(36,687)	3,646	**93,040**	**(1,232)**
POCI	5,865	-	-	(1,427)	-	-	-	(10)	4,428	-
Total	**159,263**	**7,285**	**(5,312)**	**(5,065)**	**8,622**	**348**	**(36,687)**	**3,638**	**132,092**	**(1,232)**
Debt securities at amortised cost (note 9)										
Stage 1	377	59	(3)	(88)	-	-	-	-	**345**	-
Total	**377**	**59**	**(3)**	**(88)**	**-**	**-**	**-**	**-**	**345**	**-**
Provisions for off-balance sheet risks										
Stage 1	1,559	302	(242)	(609)	(207)	-	-	1	**804**	-
Stage 2	2,360	558	(307)	59	16	(4)	-	-	**2,682**	-
Stage 3	584	68	(8)	(54)	13	27	-	-	**630**	-
POCI	91	-	-	46	-	-	-	-	**137**	-
Total	**4,594**	**928**	**(557)**	**(558)**	**(178)**	**23**	**-**	**1**	**4,253**	**-**
Impairment losses and Provisions for off-balance sheet risks	**164,433**	**8,275**	**(5,887)**	**(5,798)**	**8,444**	**371**	**(36,687)**	**3,639**	**136,790**	**(1,232)**

** reported in the Separate Statement of Profit or Loss and Other Comprehensive Income under Impairment losses and Provisions for off-balance sheet risks*

(EUR '000)	1 Jan 2018	Due to origination *	Due to derecognition *	Due to change in credit risk without transfer between Stages (change in PD/LGD/EAD) *	Due to change in credit risk with transfer between Stages *	Due to modification (forborne) *	Due to write-offs/ ceding	Movements in GCA	31 Dec 2018	Recoveries *
Loans and receivables from customers at amortised cost (note 8)										
Public administration	**190**	**1**	**(13)**	**(72)**	**-**	**-**	**-**	**-**	**106**	**-**
Stage 1	45	1	-	(32)	-	-	-	-	**14**	-
Stage 2	7	-	-	(7)	-	-	-	-	**-**	-
Stage 3	138	-	(13)	(33)	-	-	-	-	**92**	-
Corporate	**68,743**	**1,962**	**(631)**	**(1,891)**	**731**	**(216)**	**(6,813)**	**25**	**61,910**	**(47)**
Stage 1	3,640	1,383	(198)	(60)	(655)	(2)	-	1	**4,109**	-
Stage 2	4,012	569	(176)	(381)	1,128	(113)	-	1	**5,040**	-
Stage 3	55,226	10	(257)	(23)	258	(101)	(6,813)	33	**48,333**	(47)
POCI	5,865	-	-	(1,427)	-	-	-	(10)	**4,428**	-
Retail	**90,330**	**5,322**	**(4,668)**	**(3,102)**	**7,891**	**564**	**(29,874)**	**3,613**	**70,076**	**(1,185)**
Stage 1	2,897	1,003	(458)	(305)	(377)	(15)	-	-	2,745	-
Stage 2	20,951	3,734	(1,880)	(179)	305	(215)	-	-	22,716	-
Stage 3	66,482	585	(2,330)	(2,618)	7,963	794	(29,874)	3,613	44,615	(1,185)
Mortgage loans	***24,893***	***307***	***(1,924)***	***(547)***	***845***	***86***	***(7,072)***	***737***	***17,325***	***(14)***
Stage 1	326	80	(54)	(38)	9	(1)	-	-	322	-
Stage 2	4,148	196	(489)	25	34	(4)	-	-	3,910	-
Stage 3	20,419	31	(1,381)	(534)	802	91	(7,072)	737	13,093	(14)
Consumer loans	***17,432***	***986***	***(593)***	***(344)***	***1,739***	***47***	***(9,040)***	***(53)***	***10,174***	***(880)***
Stage 1	507	331	(157)	(124)	(45)	(1)	-	-	511	-
Stage 2	1,921	514	(212)	(258)	83	(10)	-	-	2,038	-
Stage 3	15,004	141	(224)	38	1,701	58	(9,040)	(53)	7,625	(880)
Credit cards	***2,914***	***96***	***(101)***	***35***	***234***	***-***	***(1,587)***	***(11)***	***1,580***	***(139)***
Stage 1	24	10	(4)	2	(1)	-	-	-	31	-
Stage 2	530	68	(43)	25	14	-	-	-	594	-
Stage 3	2,360	18	(54)	8	221	-	(1,587)	(11)	955	(139)
Overdrafts	***4,065***	***281***	***(274)***	***49***	***286***	***1***	***(2,046)***	***(4)***	***2,358***	***(84)***
Stage 1	31	13	(11)	2	-	1	-	-	36	-
Stage 2	820	123	(108)	44	(11)	-	-	-	868	-
Stage 3	3,214	145	(155)	3	297	-	(2,046)	(4)	1,454	(84)
MicroSME	***41,026***	***3,652***	***(1,776)***	***(2,295)***	***4,787***	***430***	***(10,129)***	***2,944***	***38,639***	***(68)***
Stage 1	2,009	569	(232)	(147)	(340)	(14)	-	-	1,845	-
Stage 2	13,532	2,833	(1,028)	(15)	185	(201)	-	-	15,306	-
Stage 3	25,485	250	(516)	(2,133)	4,942	645	(10,129)	2,944	21,488	(68)
Total	**159,263**	**7,285**	**(5,312)**	**(5,065)**	**8,622**	**348**	**(36,687)**	**3,638**	**132,092**	**(1,232)**

** reported in the Separate Statement of Profit or Loss and Other Comprehensive Income under Impairment losses and Provisions for off-balance sheet risks*

As at 31 December 2018, other impairment losses were as follows.

(EUR '000)	1 Jan 2018	Use	Creation/ (release) *	31 Dec 2018
Property and equipment (note 12)	1,666	(312)	-	1,354
Other assets (note 14)	119	(42)	2	79
Total	**1,785**	**(354)**	**2**	**1,433**

** reported in the Separate Statement of Profit or Loss and Other Comprehensive Income under Impairment losses and Provisions for off-balance sheet risks*

The table below shows GCA of Loans and receivables from customers at amortised cost transferred between stages in 2018.

(EUR '000)	From Stage 1	From Stage 2	From Stage 3	Total
To Stage 1	-	107,183	586	**107,769**
To Stage 2	347,428	-	11,106	**358,534**
To Stage 3	9,399	15,715	-	**25,114**
Total	**356,827**	**122,898**	**11,692**	**491,417**

As at 31 December 2017, Impairment losses and Provisions for off-balance sheet risks were as follows.

(EUR '000)	1 Jan 2017	Use (mainly receivables written off/ ceded) *	Creation/ (Release)	Other adjustments	31 Dec 2017
Impairment losses and Provisions for off-balance sheet risks					
Loans and receivables from financial institutions at amortised cost (note 7)	120	-	(6)	-	**114**
Loans and receivables from customers at amortised cost (note 8)	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***
Micro-SME	*21,423*	*(2,179)*	*4,967*	*378*	***24,589***
Available-for-sale financial assets (note 6)	758	(118)	25	-	**665**
Held-to-maturity investments (note 10)	28	-	1	-	**29**
Property and equipment (note 12)	1,666	-	-	-	**1,666**
Assets held for sale	232	(232)	-	-	**-**
Other assets (note 14)	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*

16 Financial liabilities at fair value through profit or loss

(EUR '000)	31 Dec 2018	31 Dec 2017
Financial liabilities designated at fair value through profit or loss on initial recognition		
Current accounts – banks	-	12,055
Term deposits – non-bank customers	37,624	45,662
Debt securities issued	7,680	13,848
Financial liabilities designated at fair value through profit or loss on initial recognition	***45,304***	***71,565***
Financial liabilities held for trading		
Financial trading derivatives (note 34)	11,854	9,640
Financial liabilities held for trading	***11,854***	***9,640***
Financial liabilities at fair value through profit or loss	**57,158**	**81,205**

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

17 Amounts owed to financial institutions at amortised cost

(EUR '000)	31 Dec 2018	31 Dec 2017
Current accounts - banks	34,879	19,468
Term deposits and loans received from banks and multilateral banks	932,534	668,028
Amounts owed to financial institutions at amortised cost	**967,413**	**687,496**

As at 31 December 2018 loans received from banks in the amount of EUR 222,988 thousand (31 December 2017: EUR 223,901 thousand) were secured by:

- government debt securities in the portfolio Debt securities at amortised cost with net carrying amount of EUR 186,390 thousand (31 December 2017: EUR 186,486 thousand in portfolio Held-to-maturity investments) and market value of EUR 221,818 thousand (31 December 2017: 224,696 thousand in portfolio Held-to-maturity investments), see note 9 and 10;
- cash in portfolio Loans and receivables from financial institutions at amortised cost of EUR 4,410 thousand (31 December 2017: EUR 0), see note 7.

18 Amounts owed to customers at amortised cost

(EUR '000)	31 Dec 2018	31 Dec 2017
Current accounts – customers	3,374,067	2,971,510
Current accounts – government bodies and funds	145,164	123,990
Term deposits and saving accounts – customers	2,259,212	2,415,388
Term deposits and saving accounts – government bodies	264,024	243,142
Other amounts owed to customers	73,399	99,203
Amounts owed to customers at amortised cost	**6,115,866**	**5,853,233**

19 Debt securities issued at amortised cost

(EUR '000)	31 Dec 2018	31 Dec 2017
Bills of exchange	1,947	5,092
Bank bonds	12,800	14,847
Mortgage bonds	428,008	497,987
Investment certificates	1,885	-
Debt securities issued at amortised cost	**444,640**	**517,926**

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 investment certificates, mortgage bonds and bank bonds as at 31 December 2018.

Issue name	Issue date	Currency	Coupon payment date	Interest rate fix/float	Initial nominal value 1 item (EUR)	No. of items	Total value of issue (EUR '000)	Net book value at 31 Dec 2018 (EUR '000)	Maturity
Investment certificates									
ČSOB IC SD3E 67 2023	Dec 18	EUR	14. Jun, 14 Dec, half-yearly	Zero coupon	1,000.00	1,885	1,885	1,885	Dec 23
Total								**1,885**	
Mortgage bonds									
ČSOB XIII.	Nov 11	EUR	7 Nov, yearly	5.50%	10,000.00	2,500	25,000	25,207	Nov 31
ČSOB XIX.	Jul 12	EUR	9 Jul, yearly	4.70%	10,000.00	2,500	25,000	24,979	Jul 36
ČSOB XXIV.	Feb 15	EUR	27 Feb, yearly	1.60%	1,000.00	8,977	8,977	9,098	Feb 19
ČSOB XXV.	Jun 15	EUR	26 Jun, yearly	0.40%	10,000.00	5,000	50,000	49,818	Jun 20
ČSOB XXVI.	Nov 15	EUR	30 Nov, yearly	0.60%	10,000.00	5,000	50,000	50,147	Nov 20
ČSOB XXVII.	Mar 16	EUR	17 Mar, yearly	0.50%	10,000.00	5,000	50,000	50,275	Mar 21
ČSOB XXVIII.	Jul 16	EUR	11 Jul, yearly	0.20%	10,000.00	2,500	25,000	25,033	Jul 19
ČSOB XXIX.	Sep 16	EUR	27 Sep, yearly	0.30%	10,000.00	5,000	50,000	50,121	Sep 21
ČSOB XXX.	Mar 17	EUR	29 Mar, yearly	0.50%	10,000.00	5,000	50,000	50,014	Mar 22
ČSOB XXXI.	Jun 17	EUR	28 Jun, yearly	0.50%	10,000.00	4,300	43,000	43,169	Jun 22
ČSOB XXXII.	Nov 17	EUR	28 Nov, yearly	0.60%	10,000.00	5,000	50,000	50,147	Nov 22
Total								**428,008**	
Bank bonds									
ČSOB I.	Mar 15	EUR	-	Zero coupon	1,000.00	10,000	10,000	9,588	Mar 21
ČSOB II. *	Oct 15	EUR	5 Oct, yearly	2.50%	1,000.00	4,782	1,196	1,215	Oct 19
ČSOB III. **	Sep 16	EUR	9 Sep, yearly	1.60%	1,000.00	3,924	1,962	1,997	Sep 20
Total								**12,800**	

** 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 2017.

Issue name	Issue date	Currency	Coupon payment date	Interest rate fix/float	Initial nominal value 1 item (EUR)	No. of items	Total value of issue (EUR '000)	Net book value at 31 Dec 2017 (EUR '000)	Maturity
Mortgage bonds									
ČSOB XIII.	Nov 11	EUR	7 Nov, yearly	5.50%	10,000.00	2,500	25,000	25,207	Nov 31
ČSOB XIX.	Jul 12	EUR	9 Jul, yearly	4.70%	10,000.00	2,500	25,000	24,959	Jul 36
ČSOB XXII.	May 14	EUR	30 May, yearly	1.20%	10,000.00	5,500	55,000	55,401	May 18
ČSOB XXIII.	Nov 14	EUR	27 Nov, yearly	1.65%	1,000.00	14,130	14,130	14,152	Nov 18
ČSOB XXIV.	Feb 15	EUR	27 Feb, yearly	1.60%	1,000.00	9,468	9,468	9,596	Feb 19
ČSOB XXV.	Jun 15	EUR	26 Jun, yearly	0.40%	10,000.00	5,000	50,000	49,628	Jun 20
ČSOB XXVI.	Nov 15	EUR	30 Nov, yearly	0.60%	10,000.00	5,000	50,000	50,210	Nov 20
ČSOB XXVII.	Mar 16	EUR	17 Mar, yearly	0.50%	10,000.00	5,000	50,000	50,310	Mar 21
ČSOB XXVIII.	Jul 16	EUR	11 Jul, yearly	0.20%	10,000.00	2,500	25,000	25,050	Jul 19
ČSOB XXIX.	Sep 16	EUR	27 Sep, yearly	0.30%	10,000.00	5,000	50,000	50,151	Sep 21
ČSOB XXX.	Mar 17	EUR	29 Mar, yearly	0.50%	10,000.00	5,000	50,000	49,959	Mar 22
ČSOB XXXI.	Jun 17	EUR	28 Jun, yearly	0.50%	10,000.00	4,300	43,000	43,186	Jun 22
ČSOB XXXII.	Nov 17	EUR	28 Nov, yearly	0.60%	10,000.00	5,000	50,000	50,178	Nov 22
Total								**497,987**	
Bank bonds									
ČSOB I.	Mar 15	EUR	-	Zero coupon	1,000.00	10,000	10,000	9,403	Mar 21
ČSOB II. *	Oct 15	EUR	5 Oct, yearly	1.90%	1,000.00	4,810	2,405	2,444	Oct 19
ČSOB III. **	Sep 16	EUR	9 Sep, yearly	0.80%	1,000.00	3,957	2,968	3,000	Sep 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.*

20 Subordinated debt

ČSOB Bank has received a debt of a specific nature from the parent company KBC with the amortised cost of EUR 87,551 thousand as of 31 December 2018 (31 December 2017: EUR 87,543), interest rate 3M EURIBOR plus 1.70% 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 can early repay the loan with the minimum amount of EUR 1,000 thousand or any EUR 1,000 thousand multiple. Refer to related parties' transactions (note 33).

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.

21 Provisions

(EUR '000)	1 Jan 2018	Creation	Use	31 Dec 2018*
Provision for litigation	5,102	2,059	(3,201)	3,960
Provisions	**5,102**	**2,059**	**(3,201)**	**3,960**

** Provisions total does not include provision for off-balance sheet risks which is presented in note 15.*

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

** Provisions total does not include provision for off-balance sheet risks which is presented in note 15.*

21.1 Provision for litigation

ČSOB Bank conducted a review of legal proceedings outstanding against it as at 31 December 2018. 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, ČSOB Bank has decreased the provision for these legal cases by a net amount of EUR 1,142 thousand (31 December 2017: increase of EUR 116 thousand). As at 31 December 2018, this provision amounts to EUR 3,960 thousand (31 December 2017: EUR 5,102 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".

22 Other liabilities

(EUR '000)	31 Dec 2018	31 Dec 2017
Other financial liabilities		
Accrued non-interest charges	8,023	7,457
Hedging derivatives (note 34)	8,366	3,847
Other financial liabilities	6,695	5,742
Other financial liabilities	***23,084***	***17,046***
Other non-financial liabilities		
Employee benefits and other employee funds	2,961	2,837
of which: benefits paid on retirement	*995*	*973*
length of service benefits	*352*	*329*
anniversary benefits	*201*	*208*
Wages and social security charges	13,302	13,589
Income received in advance	671	1,008
Other non-financial liabilities	***16,934***	***17,434***
Other liabilities	**40,018**	**34,480**

23 Overview of contingent liabilities

23.1 Contingent liabilities

(EUR '000)	Stage 1	Stage 2	Stage 3	POCI	31 Dec 2018	31 Dec 2017
Credit facilities issued but not drawn	1,244,725	153,907	691	-	**1,399,323**	**1,207,883**
Financial guarantees given	173,818	54,170	498	282	**228,768**	**236,111**
Letters of credit given	14,634	-	40	-	**14,674**	**3,702**
Other*	1,639	-	-	-	**1,639**	**1,015**
Contingent Liabilities	**1,434,816**	**208,077**	**1,229**	**282**	**1,644,404**	**1,448,711**

** Commencing on 1 January 2015, ČSOB Bank is required to participate in the resolution process by paying financial contributions to European Resolution Fund. As at 31 December 2018, Irrevocable payment commitment to European Resolution Fund (15% of the cumulative annual contributions) is recognized in the amount of EUR 1,639 thousand (31 December 2017: EUR 1,015 thousand).*

Provisions for off-balance sheet risk are reported in the Separate Statement of Financial Position under Provisions. See note 15.

(EUR '000)	Stage 1	Stage 2	Stage 3	POCI	31 Dec 2018	31 Dec 2017
Credit facilities issued but not drawn	(722)	(2,465)	(129)	-	**(3,316)**	**(698)**
Financial guarantees given	(53)	(217)	(499)	(137)	**(906)**	**(951)**
Letters of credit given	(29)	-	(2)	-	**(31)**	**(5)**
Provisions for off-balance sheet risk	**(804)**	**(2,682)**	**(630)**	**(137)**	**(4,253)**	**(1,654)**

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 ČSOB Bank to pay a certain amount as stated in bank guarantee if 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 ČSOB 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. ČSOB 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 ČSOB Bank will make payments if 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 ČSOB Bank on behalf of a customer authorizing a third party to draw drafts on ČSOB 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, ČSOB 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.

23.2 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
31 Dec 2018			
Not later than 1 year	4,837	1,521	6,358
Later than 1 year and not later than 5 years	19,349	1,126	20,475
Later than 5 years	16,145	-	16,145
Total	**40,331**	**2,647**	**42,978**
Minimum lease payments recognized as an expense for the year	4,957	925	5,882
31 Dec 2017			
Not later than 1 year	5,196	1,587	6,783
Later than 1 year and not later than 5 years	20,786	1,321	22,107
Later 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*

The operating leases related to information technologies leased from KBC Group, are included in "Less than 1 year" in the amount of EUR 562 thousand (2017: EUR 604 thousand). They represent expected half-year lease payments according to the contractual notice period.

In 2017, ČSOB Bank entered a long-term rental contract for the head office building with ČSOB Real, s.r.o. For the year 2018, monthly rental cost excluding energies was EUR 333 thousand (2017: 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.

23.3 Sale and lease-back arrangements

During the year 2018 ČSOB Bank was a lessee in none operating lease-back agreement, an operating lease-back agreement for a 3-year period ended during the year 2017. As at 31 December 2017 the minimum lease payments recognized as an expense for the year was EUR 375 thousand.

23.4 Lawsuits

In addition to the litigation for which provisions are created (note 21), ČSOB Bank is named in and is defending several legal actions arising in the ordinary course of business. The management of ČSOB Bank 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 2018 and 31 December 2017.

23.5 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 several areas. Due to this, ČSOB Bank 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.

24 Equity

The structure of shareholders of ČSOB Bank is as follows.

% of share capital	31 Dec 2018	31 Dec 2017
KBC Bank NV	100,00%	100,00%
Total	**100,00%**	**100,00%**

24.1 Share capital

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

As at 31 December 2018 and 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.

24.2 Share premium

Share premium represents the difference between the nominal number of shares and their issue price. As at 31 December 2018 and 31 December 2017 the Share premium amounted to EUR 484,726 thousand.

24.3 Reserve funds

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. ČSOB 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 2018 ČSOB Bank allocated EUR 9,402 thousand to the legal reserve fund. Thus, its value increased to EUR 59,003 thousand. As at 31 December 2017, ČSOB Bank had the legal reserve fund of EUR 49,601 thousand.

24.4 Revaluation reserve

Revaluation reserve on Financial assets at fair value through other comprehensive income as at 31 December 2018:

(EUR '000)	2018
As at 1 January	16,000
IFRS 9 impact (note 2.28)	(6,711)
As at 1 January after IFRS 9 adoption	**9,289**
Items that may be reclassified subsequently to profit or loss	
Loss arising from the revaluation of debt securities at fair value through other comprehensive income	(2,933)
Cumulative gain from sale of debt securities at fair value through other comprehensive income	(216)
Impairment creation to debt securities at fair value through other comprehensive income	(16)
Income tax relating to items that may be reclassified subsequently to profit or loss	661
Items that cannot be reclassified subsequently to profit or loss	
Equity instruments at fair value through other comprehensive income	2,140
Income tax relating to items that cannot be reclassified subsequently to profit or loss	(449)
As at 31 December	**8,476**

Revaluation reserve from Available-for-sale financial assets as at 31 December 2017:

(EUR '000)	2017
As at 1 January	**17,367**
Loss arising from the revaluation of Available-for-sale financial assets	(1,730)
Income tax relating to gain arising on the revaluation and disposals	363
As at 31 December	**16,000**

24.5 Other revaluation reserve

In 2007, KBC 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 2018 and 31 December 2017, in the negative amount of EUR 216,162 thousand.

24.6 Profit distribution

The profit distribution of ČSOB Bank is as follows.

(EUR '000)	Attributable from profit for the year	
	2018*	2017
Addition to legal reserve fund	-	9,402
Retained earnings	-	42,082
Dividends	53,158	-
Net profit for the year	**53,158**	**51,484**

** based on the proposed profit distribution*

25 Information on segments

ČSOB Bank distinguishes between the following segments.

25.1 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 Bank 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.

25.2 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.

25.3 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 management of the foreign exchange position of ČSOB Bank.

25.4 Other

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

For the year ended at and as at 31 December 2018 segment information 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	103,564	45,091	20,021	(1,273)	**167,403**
of which: Intersegment Net Interest Income/ (loss)	*27,071*	*13,181*	*(32,225)*	*(8,027)*	**-**
Net fee and commission income	41,615	15,469	510	2,007	**59,601**
Net trading result and exchange differences	2,515	4,060	4,957	(945)	**10,587**
Net realized result from Financial assets at fair value through other comprehensive income	-	-	216	-	**216**
Net realized result from financial instruments measured at amortised cost	-	-	1,048	-	**1,048**
Dividend income	-	-	-	482	**482**
Other operating result	477	(22)	45	(728)	**(228)**
Total income	**148,171**	**64,598**	**26,797**	**(457)**	**239,109**
Personnel expenses	(31,903)	(8,681)	(1,971)	(27,241)	**(69,796)**
Depreciation and amortisation	(2,739)	(396)	(158)	(6,671)	**(9,964)**
Other operating expenses	(26,705)	(3,604)	227	(55,878)	**(85,960)**
Operating expenses	**(61,347)**	**(12,681)**	**(1,902)**	**(89,790)**	**(165,720)**
Impairment losses and Provisions for off-balance sheet risks	(4,907)	159	44	529	**(4,175)**
Profit/ (loss) for the year before tax	**81,917**	**52,076**	**24,939**	**(89,718)**	**69,214**
Income tax expense					**(16,056)**
Net profit for the year					**53,158**
Total assets	**3,966,381**	**2,148,556**	**2,107,198**	**284,514**	**8,506,649**
Total liabilities and equity	**3,503,863**	**2,562,356**	**1,557,438**	**882,992**	**8,506,649**

For the year ended at and as at 31 December 2017, reclassified segment information 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	37,870	14,591	1,236	1,290	**54,987**
Net trading result and exchange differences	3,352	3,443	6,833	734	**14,362**
Net realized result from financial instruments measured at amortised cost	-	-	72	-	**72**
Dividend income	-	-	-	1,081	**1,081**
Other operating result	603	(52)	35	2,140	**2,726**
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 amortisation	(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)**
Impairment losses and Provisions for off-balance sheet risks	(5,705)	(3,137)	(1)	(57)	**(8,900)**
Profit/ (loss) for the year before tax	**74,496**	**45,429**	**24,473**	**(77,384)**	**67,014**
Income tax expense					**(15,530)**
Net profit for the 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**

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

ČSOB Bank operates in the Slovak Republic.

26 Net interest income

(EUR '000)	31 Dec 2018	31 Dec 2017, Reclassified
Interest income		
Loans and receivables from financial institutions at amortised cost	360	353
Loans and receivables from customers at amortised cost	138,671	138,120
Debt securities at amortised cost	42,699	n/a
Held-to-maturity investments	n/a	37,744
Financial assets at fair value through other comprehensive income	3,153	n/a
Available-for-sale financial assets	n/a	8,945
Financial liabilities not measured at fair value through profit or loss	2,754	2,926
Total	***187,637***	***188,088***
Similar interest income		
Financial assets at fair value through profit or loss (excluding derivatives)	1,517	536
Financial liabilities at fair value through profit or loss	561	464
Total	***2,078***	***1,000***
Interest expense		
Amounts owed to financial institutions and multilateral banks at amortised cost	(530)	(518)
Amounts owed to customers at amortised cost	(9,913)	(10,161)
Debt securities issued at amortised cost	(5,351)	(5,829)
Subordinated debt	(1,224)	(659)
Hedging derivatives	(4,414)	(4,561)
Financial assets not measured at fair value through profit or loss	(26)	(13)
Total	***(21,458)***	***(21,741)***
Similar interest expense		
Financial liabilities at fair value through profit or loss	(843)	(1,199)
Financial assets at fair value through profit or loss	(11)	(1)
Total	***(854)***	***(1,200)***
Net interest income	**167,403**	**166,147**

27 Net fee and commission income

(EUR '000)	31 Dec 2018	31 Dec 2017 Reclassified
Fee and commission income		
Securities related fees	307	376
Asset management services – trust and fiduciary activities, entry fees	6,359	5,974
Credit and guarantee related fees	11,217	10,867
Payment services fees	42,546	37,772
Distribution fees	5,997	5,718
Network income	4,525	3,641
Other	347	294
Fee and commission income	***71,298***	***64,642***
Fee and commission expense		
Securities related fees	(1,013)	(1,016)
Credit and guarantee related fees	(93)	(192)
Payment services fees	(7,417)	(6,057)
Products insurance	(226)	(263)
Network expense	(2,048)	(1,217)
Other	(900)	(910)
Fee and commission expense	***(11,697)***	***(9,655)***
Net fee and commission income	**59,601**	**54,987**

28 Net trading result and exchange differences

(EUR '000)	31 Dec 2018	31 Dec 2017 Reclassified
Held for trading interest rate instruments	(373)	2,725
Held for trading foreign exchange instruments	7,505	9,919
Held for trading commodity instruments	26	36
Net result from Financial liabilities at fair value through profit or loss	16	(223)
Net result from hedging derivatives	(5,057)	3,903
Net result from hedged items	6,039	(3,776)
Foreign exchange differences	2,431	1,778
Net trading result and exchange differences	**10,587**	**14,362**

29 Other operating result

(EUR '000)	31 Dec 2018	31 Dec 2017, Reclassified
Loss on disposal of property, plant and equipment	(345)	(65)
Gain on disposal of Assets held for sale	-	98
Net income from rental	340	367
Creation of provisions for operating losses, claims and legal disputes regarding commercial activity	(2,059)	(117)
Losses from financial operations	(541)	(212)
Other operating activities	2,377	2,655
Other operating result	**(228)**	**2,726**

30 Personnel expenses

(EUR '000)	31 Dec 2018	31 Dec 2017
Wages and salaries	(52,182)	(51,427)
Social security	(16,665)	(16,521)
of which: contributions to pension pillar I and pillar II	*(8,333)*	*(7,750)*
Pensions expenses	(500)	(503)
Other post-employment benefits	(95)	(181)
Other staff expenses	(354)	(172)
Personnel expenses	**(69,796)**	**(68,804)**

The number of employees of ČSOB Bank as at 31 December 2018 was 2,239; thereof 261 managers (31 December 2017: 2,210; thereof 262 managers).

Remuneration to management is provided if accruals or other resources were created and the conditions of the Internal Remuneration Policy of ČSOB Bank were met, mainly an annual bonus for ČSOB 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. ČSOB Bank also agreed with trade union on the social programme for employees with whom employment was terminated based on the above reasons.

ČSOB Bank provides contributions to the supplementary pension scheme monthly for all its employees including senior management. The contribution of the employer and employee is calculated based on 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.

ČSOB Bank's remuneration policy is largely based on KBC Group's remuneration policy, which takes into account prevailing legislation (including but not limited to EBA guidelines on sound remuneration) and local legislation (Act on Banks No.483/2001).

The performance-based remuneration of Key Identified Staff (KIS) is awarded in a manner which promotes sound risk management and does not induce excessive risk-taking. This is ensured by specific rules, which are applicable to the variable remuneration of KIS:

a) the remuneration is composed of fixed and variable components. The variable remuneration component may not exceed half of the fixed component;
b) part of the total amount (50%) of variable remuneration for KIS be awarded in the form of equity-related instruments;
c) part of the variable remuneration awarded to KIS, may not be paid straightaway but its payment is to be spread over a number of years;
d) condition for vesting of variable pay is fulfilment of company defined Risk criteria;
e) fulfilment of the risk criteria is required for vesting the variable remuneration for that particular year and clawback/holdback provisions are put in place;
f) to avoid conflicts of interest, the variable remuneration of KIS covering control functions must be limited and must not be based on the financial results of the company they are exerting their control functions on;
g) staff members may not use personal hedging strategies or remuneration- and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangements;
h) no advance payments may be made in relation to the variable component.

31 Other operating expenses

(EUR '000)	31 Dec 2018	31 Dec 2017
Information technology expenses	(27,042)	(26,717)
Rental expenses	(12,330)	(11,250)
Repair and maintenance	(2,090)	(2,215)
Marketing expenses	(7,704)	(8,738)
Professional fees	(2,546)	(2,532)
of which: *Audit of Statutory Financial Statements*	*(271)*	*(162)*
*Services involving the issuance of an assurance report (other than on Statutory Financial Statements) **	*(164)*	*(140)*
*Other services **	*(4)*	*(5)*
Other facilities expenses	(6,891)	(7,175)
Communication expenses	(84)	(76)
Travel expenses	(748)	(756)
Training and recruitment expenses	(446)	(385)
Personnel related expenses	(215)	(141)
Costs charged by other KBC Group entities (note 33)	(4,111)	(4,101)
Contributions to deposit protection funds	(315)	(293)
Bank levy	(14,616)	(13,945)
European Resolution Fund **	(3,540)	(2,971)
Other operating expenses	(3,282)	(2,920)
Other operating expenses	**(85,960)**	**(84,215)**

** Non-audit services provided by the Auditor include trainings, HR benchmarking studies, assurance services over custody process, assurance and compliance reporting to NBS in accordance with the NBS guidance and confirmation of accuracy of receivables.*

*** Commencing 1 January 2015, ČSOB Bank is required to participate in the resolution process by paying financial contributions to European Resolution Fund (note 23).*

32 Taxation

The income tax structure is as follows.

(EUR '000)	31 Dec 2018	31 Dec 2017
Current tax	12,924	13,462
Deferred tax	3,132	2,068
Total	**16,056**	**15,530**

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

(EUR '000)	31 Dec 2018	31 Dec 2017
Profit for the year before tax	**69,214**	**67,014**
Tax rate	21%	21%
Tax expense calculated using applicable tax rates	14,535	14,073
Permanent differences between tax and accounting income	(200)	(342)
Permanent differences between tax and accounting expenses	1,721	1,799
Total	**16,056**	**15,530**

As at 31 December 2018, the deferred tax structure is as follows.

(EUR '000)	Temporary differences	Deferred income tax asset/(liability)
Loans and receivables from customers at amortised cost – tax non-deductible impairment losses to customers	57,742	12,126
Employee benefits and accrual for unpaid bonuses	9,754	2,048
Tangible and intangible assets	7,184	1,509
Other	7,585	1,593
Losses carried forward	1,515	318
Financial assets at fair value through other comprehensive income	(11,569)	(2,430)
Total	**72,211**	**15,164**

As at 31 December 2017, the deferred tax structure is as follows.

(EUR '000)	Temporary differences	Deferred income tax asset/(liability)
Loans and receivables from customers at amortised cost – 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**

Reconciliation of the deferred tax structure as at 31 December 2017 and 31 December 2018 is as follows.

(EUR '000)	31 Dec 2017	IFRS 9 impact	1 Jan 2018	Movement through other comprehensive income	Movement through profit or loss	31 Dec 2018
Deferred income tax asset/ (liability)	13,431	4,653	18,084	212	(3,132)	15,164

Impact of IFRS 9 FTA on the deferred tax structure is as follows.

	31 Dec 2017		IFRS 9 impact		1 Jan 2018	
(EUR '000)	Temporary differences	Deferred income tax asset/ (liability)	Temporary differences	Deferred income tax asset/ (liability)	Temporary differences	Deferred income tax asset/ (liability)
Loans and receivables from customers at amortised cost – tax non-deductible impairment losses to customers	55 849	11 729	14 484	3 042	70 333	14 770
Employee benefits and accrual for unpaid bonuses	10 441	2 193	-	-	10 441	2 193
Tangible and intangible assets	7 798	1 638	-	-	7 798	1 638
Other	7 090	1 489	-	-	7 090	1 489
Losses carried forward	3 031	636	-	-	3 031	636
Available-for-sale financial assets	(20 253)	(4 254)	7 675	1 611	(12 578)	(2 642)
Total	**63 956**	**13 431**	**22 159**	**4 653**	**86 115**	**18 084**

33 Related parties

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

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

Assets and liabilities from transactions with related parties were as follows.

(EUR '000)	**31 Dec 2018**			**31 Dec 2017**		
	KBC Bank NV	**KBC Group**	**ČSOB Group**	**KBC Bank NV**	**KBC Group**	**ČSOB Group**
Other demand deposits with banks	1,220	660	-	13,051	1,539	-
Financial assets at fair value through profit or loss	3,101	16	3,599	18,040	1,033	2,074
of which: Financial trading derivatives	*3,101*	*16*	*3,599*	*6,231*	*66*	*2,074*
Loans and receivables from financial institutions at amortised cost	22,281	-	-	84,398	-	-
Loans and receivables from customers at amortised cost	-	-	70,819	-	-	69,071
Other assets	35	837	146	1,637	743	313
of which: Hedging derivatives	*35*	-	-	*1,637*	-	-
Financial liabilities at fair value through profit or loss	10,266	82	-	5,660	343	18
of which: Financial trading derivatives	*10,266*	*11*	-	*5,660*	*297*	*18*
Amounts owed to financial institutions at amortised cost	885,303	3,320	8,415	576,606	2,438	9,229
Amounts owed to customers at amortised cost	-	43,478	63,176	-	110,673	25,187
Debt securities issued at amortised cost	-	293,767	9,513	-	343,953	9,513
Subordinated debt (note 20)	87,551	-	-	87,543	-	-
Other liabilities	8,399	147	24	3,859	931	27
of which: Hedging derivatives	*8,366*	-	-	*3,847*	-	-

Income and expense from transactions with related parties were as follows.

(EUR '000)	**31 Dec 2018**			**31 Dec 2017**		
	KBC Bank NV	**KBC Group**	**ČSOB Group**	**KBC Bank NV**	**KBC Group**	**ČSOB Group**
Interest income	8,577	5	1,216	7,707	526	1,009
Similar interest income	248	910	-	140	87	1
Fee and commission income	1,102	6,455	462	975	6,237	803
Net trading result and exchange differences	17,503	2,587	(4,491)	(7,570)	(649)	1,692
Net realized result from Financial assets at fair value through other comprehensive income	-	(12)	228	n/a	n/a	n/a
Net realized result from financial instruments measured at amortised cost		555	-	-	-	-
Dividend income	-	-	440	-	-	1,061
Other operating result	-	1,182	511	-	456	592
Interest expense	(5,891)	(1,975)	(91)	(5,234)	(2,388)	(95)
Similar interest expense	-	(2)	(1)	(1)	-	-
Fee and commission expense	(145)	(594)	-	(200)	(1)	-
Other operating expenses	(836)	(15,829)	(5,551)	(383)	(14,741)	(4,266)
*of which: costs charged by other KBC Group entities **	(786)	(3,325)	-	*(383)*	*(3,718)*	-

** intercompany invoices from KBC Group consolidated entities insofar they cannot be classified in other blocks of "Other operating expenses" (note 31).*

Terms of contracts with related parties:

- Loans and receivables from financial institutions at amortised cost – maximum maturity until 2019 (2017: until 2018) and weighted average contractual interest rate (0.36%) (2017: (0.08%));
- Loans and receivables from customer at amortised cost - maximum maturity until 2029 and weighted average contractual interest rate 1.71% (2017: (0.25%));
- Financial liabilities at fair value through profit or loss (excl. derivatives) – maximum maturity until 2021 (2017: until 2021) and weighted average contractual interest rate 0.71% (2017: 1.11%);
- Amounts owed to financial institutions at amortised cost – maximum maturity until 2023 (2017: until 2027) and weighted average contractual interest rate (0.06%) (2017: (0.17%));
- Amounts owed to customers at amortised cost – maximum maturity until 2021 (2017: until 2021) and weighted average contractual interest rate 0.06% (2017: 0.14%);
- Debt securities issued at amortised cost – maximum maturity until 2036 (2017: until 2036) and weighted average contractual interest rate 0.57% (2017: 0.66%).

As at 31 December 2018, total guarantees received (to Loans and receivables from customers at amortised cost) from related parties represent EUR 34,247 thousand (31 December 2017: EUR 20,824 thousand). As at 31 December 2018, guarantees given by ČSOB Bank towards related parties are in the amount of EUR 12,038 thousand (31 December 2017: EUR 6,483 thousand).

In 2018, ČSOB Bank received dividends from its subsidiaries in the amount of EUR 440 thousand (2017: EUR 1,061 thousand).

As at 31 December 2018 and 31 December 2017, ČSOB Bank did not create any provision for doubtful debts towards related parties.

33.1 Transactions with key management personnel

As at 31 December 2018, loans granted to members of the Board of Directors and Supervisory Board represent EUR 362 thousand (31 December 2017: EUR 437 thousand). Deposits from members of the Board of Directors and Supervisory Board as at 31 December 2018 amounted to EUR 1,795 thousand (31 December 2017: EUR 2,274 thousand).

Personnel expenses of senior management for the year ended 31 December 2018 were EUR 2,591 thousand (31 December 2017: EUR 2,288 thousand). These personnel expenses include the total remuneration amounted to EUR 2,162 thousand (31 December 2017: EUR 1,919 thousand) and social expenses amounted to EUR 429 thousand (31 December 2017: EUR 369 thousand) of members of the Board of Directors and Supervisory Board, which are regulated by the Internal Remuneration Policy of ČSOB Bank.

34 Derivative financial instruments

ČSOB Bank 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 time or over a period in the future.

34.1 Credit risk associated with derivative financial instruments

By utilizing derivative financial instruments, ČSOB 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, ČSOB 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). ČSOB Bank minimises credit risk through credit approvals, limits and monitoring procedures. In addition, ČSOB 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 ČSOB Bank as usual used in trading and managing banking risks.

The maximum credit risk on ČSOB 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. ČSOB 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. See note 35.

34.2 Trading derivative financial instruments

The trading activities of ČSOB Bank 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 Bank 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 currency. ČSOB 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 under "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 under "Net trading result and exchange differences". Interest income/expense related to derivative financial instruments is recognized under "Net trading result and exchange differences".

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

(EUR '000)	**Nominal values**		**Fair values**	
Trading derivatives as at 31 Dec 2018	**Receivables**	**Liabilities**	**Positive**	**Negative**
Equity contracts				
Equity swaps	3,770	3,770	60	60
FX contracts				
FX forwards	3,581	3,678	19	81
FX swaps and Cross-currency interest rate swaps	277,899	277,902	1,301	1,254
FX options	86,328	86,328	420	415
Interest rate contracts				
Interest rate swaps	2,776,669	2,776,669	8,845	8,537
Interest rate options	61,764	61,764	232	1,502
Commodity contracts				
Commodity swaps and options	451	451	16	5
Trading derivatives (note 4 and 16)	**3,210,462**	**3,210,562**	**10,893**	**11,854**

(EUR '000)	**Nominal values**		**Fair values**	
Trading derivatives as at 31 Dec 2017	**Receivables**	**Liabilities**	**Positive**	**Negative**
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
Trading derivatives (note 4 and 16)	**2,776,369**	**2,776,210**	**10,776**	**9,640**

34.3 Hedging derivative financial instruments

ČSOB Bank applies the portfolio hedging of fair value related to interest rate risk. ČSOB 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 from customers and the hedging instrument is a portfolio of interest rate swaps, in which ČSOB Bank pays fixed and receives floating interest rate. As at 31 December 2018, the hedge was effective in hedging the fair value exposure to interest rate movements. ČSOB Bank recognized a loss on hedging instruments in the amount of EUR (5,057) thousand (31 December 2017: gain of EUR 3,903 thousand) and a gain on hedged item attributable to the hedged risk amounted of EUR 6,039 thousand (31 December 2017: loss of EUR (3,776) thousand), which are presented under “Net trading result and exchange differences”. See note 28 and 2.10.

The table below shows the information about fair value hedge as at 31 December 2018.

(EUR '000)	**Portfolio hedge of Interest rate risk**
Hedging instrument	*Interest rate swaps*
Nominal amount purchased	1,985,000
Nominal amount sold	1,985,000
Carrying amount assets (note 14)	35
Carrying amount liabilities (note 22)	8,366
Change in fair value of hedging instruments used as basis for recognising hedge ineffectiveness for the period (note 28)	(5,057)

Hedged item	*Loans and receivables from customers at amortised cost*
Carrying value total	1,990,792
of which: accumulated fair value adjustment (note 14)	5,792
Change in fair value of hedged item used as basis for recognising hedge ineffectiveness for the period (note 28)	6,039

The contract or notional amounts and positive and negative fair values of ČSOB Bank's outstanding hedging derivative positions as at 31 December 2017 are shown below.

(EUR '000)	**Nominal values**		**Fair values**	
Hedging derivatives as at 31 Dec 2017	**Receivables**	**Liabilities**	**Positive**	**Negative**
Interest rate swaps	1,645,000	1,645,000	1,637	3,847
Hedging derivatives (note 14 and 22)	**1,645,000**	**1,645,000**	**1,637**	**3,847**

35 Offsetting financial assets and liabilities

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

				Related amounts not offset			
(EUR '000)	**Gross amounts of financial assets**	**Gross amounts of financial assets offset**	**Net amounts of financial assets**	**Financial instruments**	**Cash collateral received**	**Securities collateral received**	**Net amount**
31 Dec 2018							
Derivatives (note 34)	10,928	-	10,928	3,632	-	-	**7,296**
31 Dec 2017							
Derivatives (note 34)	12,413	-	12,413	8,027	-	-	**4,386**

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

				Related amounts not offset			
(EUR '000)	**Gross amounts of financial liabilities**	**Gross amounts of financial liabilities offset**	**Net amounts of financial liabilities**	**Financial instruments**	**Cash collateral pledged**	**Securities collateral pledged**	**Net amount**
31 Dec 2018							
Derivatives (note 34)	20,220	-	20,220	3,633	15,496	-	**1,091**
Repurchase agreements (note 17)	222,988	-	222,988	-	4,410	218,578	**-**
Total 31 Dec 2018	**243,208**	**-**	**243,208**	**3,633**	**19,906**	**218,578**	**1,091**
31 Dec 2017							
Derivatives (note 34)	13,487	-	13,487	8,027	1,948	-	**3,512**
Repurchase agreements (note 17)	223,901	-	223,901	-	-	186,486	**37,415**
Total 31 Dec 2017	**237,388**	-	**237,388**	**8,027**	**1,948**	**186,486**	**40,927**

36 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.

ČSOB 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, ČSOB 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 must 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 Bank 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 Bank (a third party), are classified into Level 3.

The Market Risk and Capital Management Section and Finance 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 Finance 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 Bank. 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 must 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 ČSOB Bank's financial assets and liabilities.

36.1 Fair values of financial assets and liabilities measured at amortised cost

The following table shows the hierarchy levels for determining the fair value of financial assets and liabilities measured at amortised cost (including contingent commitments) as at 31 December 2018 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	196,983	-	26,058	**223,041**	223,041
Loans and receivables from financial institutions at amortised cost	-	-	35,323	**35,323**	36,520
Loans and receivables from customers at amortised cost	-	-	6,172,922	**6,172,922**	6,014,499
Debt securities at amortised cost	1,777,417	159,780	-	**1,937,197**	1,809,192
Total financial assets				**8,368,483**	**8,083,252**
Financial liabilities					
Amounts owed to financial institutions at amortised cost	-	582,649	381,382	**964,031**	967,413
Amounts owed to customers at amortised cost	-	6,079,683	39,425	**6,119,108**	6,115,866
Debt securities issued at amortised cost	-	458,543	-	**458,543**	444,640
Subordinated debt	-	-	87,551	**87,551**	87,551
Total financial liabilities				**7,629,233**	**7,615,470**

The following table shows the hierarchy levels for determining the fair value of financial assets and liabilities measured at amortised 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 from financial institutions at amortised cost	-	-	102,181	**102,181**	102,103
Loans and receivables from customers at amortised cost	-	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 at amortised cost	-	428,462	259,958	**688,420**	687,496
Amounts owed to customers at amortised cost	-	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**

36.1.1 Loans and receivables from financial institutions at amortised cost 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 ČSOB Bank's own experience of probability of default and loss given default. Most of loans are repaid within a relatively short time periods; it is assumed, therefore, that their carrying values approximate to their fair values.

36.1.2 Loans and receivables from customers at amortised cost

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

36.1.3 Contingent commitments

In general, the fair values of contingent commitments equal to fees charged by ČSOB Bank to its customers when these products are contracted. As at 31 December 2018 and 31 December 2017, the fair value of contingent commitments was not material. For more information about carrying amounts see note 23.

36.1.4 Debt securities at amortised cost (2017: Held-to-maturity investments)

Fair values for Debt securities at amortised cost under IFRS 9 and Held-to-maturity investments under IAS 39 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 based on 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.

36.1.5 Amounts owed to financial institutions at amortised cost 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.

36.1.6 Amounts owed to customers at amortised cost

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.

36.1.7 Debt securities issued at amortised cost

Mortgage bonds, investment certificates and bank bonds 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.

36.1.8 Other financial assets

The carrying values of other financial assets approximate to their fair values.

36.2 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 2018.

(EUR '000)	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss (note 4)				
Financial assets held for trading				
Financial trading derivatives	-	10,893	-	10,893
Government debt securities	107,586	-	-	107,586
Bank bonds	-	13,764	-	13,764
Other bonds	3,581	1,516	-	5,097
Total				***137,340***
Financial assets at fair value through other comprehensive income (note5)				
*Debt securities **				
Government debt securities	119,224	-	-	119,224
Equity instruments				
Shares	-	3,649	4,845	8,494
Total				***127,718***
Other financial assets (note 14)				
Fair value changes of hedged item (hedged risk)	-	5,792	-	5,792
Hedging derivatives	-	35	-	35
Total				***5,827***
Total financial assets				**270,885**
Financial liabilities				
Financial liabilities at fair value through profit or loss (note 16)				
Financial liabilities designated at fair value through profit or loss on initial recognition				
Term deposits – non-bank customers	-	37,624	-	37,624
Debt securities issued at amortised cost	-	7,680	-	7,680
Financial liabilities held for trading				
Financial trading derivatives	-	11,854	-	11,854
Total				***57,158***
Other financial liabilities (note 22)				
Hedging derivatives	-	8,366	-	8,366
Total				***8,366***
Total financial liabilities				**65,524**

** net of impairment losses*

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 from 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 6)				
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 14)				
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 16)				
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**
Financial liabilities held for trading				
Financial trading derivatives	-	9,636	4	**9,640**
Total				***81,205***
Other financial liabilities (note 22)				
Hedging derivatives	-	3,847	-	**3,847**
Total				***3,847***
Total financial liabilities				**85,052**

36.2.1 Derivatives

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

36.2.2 Debt securities at fair value through profit or loss and Debt securities at fair value through other comprehensive income (2017: Debt securities available-for-sale)

ČSOB 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, ČSOB 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 a comparable company.

In that case the security is classified in Level 2.

36.2.3 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 ČSOB Bank, which calculates the present value (cash flows discounted using inter-bank yield curves).

36.2.4 Shares

Equity instruments at fair value through other comprehensive income (2017: 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.

36.3 Transfers between Level 1 and 2

The following table shows movements between Level 1 and Level 2 in 2018.

(EUR '000)	**Transfers from level 1 to level 2**
Financial assets at fair value through profit or loss (note 4)	
Other bonds	1,035

In 2018, ČSOB Bank transferred other bonds in portfolio Financial assets at fair value through profit or loss amounting EUR 1,035 thousand from Level 1 to Level 2 due to change of the valuation source from market price to expert valuation.

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 6)	
Other bonds	12,423

In 2017, ČSOB Bank transferred 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.

37 ČSOB Bank risks

Risk is inherent in ČSOB 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 ČSOB Bank's continuing profitability. Every individual within ČSOB Bank is accountable for the risk exposures relating to his or her responsibilities. ČSOB 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, ČSOB 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 ČSOB Bank and are reassessed at least once per year and approved by the Board of Directors.

37.1 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 ČSOB 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 ČSOB 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 Bank;
- primary risk management within departments and organizational units.

37.1.1 The organizational structure of senior bodies and committees for risk management

A 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 ČSOB Bank, liquidity, capital adequacy (regulatory and economic capital) and capital utilization and makes decisions concerning the risk mitigation actions, setting of limits and monitoring of limit overruns.

B Supervisory Board

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

C 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.

D 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 ČSOB Bank by senior management and oversee compliance with the rules, 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 ČSOB Bank.

E 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 ČSOB Bank to be accepted by the Board of Directors.

F Assets and Liabilities Committee ("ALCO")

The ALCO is an advisory committee for the Board of Directors in the field of balance sheet management (banking and trading book). The ALCO has decision-making and recommendation powers in the field 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.

G 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.

H Credit Risk Committee ("CRC")

The CRC's objective is to identify, measure and monitor credit risk arising from ČSOB 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 ČSOB Bank. The CRC also serves as Local Assessment Committee ("LAC") for IFRS 9 provisioning models. LAC approves and challenges CSOB Bank's impairments and models.

I 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 ČSOB Bank in the field of loans.

J 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 ČSOB 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 ČSOB Bank – for Retail and Private Banking and for Corporate.

K Information Risk and Security Committee ("IRSC")

The IRSC has advisory and decision-making powers in the field 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.

37.1.2 Other risk management bodies

A 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 given risks and its adherence.

B 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 ČSOB Bank.

C Financial Markets Division ("FM")

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

D 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 ČSOB 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 of ČSOB Bank.

37.1.3 Risk reporting and measurement systems

ČSOB 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. ČSOB 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 based on limits established by ČSOB Bank. These limits reflect the business strategy and market environment of ČSOB Bank, as well as the level of risk that ČSOB Bank is willing to accept. In addition, ČSOB 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 to analyse, control and identify risks as they arise. This information is presented and explained to ČSOB 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 ČSOB 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 ČSOB Bank's management.

37.1.4 Risk mitigation

As part of its overall risk management, ČSOB 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.

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

37.1.5 Excessive risk concentration

Concentrations arise when several 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 ČSOB Bank's performance to developments affecting a given industry or geographical location.

To avoid excessive concentrations of risk, ČSOB 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 ČSOB Bank to manage risk concentrations at both the relationship and industry levels.

37.2 Credit risk

Credit risk is the risk of loss if the customer, client or counterparty fails to meet its obligations to ČSOB Bank resulting from a contractual relationship. ČSOB 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. ČSOB Bank regularly monitors the volume and quality of the exposures in respect of the imposed limits. Credit risk is also monitored through the various indicators and their limits.

ČSOB 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 ČSOB Bank to assess the potential loss to which it is exposed because of the risk and to take corrective action.

37.2.1 Internal Rating Based approach ("IRB")

ČSOB Bank 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. ČSOB 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. For retail exposures the scoring models are used. These exposures are assigned into so called pools based on score, for which the appropriate probability of default is derived and are mapped to PD rating 1-12 for the consistency of reporting purposes.

Classification of non-default/normal customers ratings is as follows:

Internal Rating	% probability of default	Rating
1	0.00% - 0.10%	Investment grade
2	0.10% - 0.20%	Investment grade
3	0.20% - 0.40%	Investment grade
4	0.40% - 0.80%	Standard monitoring
5	0.80% - 1.60%	Standard monitoring
6	1.60% - 3.20%	Standard monitoring
7	3.20% - 6.40%	Standard monitoring
8	6.40% - 12.80%	Watchlist (special monitoring)
9	12.80% - 100.00%	Watchlist (special monitoring)

The IRB approach also includes the development of score-models for retail portfolios within ČSOB 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 and other risk parameters for the whole pool. Score-models are used in the application process so that they influence the incoming population.

All models must follow the standards defined within the KBC Group, to be independently validated by a specialist appointed from the Credit Risk Management Department and must be approved by Chief Risk Officer. ČSOB 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 ČSOB Bank prior approval to use the IRB approach for the calculation of the own funds requirement for credit risk. ČSOB Bank has been reporting ČSOB Bank portfolio under the IRB approach since 31 March 2014.

37.2.2 Corporate and SME customers

ČSOB 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, ČSOB 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.

A 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, ČSOB 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.

37.2.3 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).

A Credit acceptance process

The retail acceptance process is based on several 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.

B Portfolio risk management

Several 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.

37.2.4 Derivative financial instruments

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

37.2.5 Credit risk-related receivables

ČSOB Bank grants its customers guarantees that may result in a requirement for ČSOB Bank to make payments on their behalf. Such payments are collected from customers on the terms of a letter of credit. They expose ČSOB 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 considering any collateral and other credit risk mitigation tools.

(EUR '000)	31 Dec 2018	31 Dec 2017
Mandatory minimum reserves and other demand deposits with banks (note 3)	36,804	73,228
Financial assets at fair value through profit or loss (note 4)	137,340	52,562
Financial assets at fair value through other comprehensive income, excluding shares (note 5)	119,224	n/a
Available-for-sale financial assets, excluding shares (note 6)	n/a	446,670
Loans and receivables from financial institutions at amortised cost (note 7)	36,520	102,103
Loans and receivables from customers at amortised cost (note 8)	6,014,499	5,528,390
Debt securities at amortised cost (note 9)	1,809,192	n/a
Held-to-maturity investments (note 10)	n/a	1,471,196
Other financial assets (note 14)	13,751	7,546
Total	***8,167,330***	***7,681,695***
Credit facilities issued but not drawn (note 23.1)	1,396,007	1,207,179
Financial guarantees given (note 23.1)	227,862	235,161
Letters of credit given (note 23.1)	14,643	3,702
Total	***1,638,512***	***1,446,042***
Total credit risk exposure	**9,805,842**	**9,127,737**

The financial assets described above represent the current credit risk exposure, but not the maximum risk exposure that could arise in the future because of changes in values of the assets.

As at 31 December 2018, the maximum exposure to credit risk relating to financial instruments not subject to impairment was of EUR 26,058 thousand and the maximum exposure to credit risk relating to financial instruments subject to impairment with null ECL was of EUR 51,350 thousand.

37.2.6 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. credit facilities issued but not drawn, financial guarantees given) is represented by the maximum amount ČSOB Bank must pay if the commitment is called in, which is also equal to their carrying amount.

37.2.7 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 2018 was EUR 1,720,904 thousand (31 December 2017: 1,655,908 thousand) and to a non-governmental counterparty EUR 120,839 thousand (31 December 2017: 120,458 thousand) before taking collateral or other credit enhancements into account and EUR 57,839 thousand (31 December 2017: 120,458 thousand) after taking them into account.

ČSOB 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 2018	31 Dec 2017
Slovak Republic	9,308,188	8,595,839
Belgium	28,418	39,600
Czech Republic	169,592	176,466
Great Britain	104,953	105,238
Hungary	50,052	90,607
Netherlands	36,438	22,147
Switzerland	31,324	1,797
Austria	23,735	32,502
Other	53,142	63,541
Total	**9,805,842**	**9,127,737**

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

(EUR '000)	31 Dec 2018	31 Dec 2017
Agriculture, Forestry and Fisheries	13,021	16,503
Mining and extraction	8,887	9,096
Industrial production	648,703	564,669
Supply of electricity, gas, steam and cold air	249,893	249,033
Supply of water, cleaning and transfer of wastewater, waste, related services	97,232	98,925
Construction	296,846	288,296
Wholesale, retail, repairs of motor vehicles and motorcycles	556,572	518,508
Transport and storage	264,173	265,764
Accommodation and catering	16,307	17,401
Information and communication	76,987	43,544
Financial and insurance activities	188,613	226,150
Real estate activities	657,982	543,904
Professional, scientific and technical activities	262,548	239,279
Administration and supporting services	49,158	38,747
Public administration and defence, Social insurance	1,897,122	1,836,751
Education	3,009	3,070
Health and social support	11,532	12,510
Art, entertainment and relaxation	2,360	1,425
Other activities	7,771	10,328
Household activities in role of employers	4,107,772	3,736,295
Activities of extraterritorial organizations and associations	389,354	407,539
Total	**9,805,842**	**9,127,737**

37.2.8 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. As at 31 December 2018, gross carrying amount (GCA), Impairment losses/ Provisions and net carrying amount (NCA) split by stages.

	Stage 1			Stage 2			Stage 3			POCI			Total		
(EUR '000)	**GCA**	**Impairment losses/ Provisions**	**NCA**	**GCA**	**Imp. losses/ Prov.**	**NCA**	**GCA**	**Imp. losses/ Prov.**	**NCA**	**GCA**	**Imp. losses/ Prov.**	**NCA**	**GCA**	**Imp. losses/ Prov.**	**NCA**
Mandatory minimum reserves and other demand deposits with banks (note 3)	36,804	-	36,804	-	-	-	-	-	-	-	-	-	36,804	-	36,804
Financial assets at fair value through profit or loss (note 4)	137,340	-	137,340	-	-	-	-	-	-	-	-	-	137,340	-	137,340
Financial assets at fair value through other comprehensive income, excluding shares (note 5)	119,226	(2)	119,224	-	-	-	-	-	-	-	-	-	119,226	(2)	119,224
Loans and receivables from financial institutions at amortised cost (note 7)	36,526	(6)	36,520	-	-	-	92	(92)	-	-	-	-	36,618	(98)	36,520
Loans and receivables from customers at amortised cost (note 8) *of which:*	5,438,398	(6,868)	5,431,530	581,302	(27,756)	553,546	121,444	(93,040)	28,404	5,447	(4,428)	1,019	6,146,591	(132,092)	6,014,499
Public administration	172,409	(14)	172,395	155	-	155	92	(92)	-	-	-	-	172,656	(106)	172,550
Corporate	1,686,437	(4,109)	1,682,328	241,826	(5,040)	236,786	57,956	(48,333)	9,623	5,447	(4,428)	1,019	1,991,666	(61,910)	1,929,756
Retail	3,579,552	(2,745)	3,576,807	339,321	(22,716)	316,605	63,396	(44,615)	18,781	-	-	-	3,982,269	(70,076)	3,912,193
Mortgage loans	*3,112,423*	*(322)*	*3,112,101*	*199,293*	*(3,910)*	*195,383*	*26,013*	*(13,093)*	*12,920*	-	-	-	*3,337,729*	*(17,325)*	*3,320,404*
Consumer loans	*233,956*	*(511)*	*233,445*	*32,364*	*(2,038)*	*30,326*	*10,034*	*(7,625)*	*2,409*	-	-	-	*276,354*	*(10,174)*	*266,180*
Credit cards	*14,952*	*(31)*	*14,921*	*8,491*	*(594)*	*7,897*	*1,216*	*(955)*	*261*	-	-	-	*24,659*	*(1,580)*	*23,079*
Overdrafts	*10,838*	*(36)*	*10,802*	*12,108*	*(868)*	*11,240*	*1,848*	*(1,454)*	*394*	-	-	-	*24,794*	*(2,358)*	*22,436*
MicroSME	*207,383*	*(1,845)*	*205,538*	*87,065*	*(15,306)*	*71,759*	*24,285*	*(21,488)*	*2,797*	-	-	-	*318,733*	*(38,639)*	*280,094*
Debt securities at amortised cost (note 9)	1,809,537	(345)	*1,809,192*	-	-	-	-	-	-	-	-	-	1,809,537	(345)	1,809,192
Other financial assets (note 14)	13,830	(79)	*13,751*	-	-	-	-	-	-	-	-	-	13,830	(79)	13,751
Total	**7,591,661**	**(7,300)**	**7,584,361**	**581,302**	**(27,756)**	**553,546**	**121,536**	**(93,132)**	**28,404**	**5,447**	**(4,428)**	**1,019**	**8,299,946**	**(132,616)**	**8,167,330**
Off-balance sheet liabilities	1,433,177	(804)	1,432,373	208,077	(2,682)	205,395	1,229	(630)	599	282	(137)	145	1,642,765	(4,253)	1,638,512
Total credit risk exposure	**9,024,838**	**(8,104)**	**9,016,734**	**789,379**	**(30,438)**	**758,941**	**122,765**	**(93,762)**	**29,003**	**5,729**	**(4,565)**	**1,164**	**9,942,711**	**(136,869)**	**9,805,842**

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		
	GCA	Impairment losses/ Provisions	NCA	GCA	Imp. losses/ Prov.	NCA	GCA	Imp. losses/ Prov.	NCA
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, excluding shares (note 6)	446,670	-	**446,670**	-	-	**-**	446,670	-	**446,670**
Loans and receivables from financial institutions at amortised cost (note 7)	102,125	(22)	**102,103**	92	(92)	**-**	102,217	(114)	**102,103**
Loans and receivables from customers at amortised cost (note 8) *of which:*	5,485,618	(8,278)	**5,477,340**	159,888	(108,838)	**51,050**	5,645,506	(117,116)	**5,528,390**
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 10)	1,471,225	(29)	**1,471,196**	-	-	**-**	1,471,225	(29)	**1,471,196**
Other financial assets (note 14)	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 main considerations for loan impairment assessment include whether any payments of principal, fees 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. In accordance with the Standard IFRS 9 these considerations are covered within the classification of loans and receivables into 3 Stages. ČSOB Bank addresses impairment assessment in two areas; individually assessed allowances and collectively assessed allowances.

A Individually assessed allowances

ČSOB 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 ČSOB Bank's management), unless extraordinary or unforeseen circumstances require more careful attention.

B 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 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, current macroeconomic situation and its future trend. The impairment allowance is reviewed by the credit management departments to ensure its alignment with ČSOB 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.

Table below shows gross carrying amount of asset classes in Stage 1 by credit rating. Each credit rating is linked to given interval of probability of default as defined in note 37.2.1 as at 31 December 2018

	Rating				
(EUR '000)	**1 - 3**	**4 - 7**	**8 - 9**	**Undefined ***	**Total**
Other demand deposits with banks at amortised cost (note 3)	26,037	21	-	-	**26,058**
Financial assets at fair value through profit or loss (note 4)	133,874	3,414	-	52	**137,340**
Financial trading derivatives	*8,928*	*1,913*	-	*52*	***10,893***
Government debt securities	*107,586*	-	-	-	***107,586***
Bank bonds	*13,764*	-	-	-	***13,764***
Other bonds	*3,596*	*1,501*	-	-	***5,097***
Financial assets at fair value through other comprehensive income, (excluding shares) (note 5)	119,226	-	-	-	**119,226**
Loans and receivables from financial institutions at amortised cost (note 7)	22,340	14,186	-	-	**36,526**
Loans and receivables from customers at amortised cost (note 8)	2,516,046	2,864,722	42,625	15,005	**5,438,398**
Public administration	170,770	-	-	1,639	**172,409**
Corporate	589,123	1,079,268	4,745	13,301	**1,686,437**
Retail	1,756,153	1,785,454	37,880	*65*	**3,579,552**
Mortgage loans	*1,655,001*	*1,449,556*	*7,866*	-	***3,112,423***
Consumer loans	*76,847*	*151,305*	*5,804*	-	***233,956***
Credit cards	*6,448*	*8,183*	*321*	-	***14,952***
Overdrafts	*2,478*	*7,664*	*647*	*49*	***10,838***
MicroSME	*15,379*	*168,746*	*23,242*	*16*	***207,383***
Debt securities at amortised cost (note 9)	1,728,980	80,557	-	-	**1,809,537**
Government debt securities	*1,566,979*	-	-	-	***1,566,979***
Bank bonds	*123,804*	-	-	-	***123,804***
Other bonds	*38,197*	*80,557*	-	-	***118,754***
Hedging derivatives (note 14)	35	-	-	-	**35**
Total	**4,546,538**	**2,962,900**	**42,625**	**15,057**	**7,567,120**
Off-balance sheet liabilities	696,547	718,681	13,494	4,455	**1,433,177**
Total credit risk exposure	**5,243,085**	**3,681,581**	**56,119**	**19,512**	**9,000,297**

** the rating or rating model is not assigned*

Table below shows gross carrying amount of asset classes in Stage 2 by credit rating. Each credit rating is linked to given interval of probability of default as defined in note 37.2.1 as at 31 December 2018.

	Rating				
(EUR '000)	**1 - 3**	**4 - 7**	**8 - 9**	**Undefined ***	**Total**
Loans and receivables from customers at amortised cost (note 8)	65,904	308,635	196,323	10,440	**581,302**
Public administration	-	146	-	9	**155**
Corporate	27,844	160,314	43,798	9,870	**241,826**
Retail	38,060	148,175	152,525	561	**339,321**
Mortgage loans	*30,366*	*96,054*	*72,873*	-	***199,293***
Consumer loans	*1*	*15,649*	*16,714*	-	***32,364***
Credit cards	*886*	*4,417*	*3,188*	-	***8,491***
Overdrafts	*667*	*6,271*	*5,170*	-	***12,108***
MicroSME	*6,140*	*25,784*	*54,580*	*561*	***87,065***
Total	***65,904***	***308,635***	***196,323***	***10,440***	***581,302***
Off-balance sheet liabilities	35,424	151,961	18,300	2,392	**208,077**
Total credit risk exposure	**101,328**	**460,596**	**214,623**	**12,832**	**789,379**

** the rating or rating model is not assigned*

Table below shows gross carrying amount of asset classes in Stage 3 by credit rating. Each credit rating is linked to given interval of probability of default as defined in note 37.2.1 as at 31 December 2018.

	Rating
(EUR '000)	**10 - 12**
Loans and receivables from financial institutions at amortised cost (note 7)	92
Loans and receivables from customers at amortised cost (note 8)	121,444
Public administration	92
Corporate	57,956
Retail	63,396
Mortgage loans	*26,013*
Consumer loans	*10,034*
Credit cards	*1,216*
Overdrafts	*1,848*
MicroSME	*24,285*
Total	**121,536**
Off-balance sheet liabilities	1,229
Total credit risk exposure	**122,765**

Table below shows gross carrying amount of asset classes classified as POCI by credit rating. Each credit rating is linked to given interval of probability of default as defined in note 37.2.1 as at 31 December 2018.

	Rating
(EUR '000)	**10 - 12**
Loans and receivables from customers at amortised cost (note 8)	5,447
Corporate	*5,447*
Off-balance sheet liabilities	282
Total credit risk exposure	**5,729**

As at 31 December 2017, the credit quality of Other demand deposits with banks, Financial assets at fair value through profit or loss and Loans and receivables from financial institutions at amortised cost 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	Other demand deposits with banks at cost	Other demand deposits with banks at fair value	Financial assets at fair value through profit or loss	Loans and receivables from financial institutions at amortised cost	Total
1	0.00% - 0.10%	2,680	12,055	11,808	87,571	**114,114**
2	0.10% - 0.20%	34,031	-	967	639	**35,637**
3	0.20% - 0.40%	114	-	-	-	**114**
4	0.40% - 0.80%	-	-	-	224	**224**
5	0.80% - 1.60%	-	-	-	636	**636**
6	1.60% - 3.20%	-	-	-	2,107	**2,107**
7	3.20% - 6.40%	-	-	-	1,052	**1,052**
8	6.40% - 12.80%	-	-	-	9,874	**9,874**
Total		**36,825**	**12,055**	**12,775**	**102,103**	**163,758**

As at 31 December 2017, the credit quality of Loans and receivables from customers at amortised cost 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 admi-nistration	Corporate	Retail	*Mortgage loans*	*Consumer loans*	*Credit cards*	*Over-drafts*	*Micro-SME*	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*

As at 31 December 2017, the credit quality of securities and bonds 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.

		Net carrying amount							
(EUR '000)		**Financial assets at fair value through profit or loss (note 4)**			**Available-for-sale financial assets (note 6)**			**Held-to-maturity investments (note 10)**	
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*

As at 31 December 2017, 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)		Financial assets at fair value through profit or loss (note 4)	Other assets (note 14)
Rating	**% possible default**	**Financial trading derivatives**	**Hedging derivatives**
1	0.00% - 0.10%	7,904	1,637
2	0.10% - 0.20%	1,079	-
3	0.20% - 0.40%	533	-
4	0.40% - 0.80%	204	-
5	0.80% - 1.60%	174	-
6	1.60% - 3.20%	171	-
7	3.20% - 6.40%	24	-
Undefined *	-	687	-
Total		**10,776**	**1,637**

** the rating or rating model is not assigned*

37.2.9 Collateral and other credit enhancements

The table below provides the financial effect of collaterals and of other credit enhancements for credit impaired financial assets (Stage 3 and POCI) as at 31 December 2018. 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)	Real estate	Cash and cash equivalents	Other	31 Dec 2018
Loans and receivables from customers at amortised cost	26,653	61	1,183	**27,897**
Corporate	7,634	24	1,183	**8,841**
Retail	19,019	37	-	**19,056**
Mortgage loans	*18,082*	-	-	***18,082***
MicroSME	*937*	*37*	-	***974***
Total	**26,653**	**61**	**1,183**	**27,897**

The tables below provide the financial effect of collaterals and of other credit enhancements for all groups of financial assets as at 31 December 2017. 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
Real estates	3,590,607
Cash and cash equivalents	15,906
Bank guarantees	34,165
Other	244,683
Total	**3,885,361**

(EUR '000)	31 Dec 2017
Loans and receivables to financial institutions	9,396
Loans and receivables to customers	3,756,172
Undrawn credit limits provided	119,793
Total	**3,885,361**

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

ČSOB Bank accepted guarantees from its parent company and other subsidiaries within the KBC Group for credit risk mitigation of other subsidiaries of ČSOB Bank and for third parties (note 33).

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

A Collateral realization

ČSOB 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.

a) 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 to be informed of the realization of the collateral by ČSOB Bank. If the client is amenable to cooperation in resolving this problem, ČSOB Bank usually proposes that the real estate be sold under conditions which it specifies (price, legal terms, etc.).

Otherwise, ČSOB Bank enters into contracts with external auction companies. An auction company holds an auction after which ČSOB 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.

b) Collateral realization in the NON-RETAIL segment

In the non-retail segment, ČSOB 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 ČSOB Bank's assets but ČSOB Bank pursues their sale.

37.2.10 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, ČSOB Bank implemented a new definition of forborne loans. Lately, ČSOB Bank had incorporated the extra requirements from the ECB-document re "Guidance to banks on non-performing loans (NPL)", published in March 2017.

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").

ČSOB 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 defaulted and non-performing and the 36-month period is re-set.

As at 31 December 2018, the net carrying amount of forborne exposures included in the credit portfolio is presented in the following table.

	Gross carrying amount			Impairment loss			Net carrying amount		
(EUR '000)	**Performing**	**Non-performing**	**Total**	**Performing**	**Non-performing**	**Total**	**Performing**	**Non-performing**	**Total**
Public administration	146	70	**216**	-	(70)	**(70)**	146	-	**146**
Corporate	7,054	29,304	**36,358**	(242)	(22,058)	**(22,300)**	6,812	7,246	**14,058**
Retail	6,025	7,467	**13,492**	(80)	(2,193)	**(2,273)**	5,945	5,274	**11,219**
Total	**13,225**	**36,841**	**50,066**	**(322)**	**(24,321)**	**(24,643)**	**12,903**	**12,520**	**25,423**

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

	Gross carrying amount			Impairment loss			Net carrying 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**

A movement table of gross carrying amount on exposures with forbearance measures as at 31 December 2018 is presented in the following table.

(EUR '000)	1 Jan 2018	IFRS 9 FTA impact	1 Jan 2018 *	Loans which have become forborne	Loans which are no longer considered to be forborne	Repayments and recovery	Write-offs	Other	31 Dec 2018
Public administration	**321**	10	331	-	(13)	(102)	-	-	**216**
Corporate	**40,264**	1,212	41,476	4,012	(4,605)	(5,365)	(546)	1,386	**36,358**
Retail	**18,296**	635	18,931	2,994	(5,804)	(1,515)	(1,346)	232	**13,492**
Total	**58,881**	**1,857**	**60,738**	**7,006**	**(10,422)**	**(6,982)**	**(1,892)**	**1,618**	**50,066**

** After IFRS 9 FTA impact*

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 impairment loss on exposures with forbearance measures as at 31 December 2018 is presented in the following table.

(EUR '000)	1 Jan 2018	IFRS 9 FTA impact	1 Jan 2018 *	Loans which have become forborne	Loans which are no longer considered to be forborne	(Creation)/ Release on forborne loans	Other	31 Dec 2018
Public administration	**(88)**	(15)	(103)	-	28	5	-	**(70)**
Corporate	**(23,631)**	(925)	(24,556)	(933)	1,081	767	1,341	**(22,300)**
Retail	**(3,080)**	(692)	(3,772)	(268)	143	(146)	1,770	**(2,273)**
Total	**(26,799)**	**(1,632)**	**(28,431)**	**(1,201)**	**1,252**	**626**	**3,111**	**(24,643)**

** After IFRS 9 FTA impact*

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)**

37.3 Liquidity risk and funding management

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

ČSOB 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, ČSOB Bank also has available secondary financial resources to maintain a sufficient liquidity level. ČSOB Bank creates and maintains regular contacts with clients and other counterparties, important for ČSOB 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 ČSOB 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 ČSOB Bank is expected), the stress scenario includes various stress factors related to ČSOB Bank and the financial market. Short-term liquidity is in ČSOB Bank monitored through liquidity ratios based on the actual balance sheet composition.

In addition, ČSOB 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"). ČSOB 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 ČSOB Bank (i.e. KPI's). ČSOB 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 ČSOB Bank in 2018 from the perspective of fulfilment was LCR. This regulatory short-term liquidity indicator is defined by Basel III in Regulation (EU) No 575/2013, which is supplemented by Commission delegated Regulation (EU) 2015/61. 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 2018 and 2017 with a sufficient reserve.

In addition to standard liquidity trends, ČSOB Bank has also prepared an emergency plan for liquidity management in the event of a liquidity crisis. 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 ČSOB Bank's non-derivative financial liabilities (including contingent commitments) categorised based on the earliest period in which ČSOB 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 2018	**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)	34,899	2,640	911	6,752	-	**45,202**
Amounts owed to financial institutions at amortised cost	62,868	223,862	299,477	331,078	53,917	**971,202**
Amounts owed to customers at amortised cost	5,272,366	279,123	553,217	8,529	-	**6,113,235**
Debt securities issued at amortised cost	1,138	10,412	31,003	369,688	76,275	**488,516**
Subordinated debt	-	304	912	4,862	91,754	**97,832**
Other financial liabilities (excluding derivatives)	-	14,718	-	-	-	**14,718**
Total financial liabilities	**5,371,271**	**531,059**	**885,520**	**720,909**	**221,946**	**7,730,705**
Credit facilities issued but not drawn	1,399,323	-	-	-	-	**1,399,323**
Financial guarantees given	228,768	-	-	-	-	**228,768**
Letters of credit given	14,674	-	-	-	-	**14,674**
Total contingent commitments	**1,642,765**	**-**	**-**	**-**	**-**	**1,642,765**

(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 at amortised cost	154,441	130,109	164,682	238,072	-	**687,304**
Amounts owed to customers at amortised cost	4,908,912	445,239	474,754	20,071	-	**5,848,976**
Debt securities issued	-	652	79,279	408,501	78,825	**567,257**
Subordinated debt	-	299	898	4,792	92,890	**98,879**
Other financial liabilities (excluding derivatives)	-	13,199	-	-	-	**13,199**
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**

The table below sets out the financial assets of ČSOB Bank by expected remaining maturity as at 31 December 2018.

(EUR '000)	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	223,041	-	-	-	-	-	**223,041**
Financial assets at fair value through profit or loss	6	955	4,274	14,070	107,142	10,893	**137,340**
Financial assets at fair value through other comprehensive income	-	506	2,099	89,394	27,224	8,495	**127,718**
Loans and receivables from financial institutions at amortised cost	22,814	187	5,189	7,928	402	-	**36,520**
Loans and receivables from customers at amortised cost	104,250	74,218	833,999	1,519,144	3,434,869	48,019	**6,014,499**
Debt securities at amortised cost	9,777	5,070	157,816	365,215	1,271,314	-	**1,809,192**
Other financial assets	-	13,751	-	-	-	-	**13,751**
Total financial assets	**359,888**	**94,687**	**1,003,377**	**1,995,751**	**4,840,951**	**67,407**	**8,362,061**

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

(EUR '000)	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 from financial institutions at amortised cost	88,005	4,187	2,133	6,785	1,006	(13)	**102,103**
Loans and receivables from customers at amortised cost	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**

37.4 Market risk

Market risk for financial instruments in ČSOB 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.

ČSOB 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.

37.4.1 Market risk – Trading Book

ČSOB Bank's Board of Directors defines the maximum acceptable level of risk by using VaR and BPV limits. ČSOB Bank applies a VaR method to estimate the market risk in the financial instruments recorded in ČSOB 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 ČSOB 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, ČSOB 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 10 working-day horizon. The adequacy and accuracy of the internal model is regularly evaluated using the results of back-tests performed daily.

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

In addition to the standard VaR calculations, ČSOB 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 ČSOB Bank. The set of predefined scenarios includes actual historical market shocks as well as artificially designed tests.

ČSOB 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 2018 is as follows.

(EUR '000)	Interest rate	FX	Effect of correlation	Global VaR total
31 Dec 2018	339	133	(85)	387
Average	232	163	(101)	294
Max	428	373	-	469
Min	74	56	-	101

VaR summary as at 31 December 2017 is as follows.

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

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

		Profit or Loss Sensitivity	
(EUR '000)	**Increase in basis point**	**31 Dec 2018**	**31 Dec 2017**
EUR	+10	(127)	(228)
CZK	+10	9	5

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.

37.4.2 Market risk – Banking Book

A 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 ČSOB 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 at fair value through other comprehensive income (2017: Available-for-sale financial assets). Shock parallel shifts of the yield curve are used to measure sensitivity.

B Models used in interest rate risk calculation

Each position of the 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. ČSOB Bank therefore created behavioural assumptions of such products based on deep analysis of historical data (analysis is re-evaluated once per year). ČSOB 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. ČSOB Bank also monitors potential risk from future mortgage loans prepayments.

Sensitivity to change in interest rates of the banking book as at 31 December 2018.

(EUR '000)	Growth in basis points	Net interest income sensitivity	Profit or loss sensitivity	Capital sensitivity
EUR	+10	(2,418)	(211)	(253)
CZK	+10	1	-	(1)
USD	+10	(108)	-	(131)

Sensitivity to change in interest rates of the 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)

C Equity price risk

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

37.4.3 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 ČSOB Bank's Board of Directors. Positions are monitored daily, and hedging strategies are used to close potential open currency positions.

The table below shows an analysis of ČSOB Bank's net open foreign exchange positions. The remaining currencies are included under "Other".

(EUR '000)	EUR	USD	CZK	Other *	Total
31 Dec 2018					
Financial assets					
Cash, balances with central bank and other demand deposits with banks (note 3)	181,618	20,599	5,201	15,623	**223,041**
Financial assets at fair value through profit or loss (note 4)	64,463	-	72,877	-	**137,340**
Financial assets at fair value through other comprehensive income, excluding shares (note 5)	77,762	41,462	-	-	**119,224**
Loans and receivables from financial institutions at amortised cost (note 7)	36,139	381	-	-	**36,520**
Loans and receivables from customers at amortised cost (note 8)	5,983,785	10,231	20,483	-	**6,014,499**
Debt securities at amortised cost (note 9)	1,773,461	35,731	-	-	**1,809,192**
Other financial assets (note 14)	13,646	89	2	14	**13,751**
Total financial assets	**8,130,874**	**108,493**	**98,563**	**15,637**	**8,353,567**
Financial liabilities					
Financial liabilities at fair value through profit or loss (note 16)	27,573	4,587	1,033	23,965	**57,158**
Amounts owed to financial institutions at amortised cost (note 17)	965,850	831	654	78	**967,413**
Amounts owed to customers at amortised cost (note 18)	5,795,663	126,742	100,219	93,242	**6,115,866**
Debt securities issued at amortised cost (note 19)	444,640	-	-	-	**444,640**
Subordinated debt (note 20)	87,551	-	-	-	**87,551**
Other financial liabilities (note 22)	18,338	141	4,499	106	**23,084**
Total financial liabilities	**7,339,615**	**132,301**	**106,405**	**117,391**	**7,695,712**
Off balance sheet items – assets	4,900,300	73,830	115,399	182,000	**5,271,529**
Off balance sheet items - liabilities	5,032,951	51,809	107,854	79,005	**5,271,619**
Net FX position at 31 Dec 2018	**658,608**	**(1,787)**	**(297)**	**1,241**	**657,765**
Total financial assets as at 31 Dec 2017	7,642,023	91,465	109,312	39,223	**7,882,023**
Total financial liabilities as at 31 Dec 2017	6,872,333	138,388	123,069	110,659	**7,244,449**
Off balance sheet items – assets as at 31 Dec 2017	4,031,041	124,763	126,745	227,827	**4,510,376**
Off balance sheet items - liabilities as at 31 Dec 2017	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**

** mainly position in currency AUD, TRY, PLN, GBP and RUB.*

As at 31 December 2018 and 31 December 2017, ČSOB Bank had no significant net FX position.

37.5 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 ČSOB 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, ČSOB Bank will be able to perform its activities. The objective of these plans is to minimize the impacts of unexpected events on banking activity.

38 Current and non-current assets and liabilities

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

	31 Dec 2018			31 Dec 2017		
(EUR '000)	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Assets						
Cash, balances with central bank and demand deposit with banks (note 3)	223,041	-	**223,041**	273,556	-	**273,556**
Financial assets at fair value through profit or loss (note 4)	5,235	132,105	**137,340**	25,970	26,592	**52,562**
Financial assets at fair value through other comprehensive income (note 5)	2,605	125,113	**127,718**	n/a	n/a	**n/a**
Available-for-sale financial assets (note 6)	n/a	n/a	**n/a**	161,976	291,358	**453,334**
Loans and receivables from financial institutions at amortised cost (note 7)	28,190	8,330	**36,520**	94,325	7,778	**102,103**
Loans and receivables from customers at amortised cost (note 8)	1,012,467	5,002,032	**6,014,499**	924,496	4,603,894	**5,528,390**
Debt securities at amortised cost (note 9)	172,663	1,636,529	**1,809,192**	n/a	n/a	**n/a**
Held-to-maturity investments (note 10)	n/a	n/a	**n/a**	24,821	1,446,375	**1,471,196**
Investments in subsidiaries (note 11)	-	76,302	**76,302**	-	76,202	**76,202**
Current income tax asset (note 32)	914	-	**914**	3,637	-	**3,637**
Deferred income tax asset (note 32)	-	15,164	**15,164**	-	13,431	**13,431**
Property and equipment (note 12)	-	37,912	**37,912**	-	39,643	**39,643**
Intangible assets (note 13)	-	11,500	**11,500**	-	7,656	**7,656**
Other assets (note 14)	10,883	5,664	**16,547**	9,518	707	**10,225**
Total assets	**1,455,998**	**7,050,651**	**8,506,649**	**1,518,299**	**6,513,636**	**8,031,935**
Liabilities and equity						
Financial liabilities at fair value through profit or loss (note 16)	8,957	48,201	**57,158**	28,410	52,795	**81,205**
Amounts owed to financial institutions at amortised cost (note 17)	586,924	380,489	**967,413**	449,594	237,902	**687,496**
Amounts owed to customers at amortised cost (note 18)	2,682,181	3,433,685	**6,115,866**	2,694,801	3,158,432	**5,853,233**
Debt securities issued at amortised cost (note 19)	38,798	405,842	**444,640**	74,121	443,805	**517,926**
Subordinated debt (note 20)	51	87,500	**87,551**	43	87,500	**87,543**
Provisions (note 15 and 21)	-	8,213	**8,213**	-	6,756	**6,756**
Other liabilities (note 22)	29,734	10,284	**40,018**	29,726	4,754	**34,480**
Equity (note 24)	-	785,790	**785,790**	-	763,296	**763,296**
Total liabilities and equity	**3,346,645**	**5,160,004**	**8,506,649**	**3,276,695**	**4,755,240**	**8,031,935**

39 Capital

From 1 January 2014, ČSOB 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. ČSOB 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 maintains a capital conservation buffer in the form of common equity Tier 1 capital ratio of 2.50% of its total risk exposure. ČSOB Bank maintains a systematically important institution buffer (O-SII) of 1.00% (31.12.2017: 1.00%) its total risk exposure and a countercyclical buffer of 1.25% (31.12.2017: 0.50%).

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

The primary objective of ČSOB Bank is 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 ČSOB Bank's capital.

ČSOB 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 2018	31 Dec 2017
Own funds	**825,598**	**836,278**
Tier 1 Capital	**717,224**	**730,141**
Common Equity Tier 1 Capital (CET 1)	**717,224**	**730,141**
Share capital	295,015	295,015
Share premium	484,726	484,726
Legal reserve fund	59,003	49,601
Retained earnings	101,574	82,632
Eligible profit	-	51,484
Accumulated other comprehensive income	8,476	16,000
Value adjustments due to the requirements for prudent valuation	(280)	(666)
Software	(11,500)	(7,656)
Other revaluation reserve	(216,162)	(216,162)
Other deduction*	(1,639)	n/a
IRB shortfall of credit risk adjustments to expected losses	(1,989)	(24,833)
Tier 2 Capital	***108,374***	***106,137***
Subordinated debt	87,551	87,543
IRB Excess of impairment losses over expected losses eligible	20,823	18,594

** From the first quarter 2018, ČSOB Bank is required to deduct the Irrevocable payment commitment to European Resolution Fund (15% of the cumulative annual contributions) from Own funds. As at 31 December 2018, the amount was EUR 1,639 thousand. See note 23.1.*

As at 31 December 2018 and 31 December 2017, ČSOB Bank met the obligatory capital requirements based on the reports submitted to management.

40 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 2018	31 Dec 2017
Cash, balances with central bank and other demand deposits with banks	3	223,041	273,556
Loans and receivables from financial institutions at amortised cost – loans and receivables from banks		474	87,274
Financial assets at fair value through profit or loss - loans and receivables from banks	4	-	12,775
Total		**223,515**	**373,605**

41 Post balance sheet events

From 31 December 2018, up to the date of issue of these financial statements, there were no such 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 19 March 2019.

Daniel Kollár
Chief Executive Officer

Ján Lučan
Chief Officer for Financial management, legal and central services