ANNUAL REPORT 2018

Komerční banka, a.s.

KB

Survey of Results 2014–2018

According to International Financial Reporting Standards (IFRS)

Consolidated data (CZK million)	2018	2017 restated[1]	2016	2015	2014
Financial results					
Net operating income	32,203	31,060	31,750	31,044	30,677
of which Net interest income	22,509	20,985	21,067	21,357	21,423
of which Net fees and commissions	6,220	6,284	6,683	6,968	6,752
of which Net profit on financial operations	3,209	3,576	3,837	2,610	2,385
Total operating costs	(14,635)	(14,510)	(14,026)	(14,352)	(13,065)
Profit attributable to the Group's equity holders	14,846	14,930	13,688	12,758	12,954
Earnings per share (CZK)[2]	78.61	79.05	72.48	67.55	68.59
Balance sheet					
Total assets	1,059,932	1,001,652	922,737	891,556	953,261
Loans and advances to customers, net[3]	624,954	593,639	580,198	532,617	494,706
Amounts due to customers	812,451	762,043	699,377	656,287	701,867
Total shareholders' equity[4]	99,931	94,450	101,570	102,413	106,363
Ratios (%)[5]					
Return on average equity (ROAE)[6]	15.28	15.07	13.42	12.22	12.95
Return on average assets (ROAA)[6]	1.44	1.55	1.51	1.38	1.43
Net interest margin[6]	2.33	2.33	2.53	2.60	n.a.
Cost/income ratio	45.45	46.72	44.18	46.23	42.59
Capital[7]					
Capital adequacy (%)	18.48	18.63	16.18	16.34	16.42
Tier 1 ratio (%)	17.91	18.02	16.18	16.34	16.42
Tier 1	80,788	76,525	71,659	66,606	63,095
Tier 2	2,578	2,560	0	0	0
Total regulatory capital	83,366	79,084	71,659	66,606	63,095
Total risk-weighted assets	451,052	424,566	442,865	407,642	384,186
Other data					
Number of employees, average	8,413	8,492	8,476	8,426	8,520

Credit ratings (as of end of February 2019)[8]	Short-term	Long-term
Standard & Poor's	A-1	A
Moody's	Prime-1	A1
Fitch	F1	A

Notes
1. Comparative data has been restated to reflect the presentation of the current period – see section 3.6 Changes in accounting policies and reclassifications in the Consolidated Financial Statements. Balance sheet items presented as of 1 January 2018 including effect of IFRS 9 implementation.
2. Adjusted for the effect of 1-to-5 split of KB shares carried out in April 2016.
3. Figures for 2014–2016 include also debt securities issued by KB corporate clients.
4. Not including Non-controlling interest.
5. According to the Komerční banka methodology.
6. Ratios for 2018 based on figures according to IFRS 9; ratios for 2014–2017 based on figures according to IAS 39.
7. According to Basel III.
8. KB was assigned a credit rating by rating agencies registered under Regulation of the European Parliament and Council Regulation (EC) No. 462/2013. KB has considered appointment of rating agencies in accordance with Article 8d of this Regulation and decided not to appoint a rating agency whose market share is smaller than 10%.

Definitions of the Alternative Performance Measures mentioned in this annual report are provided in the respective section herein.

Separate data (CZK million)	2018	2017 restated[1]	2016	2015	2014
Financial results					
Net operating income	30,707	29,216	30,608	28,995	27,762
of which Net interest income	19,499	17,756	20,571	19,883	18,875
of which Net fees and commissions	5,585	5,702	5,979	6,287	6,370
of which Net profit on financial operations	3,181	3,570	3,830	2,665	2,363
Total operating costs	(13,155)	(13,058)	(12,710)	(13,113)	(11,871)
Net profit	15,238	14,914	14,119	12,424	12,768
Balance sheet					
Total assets	1,001,504	944,230	868,065	835,526	862,766
Loans and advances to customers, net[2]	553,888	531,085	527,143	484,474	449,180
Amounts due to customers	755,039	702,053	638,410	593,059	601,412
Total shareholders' equity	92,721	87,004	93,032	93,303	95,634
Ratios (%)[3]					
Return on average equity (ROAE)[4]	16.96	16.42	15.15	13.15	14.24
Return on average assets (ROAA)[4]	1.57	1.64	1.66	1.46	1.56
Net interest margin[4]	2.17	2.13	2.34	n.a.	n.a.
Cost/income ratio	42.84	44.69	41.53	45.23	42.76
Capital[5]					
Capital adequacy (%)	19.60	19.41	16.91	16.66	17.05
Tier 1 ratio (%)	18.97	18.75	16.91	16.66	17.05
Tier 1	77,769	72,622	67,263	61,665	59,151
Tier 2	2,578	2,560	0	0	0
Total regulatory capital	80,347	75,181	67,263	61,665	59,151
Total risk-weighted assets	409,958	387,330	397,796	370,228	346,938
Other data					
Number of employees, average	7,458	7,551	7,549	7,538	7,624
Number of points of sale	365	387	392	397	399
Number of clients (thousands)	1,668	1,664	1,654	1,647	1,626
Number of ATMs	776	764	768	772	754

Notes
1. Comparative data has been restated to reflect the presentation of the current period – see section 3.6 Changes in accounting policies and reclassifications in Separate Financial Statements. Balance sheet items presented as of 1 January 2018 including effect of IFRS 9 implementation.
2. Figures for 2014–2016 include also debt securities issued by KB corporate clients.
3. According to the Komerční banka methodology.
4. Ratios for 2018 based on figures according to IFRS 9; ratios for 2014–2017 based on figures according to IAS 39.
5. According to Basel III.

Definitions of the Alternative Performance Measures mentioned in this annual report are provided in the respective section herein.

Further information

Detailed financial and operational information about Komerční banka Group is available in other publications on KB's website for shareholders and investors **www.kb.cz/investors**. Additional information on corporate social responsibility and ethics at KB is available in the 'Corporate Social Responsibility' section at **https://www.kb.cz/en/about-the-bank/about-kb**. Information about KB's products and services is accessible from the homepage www.kb.cz/en.

This document contains a number of forward-looking statements relating to the targets and strategies of Komerční banka Group. These statements are based on numerous assumptions, both general and specific. As a result, there is a risk that these projections will not be fulfilled. Forward-looking statements are valid only as of the date they are made, and it should not be assumed that they will be revised or updated in the light of new information or future events. Readers are therefore advised not to rely on this information more than is justified, as the Group's future results are liable to be affected by a number of factors and may therefore differ from current estimates.

Readers are advised to take into account factors of uncertainty and risk when basing their investment decisions on information provided in this document.

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955 532 156,
955 532 734
Internet: www.kb.cz/investors
Email: investor_relations@kb.cz

Loans to clients
(KB Group, gross loans, CZK billion)*

CZK 634.6 billion +4.7%

* Excluding Other amounts due from customers and repo operation with clients, but including debt securities issued by KB corporate clients.

Client deposits
(KB Group, CZK billion)*

CZK 795.6 billion +5.2%

* Excluding repo operations with clients.

Profit attributable to the Group's equity holders
(CZK billion)

CZK 14.8 billion (0.6%)

Number of standalone Bank clients

1,668,000 clients +0.2%

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Contents

The full legal names of KB Group companies mentioned in simplified form throughout this annual report are listed in the section *"Komerční banka Group"* on pages 27 and following.

History

Komerční banka was established in 1990 as a state institution, and in 1992 it was transformed into a joint-stock company. KB's shares have been listed on the Prague Stock Exchange since its inception in 1993, as well as within the RM-System.

In 2001, the state's 60% holding in Komerční banka was purchased by Société Générale. Following privatisation, KB began significantly to develop its activities for individual customers and entrepreneurs while continuing to build on its traditionally strong position in the enterprises and municipalities market.

The development of the Bank was based not only on organic growth but also on optimising the Bank's and the Group's presence on the market in the form of acquisitions. Therefore, in 2004, a short-lived subsidiary of KB and SG, Franfinance Consumer Credit, was merged with ESSOX and focused on consumer finance. In 2005, Komerční banka sold 100% of its stake in the asset management company IKS KB, a.s. to SG Asset Management and a 51% stake in Komerční pojišťovna to SOGECAP S.A., whereby it retained a 49% minority interest. In 2006, it completed the acquisition of Modrá pyramida by buying the remaining 60% stake, through which the Bank gained full control over the third-largest building savings bank in the Czech Republic. Another significant step in extending the offer to clients was the acquisition of a 50.1% share in SGEF, the leading provider of asset-backed financing in the Czech Republic. Through a branch, SGEF also is active in Slovakia. In 2016, KB established a business alliance for credit and debit card acceptance whereby it transferred its share of its Cataps subsidiary to Worldline NV. In July 2016, then, ESSOX's subsidiary completed takeover of a 100% stake in PSA Finance CZ and PSA Finance SK.

KB is progressively optimising the location of its individual central functions at two locations in Prague, one of which is a building on Wenceslas Square in the city centre and the other a new office complex at Stodůlky in the western part of Prague. The first relocation to the new headquarters building in Stodůlky took place in 2012, and in 2017 KB decided to purchase a second, neighbouring building that it has been using since 2018. In the context of this optimisation, and among other things, KB in 2017 sold the Na Příkopě 33 building in the centre of Prague to Commerz Real, a part of the Commerzbank Group.

Komerční banka has been operating in Slovakia since 1995, originally in the form of a subsidiary. Komerční banka Bratislava has successfully implemented changes connected with adoption of the euro (EUR) in 1 January 2009. In January 2009, the KB Board of Directors approved a plan for transformation of Komerční banka Bratislava from a subsidiary to a foreign branch, which was completed by a merger of the two entities. Since 1 January 2011, it has operated as a foreign branch of the Bank.

Société Générale Group

Komerční banka has been an important part of Société Générale Group's international retail banking since October 2001. Societe Generale is one of the leading European financial services groups. Based on a diversified and integrated banking model, the Group combines financial strength and proven expertise in innovation with a strategy for sustainable growth. It aims to be a trusted partner for its clients and is committed to positive change in society and the economy.

Société Générale has been helping clients for more than 150 years and maintains a strong position in Europe and connections to the rest of the world. Société Générale has over 147,000 employees in 67 countries and supports on a daily basis 31 million individual clients, businesses and institutional investors around the world by offering a wide range of advisory services and tailored financial solutions. The Group is built on three complementary core businesses:

- French Retail Banking, which encompasses the Societe Generale, Crédit du Nord and Boursorama brands. Each offers a full range of financial services with omnichannel products at the cutting edge of digital innovation;
- International retail banking, insurance and financial services to corporates with a presence in emerging economies and leading specialised businesses;
- Global Banking and Investor Solutions, which offers recognised expertise, key international locations and integrated solutions.

Société Générale is included in the main sustainability indices: DJSI (World and Europe), FTSE4Good (Global and Europe), Euronext Vigeo (World, Europe and Eurozone), four of the STOXX ESG Leaders indices, and the MSCI Low Carbon Leaders Index.

Company profile

Komerční banka, a.s. (hereinafter also “KB” or the “Bank”) is the parent company of KB Group (hereinafter also the “Group”) and a member of the Société Générale international financial group. KB ranks among the leading banking institutions in the Czech Republic, as well as in Central and Eastern Europe. It is a universal bank providing a wide range of services in retail, corporate and investment banking. Member companies of Komerční banka Group provide additional specialised financial services, such as pension savings and building society schemes, leasing, factoring, consumer lending and insurance. These are accessible through KB’s branch network, its direct banking channels, and the subsidiaries’ own sales networks. The Bank also provides services in the Slovak Republic through its branch focused on serving corporate clients as well as through selected subsidiaries.

	Loans to clients (gross loans)*		Amounts due to customers**	
CZK billion	31 December 2018	31 December 2017	31 December 2018	31 December 2017
KB Group	**634.6**	**606.1**	**795.6**	**756.0**
KB – total (including KB Slovakia)	561.8	541.4	736.5	696.1
– Individuals	249.5	244.0	276.6	251.5
– Businesses and other (including KB Slovakia)	312.3	297.4	459.9	444.6
– Small businesses	35.5	34.1	187.1	175.9
– Medium corporates and municipalities	104.8	103.4	157.9	150.5
– Top Corporates and other (including KB Slovakia)	172.0	159.8	114.9	118.1
Modrá pyramida	50.7	43.6	61.8	62.6
ESSOX (including PSA Finance)	17.3	15.5	0.2	0.1
Factoring KB	9.0	8.0	0.8	1.3
SGEF	28.1	26.1	n.a.	n.a.
Bastion	2.7	2.8	n.a.	n.a.
Consolidation and other adjustments	(34.9)	(31.3)	(3.7)	(4.1)

* Excluding Other amounts due from customers and repo operations, but including debt securities issued by KB corporate clients.
** Excluding repo operations with clients.

The Bank's identification details as of 31 December 2018

Komerční banka, a.s., entered in the Commercial Register maintained with the Municipal Court in Prague, Section B, File No. 1360

Date of registration:
5 March 1992

Registered office:
Prague 1, Na Příkopě 33, building identification number 969, postal code 114 07

Identification number:
45317054

Legal entity identifier (LEI):
IYKCAVNFR8QGF00HV840

Legal form:
Public limited company

Business activities:

I. The Bank shall carry on business pursuant to Act No. 21/1992 Coll., the Banking Act, as amended. The business activities of the Bank shall include:
   a) acceptance of deposits from the public;
   b) granting of loans;
   c) investing in securities on the Bank's own account;
   d) financial leasing;
   e) making and receiving payments and administration of a clearing system;
   f) issuing of payment instruments, such as payment cards and traveller's cheques,
   g) provision of guarantees;
   h) issuing of letters of credit;
   i) provision of collection services;
   j) provision of investment services including:
      - main investment services of reception and transmission, on behalf of investors, of orders in relation to investment instruments,
      - main investment services of execution of orders on behalf of investors in relation to investment instruments,
      - main investment services of dealing in investment instruments for the Bank's own account in relation to investment instruments,
      - main investment services of managing portfolios of investments in accordance with mandates given by investors on a discriminatory, client-by-client basis where such portfolios include one or more investment instruments,
      - main investment services of underwriting in respect of issues of investment instruments and/or the placing of such issues in relation to investment instruments,
      - ancillary services of safekeeping and administration in relation to investment instruments,
      - ancillary services of safe custody,
      - ancillary services of granting credits or loans to an investor for the purpose of allowing the investor to carry out a transaction in one or more investment instruments wherein the firm granting the credit or loan is involved in the transaction in relation to the investment instrument,
      - ancillary services of advice to undertakings on capital structure, industrial strategy and related matters and advice and service relating to mergers and the purchase of undertakings,
      - ancillary services of services related to underwriting in relation to investment instruments,
      - ancillary services of investment advice concerning investment instruments in relation to investment instruments, and
      - ancillary services of foreign-exchange service where these are connected with the provision of investment services;
   k) dealing on the Bank's own account or on the client's account in foreign currencies and gold;
   l) financial brokerage;
   m) foreign exchange operations (purchase of foreign currency);
   n) provision of depository services;
   o) provision of banking information;
   p) renting of safe-deposit boxes;
   q) issuing of mortgage bonds; and
   r) activities directly related to those mentioned in paragraphs a) – q).

II. Furthermore, the business activities comprise activities carried out for another as long as these activities relate to the operation of the Bank and to the operation of other banks controlled by it, of saving and credit unions, investment companies, insurance and reinsurance companies, financial institutions and of businesses which provide ancillary banking services in the scope specified below:
   a) accounting consultancy activities, book-keeping, tax record-keeping;
   b) intermediating of trades and services;
   c) advisory and consulting activities, preparation of expert studies and reports;
   d) administration and maintenance of real property;
   e) organisation of specialised courses, training, and other educational programmes, including teaching;
   f) provision of software, advisory in information technologies, data processing, hosting and relating activities and web portals; and
   g) administration and organisational services.

Registered capital:
CZK 19,004,926,000; of which paid up: 100%

Method of the Company's establishment:
In accordance with the privatisation project of the state financial institution Komerční banka, with its registered office at Prague, Na Příkopech 28, approved by resolution of the Government of the Czechoslovak Federative Republic No. 1 of 9 January 1992 and No. 109 of 20 February 1992, the National Property Fund of the Czech Republic, as the sole founder, established the public limited company Komerční banka, a.s., based on a Deed of Incorporation of 3 March 1992 under Sec. 172 of the Commercial Code.

Foreign branch:
Name: Komerční banka, a.s., pobočka zahraničnej banky
Registered office: Bratislava, Hodžovo námestie 1A, postal code 811 06, Slovak Republic

Report of the Board of Directors

on the Bank's and Group's business activities
and financial position

Vision

Real bank for real situations

Mission

We stand by discerning individuals and their families, small businesses and corporations, support them throughout their lifetime journeys and diverse business ventures to succeed in the dynamic world. We provide first-class advisory, tailor-made solutions and leading industry innovations through our passionate people and convenient digital channels.

KB Change – KB's updated strategy

KB aims to be a lifetime partner with a human touch for active individual, small business and corporate customers, to provide employees a sense of purpose and room for growth, and to deliver long-term sustainable profitability to shareholders while acting responsibly towards society.

In order to address the key challenges existing in the Czech banking market, including the ongoing erosion of product margins due to competition and regulation, clients' swiftly escalating preference for digital banking channels, and rapid development of banking technologies, Komerční banka has decided in 2018 to update its strategic direction. The KB Change programme defines the steps of this transformation.

The updated strategy for 2018–2020 years focuses on reinforcing or achieving market-leading customer satisfaction status as measured by Net Promoter Score in the target client segments of affluent individual clients, small and medium-sized enterprises, as well as large corporations. KB will differentiate itself in the market by best-in-class advisory, a relevant and comprehensive product offer leveraging the global scale of the Komerční banka and Société Générale groups, and its ability to provide better service in a simple and efficient way with tailored financial solutions.

In the years 2018–2020, KB will simplify, digitalise and accelerate key customer processes and journeys in retail and corporate segments. The simple basic services will be increasingly provided through digital and self-service tools. The Bank will be proactively seeking options for improving the experience and value it delivers to customers, including through partnerships with external providers of services that may enrich KB's offer. Mainly to further strengthen its concentration on client satisfaction, KB will also upgrade the employee motivational schemes.

The improvements in culture, organisation and motivations should lead to increased engagement of employees. Leadership, accountability and information flow will be enhanced by organisational delayering and by optimising the management span of control. Activities leading to change or improvement in the Bank's functions, which represent approximately 30% of headquarters activities, will be organised in agile cross-functional teams built around specific client needs or journeys, with advanced data analytical capacities. The operating model for the retail network will adapt to the pace of change in consumption of banking services, the network management structure will be simplified, the number of branches will be reduced by 10–15%, and the Bank will increase the share of branches wherein cash services are provided through deposit-taking ATMs. The capacity to share specialised expertise by remote means will be enhanced. The improved coordination and efficiency of processes will bring a 5% reduction in the number of employees from the end of 2017 through the end of 2019's first half. The control environment of the Bank will remain unaffected.

The KB Change 2020 plan is designed to generate recurring financial benefits in terms of faster growth of revenues and gross operating income, mainly driven by stronger growth of lending and assets under management; savings in operating expenditures from improved overall efficiency; and, in the later stage, savings in needed capital expenditures due to improved processes and allocation efficiency. In support of achieving the plan's goals, KB will enhance its investments in 2018 and 2019, mainly focused on improving its capacity for provision and sales of services through digital channels. Implementation of the plan will bring a net positive financial contribution starting from 2019.

Key ambitions of KB Change programme for the year 2020

Ambition category	Target population	Metric	Target as announced in May 2018
Client satisfaction	Defined individual clients Small and medium enterprises Large corporations	Net Promoter Score	Number 1 among key peers in each target segment
Employee engagement	KB Group employees	Composite index	≥80%
Working in agile	KB headquarters	% of HQ employees	30%
Revenues	KB Group	Net banking income (excluding one-off items)	≥CZK 33 billion
Operational efficiency	KB Group	Operating expenses / Net banking income (excluding one-off items)	≤45%
Profitability	KB Group	Return on shareholders' equity (excluding one-off items)	≥12%

Principles of corporate social responsibility

To act responsibly towards the society where it operates is a strategic priority of Komerční banka. Responsibility is the basis of every partnership, and it is also a pre-condition for a long-term successful business. Komerční banka acts responsibly in relations with clients, employees, shareholders, society as a whole and the environment. KB perceives that such behaviour is in accordance with interests and expectation of the main stakeholders, as well as with applicable regulations.

Specifically, KB develops responsible business in economic, environmental and societal areas, through a variety of activities at all levels, and as an integral aspect of the entire organisation.

KB's CSR activities are developed within the following organisational areas:

- Client satisfaction
- Ethics and responsible banking
- Responsible employer
- Protection of environment
- Social trends and innovations
- Sponsoring and charity

The detailed non-financial information on Komerční banka's corporate responsibility activities and results, including on the topics of environment, social and employment relations, respect for human rights and fight against corruption and bribery, is provided in the separate chapter of this annual report.

Code of conduct

Only by taking an ethical approach to doing business and providing financial services, can Komerční banka hope to maintain and even strengthen its market position over the long-term horizon. A fundamental prerequisite to successfully developing the company consists in professional conduct and behaviour on the part of its employees, as exemplified in particular by fostering and preserving direct and open relationships with clients as well as by fortifying the mutual trust between KB and its clients. Komerční banka expects all its employees to be fully aware of and committed to their obligation to act in accordance with the ethical standards set forth in its Code of Ethics and to endeavour always to adhere to those standards.

Corporate governance

Komerční banka acceded to and upholds all the principal standards of corporate governance in compliance with the Corporate Governance Code based on the OECD principles as amended in 2004 and issued by the Czech Securities Commission. The Czech wording of the Revision of the Code is available on the website of the Ministry of Finance of the Czech Republic at www.mfcr.cz. Moreover, in September 2018, Komerční banka registered for compliance with all main corporate governance standards set by the Corporate Governance Code of the Czech Republic (2018), issued by the Institute of Administrative Bodies on the basis of international standards of corporate governance (in particular G20 / OECD Principles of Corporate Governance from 2015). Its full text in Czech is available at http://www.cginstitut.cz/cs/dokumenty/. Komerční banka's Board of Directors applies and develops the aforementioned principles of corporate governance in a spirit of transparency, accountability and long-term prospects, and it translates these best practices into its internal procedures and regulations.

Sustainable development

Komerční banka is aware of the influence that its activities have on the surroundings wherein it operates, and it considers responsible behaviour to be important. Therefore, it adopts adequate measures which on the one hand should eliminate negative influences on the environment and on the other contribute to its protection and improvement. KB monitors the impact of its activities on the environment and identifies those areas upon which it needs to focus. Komerční banka then adopts measures directed towards effectively reducing its environmental impact.

Major events of 2018

January

From 1 January 2018, PSA Finance Czech Republic became a part of ESSOX. The merger created further room for improving services to clients in the automotive financing area and for boosting operational efficiency.

The second EU Payment Services Directive (PSD2), introducing the concept of Open Banking, became effective. KB will gradually enrich its offer with services and applications of other financial service providers.

February

KB significantly improved access to bank branch services for hearing-impaired clients. More than 60 branches are now equipped with the eScribe online service that transcribes the discussion between a client and bank advisor into a written form. The service is provided by Transkript online, a social enterprise employing blind speedwriters.

March

Komerční banka launched a new version of its website www.kb.cz, which now offers greater clarity, simplicity and transparency. Separate home pages were created for major groups of clients (individuals, entrepreneurs and businesses), reflecting their differing requirements. Obtaining a banking product or service has been made much easier on the new www.kb.cz. The website even provides tips and advice for typical life situations.

The Bank outfitted its internet banking application for small businesses with a Fakturoid tool for issuing, administering, and following up invoices and similar payments.

KB opened the first business centres within its branch network. Their aim is to provide services and advice to clients from small companies and entrepreneurs to an extent that heretofore has been reserved for large companies.

April

At the General Meeting on 25 April, Komerční banka's shareholders approved the reported financial results, distribution of profit, and paying out of the 2017 dividend of CZK 47 per share. Shareholders were informed about Komerční banka's strategic directions to be pursued in the months ahead.

KB extended its partnership agreement with the Association of Private Farming of the Czech Republic. Through this partnership, the Bank supported, for example, a traditional rural festival during which members of the Association opened their farms to the public all across the Czech Republic.

With its KB Express Financing product, the Bank shortened to 5 days the time required to decide on uncomplicated loans for small and medium-sized enterprises in amounts up to CZK 25 million.

May

The number of clients with the KB Mobilní banka application surpassed 500,000. KB recently enhanced its mobile banking application with several features that were heartily welcomed by clients, such as Face ID and Touch ID authorisation, the Trusteer Mobile security solution from IBM, and integration with Apple Watch and Android Wear devices.

SGEF allocated CZK 2.5 billion under a programme entitled "Climate Action" that, thanks to a guarantee from the European Investment Bank, provides advantageous financing for projects reducing undesirable environmental footprints. SGEF and KB traditionally partner with European financial institutions.

June

In co-operation with Société Générale, KB introduced a multi-bank internet banking application known as Sogecash Web, as well as its mobile version Sogecash Web Mobile. With a single login, clients are able to manage their accounts in several SG Group banks across multiple countries. With the possibility to extend the Sogecash® SWIFTNet and Sogecash® SFTP tools, KB is now able to meet the comprehensive cash management needs of multinational companies.

KB introduced a new and limited WANTED range of payment cards depicting such diabolical comic book characters as Harley Quinn, the Joker and Catwoman.

July

In co-operation with Benzina, KB launched the first of a new type of ATM specially designed for motorists. The so-called "Drive-up" ATM enables convenient cash withdrawals or deposits directly through the car window.

With effect from 1 August 2018, the Supervisory Board of Komerční banka elected Mr David Formánek and Mr Miroslav Hiršl as new members of the Board of Directors.

August

Komerční banka launched a new version of its internet banking. Among other advantages, the new version simplifies the sending of money between corporate and personal accounts and enables easy simultaneous viewing of multiple owners' accounts.

The Bank accelerated payments to other banks within the Czech Republic. Payments in Czech crowns are now transferred within one day.

September

Komerční banka became the first company in the Czech Republic to be included into the FTSE4Good Index Series. This series of stock market indices is one of the tools investors can use in looking for companies based upon their approach to managing environmental, social and corporate governance risks.

In co-operation with the fintec platform Creative Dock, Komerční pojišťovna launched its fully online Mutumutu life insurance that promotes a healthy lifestyle and motivates people to take care of themselves.

October

Gaël Loaec became Komerční pojišťovna's new CEO and Chairman of the Board of Directors.

Komerční banka and the Agrarian Chamber of the Czech Republic extended their partnership agreement into 2019. This step once again confirms the traditionally good long-term relationship between Komerční banka and the Agrarian Chamber, many of whose members are also KB clients.

The Association of Small and Medium-Sized Enterprises and Tradesmen of the Czech Republic (AMSP CR) and Komerční banka concluded a framework co-operation agreement for 2019 and continue their partnership in support of Czech entrepreneurs and their competitiveness.

The Czech National Bank's recommendation on the maximum ratio of a client's debt to net annual income and the maximum ratio for the amount of debt service to net income came into effect for mortgage lending.

Komerční banka's clients who hold accounts also with Česká spořitelna or Air Bank will be able to interconnect these accounts using KB's MojeBanka online banking, as well as with KB's Mobilní banka.

November

Komerční banka once again won the title Best Private Bank in the Czech Republic. This recognition is regularly awarded by the renowned financial magazine The Banker, part of the Financial Times Group.

Komerční banka and the Union of Towns and Municipalities of the Czech Republic concluded another three-year co-operation contract that will contribute to the development of local governments while improving local representatives' knowledge of banking services and bankers' knowledge in the field of public administration.

KB Clients can now pay using Garmin (Garmin Pay) and Fitbit (Smart Pay) watches.

Komerční pojišťovna introduced another new product, a fully online CUBIQ personal property insurance product. The KP product was created in collaboration with the Creative Dock platform.

Komerční banka launched a new way of signing into internet banking using a secure smartphone application, so-called KB Key. Customers are given a choice to replace their security certificates with a smartphone application, thus allowing them access to their bank accounts from any device.

December

Both KB internet and mobile banking allowed clients to view their balances and transaction histories on the accounts at some other banks.

The Bank began processing payment orders in 24/7 mode. Transfers between accounts within KB are executed in seconds.

KB introduced a multicurrency overdraft with cash pooling for corporate clients, an effective liquidity management tool.

Year 2019

On 7 January 2019, KB SmartSolutions, s.r.o. (a fully owned KB subsidiary) was established with the aim to facilitate the preparation of some new KB Group services. Subsequently, on 8 January 2019, My Smart Living, s.r.o. (a fully owned subsidiary of KB SmartSolutions, s.r.o.) was established. It will develop solutions to meet clients' needs in relation to housing.

With effect from 14 January 2019, Ms Sylva Kynychová, Mr Ondřej Kudrna and Mr Vojtěch Šmajer were elected members of the Supervisory Board. The newly elected members of the Supervisory Board are employees of Komerční banka.

With effect from 14 January 2019, Mr Margus Simson was elected by the Supervisory Board as a new member of the Board of Directors. Mr Simson will hold the post of Chief Digital Officer with responsibility for managing Information Technology, Organization and Change Management, Information Management and Tribes for Platform Services, Enterprise Services, Business Services and Data Management.

The Supervisory Board appointed Ms Cécile Camilli a substitute member of the Supervisory Board with effect from 15 January 2019 until the next general meeting. Komerční banka, a.s., has received a favourable opinion from the Czech National Bank regarding her appointment. Ms Camilli is Managing Director and head of CEEMEA Debt Capital Markets at Société Générale.

With effect from 14 January 2019, Mr Pavel Jirák became Chairman and CEO of Modrá pyramida stavební spořitelna.

With effect from 1 February 2019, Mr Jan Kotík became Chairman and CEO of Factoring KB.

Economic and monetary environment in 2018

The year 2018 marked the time when the Czech National Bank moved substantially in a direction towards normalising monetary conditions. Extremely loose monetary policy had previously existed as a legacy of the 2012 and 2013 European debt crisis. The first step had been to abolish the exchange rate regime in April 2017, thereby initiating a trend of rising interest rates to finally move them away from zero. After a two-fold rise in rates during 2017, the climbing trend gained momentum in 2018. Five increases in the key two-week repo monetary policy rate brought that to 1.75% at the end of 2018. The return of interest rates closer to neutral values – which we regard as being between 2.50% and 3.00% – was due to a particularly robust inflationary environment against a background of rapid wage growth and strong consumer demand.

The Czech economy was operating during 2018 with a gradually narrowing but positive output gap. The above-average economic expansion of 4.5% seen in 2017 had definitely ended, as 2018 saw economic growth return to a more sustainable level close to its potential. Overall growth in the Czech economy of 3.0%[1] was driven primarily by domestic demand. Its strength was more than offset, and especially in the second half of the year, by a worsening external environment.

Domestic demand was benefitting from both of its main components: household consumption and investment activity. The performance of each came up against significant limits existing in the domestic economy during 2018, however. Shortages in the work force and historically high utilisation of production capacities had stimulated investment activity in the private sector since mid-2017. Although public investments had been lagging behind, these eventually picked up as well in 2018's second half. Public investment activity was supported by the need to tap into the allocated part of EU funds. Otherwise, there was a risk that the Czech Republic would not be able to utilise them at all.

The year 2018 was characterised by an extremely tight labour market. The unemployment rate sank to 2.1% in the last quarter of the year and was the lowest in the history of the time series since 1993.[2] From mid-year, ongoing economic growth and the related job creation had intensified the existing acute labour shortage. According to labour office data, the number of vacancies in December 2018 exceeded the total number of job seekers by 1.4 times.[3] This resulted in robust wage growth that reached the highest dynamics seen since 2001. Higher disposable income naturally was reflected in higher sales by retailers.[4] Retail sales in real terms (excluding car sales) added 4.8% last year. Car sales, however, fell by 2.1%. In the service sector,[5] sales increased by 2.8% in real terms, with revenues from information and communication activities rising faster (5.3%) than the average.

While domestic demand (excluding inventories) recorded a significant positive contribution to economic growth in 2018, the contribution of external trade was negative. The strong domestic demand induced greater imports of consumer and, especially, capital goods. On the contrary, exporters did not perform all that well in 2018. Weak external demand was especially evident for Czech producers in the key automotive industry. German car producers had to face the transition to new homologation of combustion engines, and the escalation of trade conflicts between the United States and its key trading partners coupled with uncertainty surrounding Brexit to play a significant role in cooling foreign trade dynamics. Overall, last year's external trade balance recorded a surplus of CZK 132.7 billion.[6] That was its lowest level in the past three years. The Czech Republic thereby reconfirmed its strong dependence on the European market. The vast majority – 83.6% – of all Czech exports were destined for the EU in 2018. The most important trading partner remains Germany, which received 31.3% of goods exported from the Czech Republic.[7] The export dynamics were driven mainly by exports of motor vehicles (with a share of 27.1% of total exports), but also by export of products from the engineering and electrotechnical segments (each accounting for 11.1%). Total exports grew by 3.5% in 2018 while imports rose by 4.6%. The dynamics of industrial production were consistent with these figures, as it expanded by 3.0%.[8] Despite a lower external trade surplus and a continuing deficit in the primary income balance, the current account balance recorded a surplus at 0.7% of GDP.[9] Thus, the external position of the Czech Republic again remained generally strong last year.

Rising unit labour costs were a major pro-inflationary factor in 2018. Overall inflation was 2.1% during 2018, even as core inflation was at a stable 2.2% throughout the year. As usual, fuel prices (+6.2%) and food prices (+1.3%) were much more volatile. The robust core inflation, supported by wage growth and Czech crown exchange rates generally resistant to appreciation, enabled the central bank to move fairly quickly towards normalising interest rates. The CNB raised the key two-week repo rate five times during 2018 to reach 1.75%.[10] The Czech crown's inability to appreciate against the euro can be viewed as the currency's being overbought in the market. This may be seen in the Czech Republic's high foreign exchange reserves of EUR 124.5 billion as of the end of December 2018.[11] The large reserves are a result of the exchange rate regime that had been in place between November 2013 and April 2017. The crown's exchange rate against the euro during 2018 was much more tied to the movement of other regional currencies (in particular the Polish zloty and Hungarian forint), which suffered from heightened geopolitical risk and rising dollar interest rates. As a consequence, portfolio investors were redirecting their investments from emerging markets into dollar assets.

[1] https://www.czso.cz/csu/czso/ari/gdp-preliminary-estimate-4th-quarter-of-2018

[2] https://www.czso.cz/documents/10180/61546974/czamcr020419.xlsx/86736680-0bbe-4d47-8f4a-a8b381c61c75?version=1.1

[3] http://portal.mpsv.cz/portalssz/download/getfile.do?filename=stat-2018-12.zip&_lang=cs_CZ

[4] https://www.czso.cz/csu/czso/ari/retail-trade-december-2018

[5] https://www.czso.cz/csu/czso/ari/services-4-quarter-of-2018

[6] https://www.czso.cz/csu/czso/ari/external-trade-december-2018

[7] Komerční banka's computations based on data in the table available at https://www.czso.cz/documents/10180/61166030/vzonucr020619_4.xlsx/84b0d82e-3af1-4402-9ece-4cd96327ebe5?version=1.0

[8] https://www.czso.cz/csu/czso/ari/industry-december-2018

[9] KB's forecast

[10] https://www.cnb.cz/en/monetary_policy/bank_board_minutes/2018/index.html

[11] https://www.cnb.cz/en/statistics/bop_stat/international_reserves/drs_rada_en.htm

Czech bond yields[1] were on an upwards trend through most of the past year, and the 10-year yield finally surpassed 2%. The higher yields were supported by economic growth, inflation, and, above all, the CNB's interest rate hikes. As the end of 2018 was approaching, however, the longer end of the yield curve came under downward pressure due to generally growing uncertainty in the financial markets. Investors were increasingly concerned about the prospects for continuing growth in the global economy in light of mounting uncertainty about trade wars and Brexit. The slope of the yield curve was therefore rather flat at the end of the year, and in the case of interest rate swaps it was even downward sloping.

Fulfilment of targets set for 2018

The Group result at the level of total revenues exceeded the targets set for 2018, due to a better net interest income and net profit from financial operations, while income from fees and commissions were marginally below the plan. The recurring operating expenditures were in line with the budgeted level, and an additional amount of the restructuring reserve was related to the update of KB's strategy approved during the first half of 2018. The costs of risk were again better than planned, but the level of 2018 is not sustainable. In line with its plan, KB maintained its overall share on the deposit market. The volume growth of lending was somewhat behind expectation, affected mainly by intense competition on the market. The new regulations of the housing market played a role, too. The detailed comments on drivers of individual lines of the income statement and business categories are provided in the sections "Comments on the IFRS consolidated financial results" and "KB Group clients and their service" of this annual report.

Already in line with the updated strategy, KB Group pursued customer-experience improvements and leadership in digital banking. The Bank has also moved forward with its organisational optimisation. It has rolled out the agile@KB organisational concept while launching 16 cross-functional teams fully dedicated to specific customer journeys or business needs. The teams are supported by 5 specialised centres of expertise. The share of headquarter employees deployed in the agile concept reached 40%. KB has reorganised its management structure, leading to a significantly lower number of management positions. Within this distribution network, the changes included reducing the number of regional management districts from ten to five and decreasing the overall number of branches by 22. KB also established a new platform for development of start-up projects, KB SmartSolutions. The risk control environment remained unaffected.

Expected development and main risks to that development in 2019

In its baseline macroeconomic scenario, Komerční banka expects the Czech economy will grow its output in 2019 at a similar, or just a slightly slower, pace compared to 2018. Rising household consumption should still be the main driver of that growth, while fixed investments should contribute positively, too.

[1] The source of reported earnings data on the financial markets is the Bloomberg terminal.

The labour market is expected to remain tight. On the one hand, that will boost disposable incomes and households' consumption. On the other, employers will continue to experience difficulties in finding sufficient staff to pursue expansion plans and the mounting wage bill will eat into profit margins.

Price pressures from abroad receded at the beginning of 2018, following a decline in crude oil prices, but core inflation will be affected by domestic factors, mainly rising wages. Average consumer price inflation is thus expected to accelerate slightly to 2.3%, and the CNB will probably continue in gradually raising its monetary policy rates, albeit more slowly than in 2018.

Competition on the banking market will remain vigorous. It will be characterised by excessive Czech crown liquidity in the market, attempts by some players to acquire or regain market shares in certain important product categories, and rapid adoption of technological innovations by both clients and financial institutions.

The regulatory limits on the debt-to-income and debt service-to-income ratios of mortgage borrowers in effect from October 2018 will hinder access to credit by some potential borrowers. The CNB will also continue in raising banks' capital requirements. Most notably, the countercyclical capital buffer requirement is going to increase every half year. A new cross-border payments regulation that will put a cap on charges for payments within the Single European Payments Area is expected to enter into force only towards the end of 2019.

The loan market should grow similarly as in 2018, with the exception that housing loans are expected to decelerate due to the recently implemented regulations, as well as issues of affordability. On the deposit market, meanwhile, the faster growth in retail segments will probably continue.

In this context, KB management expects that the annual percentage growth rate of the loan portfolio in 2019 will remain in mid- to low-single digits. The expansion could be faster in unsecured consumer lending. KB will aim to maintain the pace of growth in housing loans, despite the anticipated deceleration of the market. Business lending should benefit from the investment activity and increasing need for working capital financing, but the result also will be influenced by the volume of bond issuance, which KB is promoting as a financing alternative to its corporate clients. Total deposit balances will probably climb relatively faster in the retail segments and on saving and term accounts more so than current accounts. The volume of assets under management in mutual funds, life insurance, and pension funds should continue to expand.

KB Group's total net operating income for 2019 should rise slightly in comparison with 2018. This growth should be driven mainly by net interest income, underpinned by increasing volumes of loans and deposits and by higher average interest rates year on year. The upside will be limited, however, by competitive pressure on lending spreads. Income from fees and commissions is expected to recover marginally (mainly due to more transactions), if the boost from growth in numbers and activity of clients prevails over negative effects in relation to pricing. The level of net profit from financial operations achieved in 2018 was excellent, reflecting in part the contributions from several extraordinarily large deals, and that is rather unlikely to repeat in 2019.

Recurring operating expenditures are targeted to increase at a rate similar to that of inflation. The Bank has agreed with the trade unions to 6.5% growth in average remuneration for 2019, but the impact on costs will be mitigated by an ongoing decrease in employee numbers that is facilitated by improving productivity of operations. Non-personnel costs will be managed very vigorously, even as KB Group will continue to invest substantial amounts into such areas as new products development, digitalisation, and staff training.

The net release in 2018 of provisions for credit losses was an exceptional situation. The pace for future normalisation of risk costs will depend mainly on how macroeconomic conditions develop in the Czech Republic, and to some extent in Slovakia, or, possibly, on individual circumstances of clients with larger exposures. The IFRS 9 accounting standard newly implemented in 2018 requires that part of credit loss provisions be created on an expected-loss basis. In comparison with the previous regulation, this means an earlier building up of provisions once the economic outlook worsens. The expected continuing growth trend within the Czech economy is consistent with a cost of risk for 2019 that is still below a normalised rate of 30 to 40 basis points.

Komerční banka Group is a complex undertaking which is naturally subject to a whole array of risks. These range from economic, competitive, regulatory and reputational risks to operational, capacity, counterparty, legal, market and credit risks. It may also be impacted by human error or fraud, insufficiency of skills and experience, or flawed management decisions. Not least, it may incur losses resulting from unforeseen or catastrophic events.

Among the specific risks to the expectations described above is that deceleration in growth of the Czech and European economies would be sharper than expected. Such slowing could potentially be triggered by a range of uncertain factors, such as obstacles to international trade stemming from the United Kingdom's planned departure from the European Union or erecting of new trade barriers. Sudden changes in the main parameters of the financial markets, such as interest rates, a solitary impairment of a large credit exposure, or a significant worsening of the competitive situation on the Czech banking market that leads to material erosion of profit spreads on key products are examples of ever-present risks to the banking business.

The Group's business model has proven itself robust. Komerční banka's capital and liquidity include adequate buffers to absorb unexpected adverse market developments. Credit-granting standards have been calibrated to assure the Bank's satisfactory performance even in the declining phase of the business cycle. KB's hedging policy mitigates the short-term impacts of interest rate fluctuations. Its funding is assured due to its broad and stable base of client deposits. Placements of free liquidity are confined by strict limits, and these are directed mostly towards operations with the Czech National Bank and towards government bonds. KB's risk management strategy and techniques are further elaborated in the respective chapter of this annual report.

The management expects that KB's operations will generate sufficient profit in 2019 to cover the Group's capital needs ensuing from its growing volume of assets as well as to pay out dividends constituting 65% of consolidated net profit attributable to shareholders.

KB Group clients and their service

Business model

KB is a universal bank with a multi-channel distribution model. Komerční banka's business model is founded upon building long-term relationships with customers and offering relevant solutions for situations occurring during clients' lives. The business strategy focuses on reinforcing or achieving market-leading customer satisfaction status in the target client segments throughout each client's entire lifespan. KB will differentiate itself in the market by best-in-class advisory, a relevant and comprehensive product offer leveraging the global scale of the Komerční banka and Société Générale groups, and its ability to provide better service in a simple and efficient way with tailored financial solutions.

KB is focusing on simplification, digitalisation and acceleration of key customer processes and journeys in retail and corporate segments. The simple basic services will be increasingly provided through digital and self-service tools. The Bank proactively seeks options for improving the experience and value it delivers to customers, including through partnerships with external providers of services that may enrich KB's offer. The development of client and internal solutions is organised in cross-functional teams applying the agile@KB working method.

KB perceives its competitive advantage on the banking market as consisting in the value of partnerships with clients, the ability of its banking advisors to provide high-quality advisory, a wide range of relevant and advantageous financial products, and proximity to clients via the branch network and advanced, secure direct banking. Digital banking is an integral part of the multi-channel distribution model. The Bank aims to maintain its leadership position on the Czech market in mobile banking. KB's own distribution network is further complemented by the subsidiaries' distribution capacities (especially those of Modrá pyramida) and, in the cases of selected products, also by the business partners' networks. Services and products of other KB Group companies are available within their own distribution networks, in the KB branch network, and potentially through the business partners.

Komerční banka adheres strictly to regulatory requirements in all areas of its activities, and it is developing the "know your client" concept. KB perceives knowing the client and the client's needs to be an integral part of the business relationship with the customers and a process reflecting the respect, responsibility and trust the Bank has in its clients. Knowledge of clients also provides a basis for the Bank to offer appropriate advisory and services corresponding to clients' actual needs. In this sense, the concept is a business activity directly influencing the customer experience, and especially at the beginning of the business relationship. Komerční banka is dedicating increased attention to training employees in this area and to continuously updating business processes so that they adequately serve to maximise business efficiency and ensure compliance with evolving regulatory demands.

Komerční banka is developing a system for detailed segmentation of customer relationships. The highest-level segments in the Bank are the following:

- Individuals,
- Small Businesses (the indicative criterion being annual turnover up to CZK 60 million),
- Corporates and Municipalities (annual turnover up to CZK 1.5 billion), and
- Top Corporations (annual turnover greater than CZK 1.5 billion).

A set of sub-segments within these segments is elaborated.

Developments in the client portfolio and distribution networks

At the end of December 2018, KB Group was serving 2,391,000 clients on a consolidated basis. Standalone KB recorded 1,668,000 clients (+0.2% year on year), 1,410,000 of which were individuals. The remaining 258,000 customers were comprised of entrepreneurs, businesses and corporations (including municipalities and associations). Modrá pyramida was attending to 490,000 customers, and the number of pension insurance participants at KB Penzijní společnost reached 532,000. Services of ESSOX Group (including the PSA Finance franchise) were being used by 212,000 active clients.

The number of clients using at least one direct banking channel (such as internet or telephone banking) reached 1,455,000 by the end of December 2018 and corresponds to 87% of all clients. Mobile banking was itself was available to 611,000 of KB's clients. Customers held 1,565,000 active payment cards, of which 178,000 were credit cards. The number of active credit cards issued by ESSOX came to 104,000.

Komerční banka's clients had at their disposal 365 banking branches (including one branch for corporate clients in Slovakia) and 776 ATMs (of which 320 are deposit-taking). Modrá pyramida's customers had at their disposal 204 points of sale and 720 advisors. SGEF was providing its leasing services via nine branches (two of which are in Slovakia), as well as through KB's network. Financing from ESSOX was available at almost 1,700 merchants.

Client satisfaction

Komerční banka's strategy is based on building long-term and mutually advantageous partnerships with its clients. A professional approach and high quality of the Group's services are prerequisites for maintaining and developing partnership with clients. The people at the branches meet the clients daily, and those in Contact Centres talk to them every day. The client experience, however, also encompasses internet banking, mobile banking, card payments at merchants, ATM withdrawals, the website, advertisements, contracts, and other aspects of the bank–client relationship. This means that all employees of KB Group work for clients, and it is why client experience permeates into all activities of the Group.

Komerční banka systematically determines and measures the satisfaction of all its clients. KB clients are contacted after having visited a branch and can therefore provide an opinion on the quality of the services. Every feedback provided is examined with due care. In most cases, the feedback is positive, and that contributes to a sense of meaningfulness about the work to the banking advisors themselves. If, however, a rating is negative, then the branch management is notified and contacts the client to determine the cause, doing so with the objective of helping the client. KB measures satisfaction and recommendation rates also in its digital distribution channels (MojeBanka and Mobilní banka) and in the Contact Telephone Centres.

An independent agency (currently Ipsos) systematically measures KB client satisfaction in the individual segments using the Net Promoter Score (NPS) method. Clients are asked to express, on a scale from 0 to 10, how probable it is that they would recommend the Bank's services to their friends or colleagues. Clients who give a score of zero to six are considered detractors. Clients who rate at seven and eight are neutral, while those who put the probability of recommendation at nine or ten are considered promoters. NPS is calculated as the difference between the number of promoters and detractors, and is therefore positive if promoters are predominant among customers and negative if detractors predominate. The measurement results from 2018 in the individual segments are stated in the following text. Across all segments, KB recorded positive values and year-on-year improvement. Clients from all segments positively evaluate the quality of their banking advisors, and mobile banking also received excellent scores.

KB also is developing the Client Journey project, which focuses on monitoring and understanding the development of clients' needs in their individual life stages and continuously verifies whether the offered services continue to correspond to the clients' expectations. As may be necessary, it identifies the need for modifying these services.

The Quality Guarantee programme ensures high quality of the services currently provided and maintaining a professional approach on the part of the employees and the Bank as a whole. Client feedback is acquired also by means of this programme. In addition, clients may try out KB services free of charge and without worries for up to six months.

- The Quality Guarantee ensures that if a client is not satisfied with a service, he or she does not have to pay for it. The client can therefore make his or her decision whether a solution is the right one for him or her directly on the basis of his or her actual experience.

- Every change to the price list, terms and conditions, or services gives our clients up to six months to simply try everything out with the Quality Guarantee and potentially to change their minds. Within this programme, Komerční banka undertakes that, if the client is dissatisfied, he or she may request that the fees be returned, and that can be done even online.

- The Quality Guarantee brings transparent information about each service and its content, including to state the price. The clients are always informed of changes sufficiently in advance.

- The Quality Guarantee also provides opportunity for searching out and offering effective solutions that will maximise the extent to which the clients' expectations are fulfilled.

Of course, we rigorously comply with the Code of Conduct of the Czech Banking Association and the Code of Mobility, which precisely defines the relationship between the Bank's employees and its clients.

Complaints and claims also serve as a source of inspiration towards improving products and services. From a short-term perspective, a complaint that is quickly resolved helps in maintaining the client relationship. A new tool for resolving complaints that was created and implemented by the Bank allows for resolving client complaints better and more quickly. Already in 2004, Komerční banka became the first bank in the Czech Republic to introduce the position of an independent ombudsman for the entire Group, and KB fully respects the ombudsman's decisions in resolving complaints.

Development of digital capabilities

KB has reflected clients' swiftly escalating preference for digital banking channels and the rapid development of banking technologies in its KB Change programme. As part of the strategic transformation, KB will simplify, digitalise and accelerate key customer processes and journeys in retail and corporate client segments. This approach will carry over also to support and analytical functions. Simple, basic services will increasingly be provided through digital and self-service tools. The Bank will proactively seek options for improving the experience and value it delivers to customers, including through partnerships with external providers of services that can enrich KB's offer.

As of 31 December 2018, more than 600,000 of Komerční banka's clients were able to control their accounts via mobile phone. Its state-of-the-art mobile banking application was already being used by every third client of the Bank. KB was the first bank in the Czech Republic to enable authorisation of mobile banking access and payments by fingerprint and later by facial identification. This has greatly accelerated and simplified the approval of payments while also enhancing security. KB is still the only Czech bank to provide its clients at no charge with the Trusteer security tool from IBM that protects their computers and mobile devices from most banking-related cyberattacks, such as fake, harmful websites (phishing) and malware, as well as attempts to detect passwords (e.g. keylogging).

KB was one of the first banks in the Czech Republic to introduce an option for paying retailers via an NFC mobile phone using Google Pay (already in December 2017). In 2018, the Bank begun offering its clients the possibility of making contactless payments to retailers through Garmin (Garmin Pay) and Fitbit (Fitbit Pay) smart watches. Along with Google Pay, these are additional innovative alternatives to the classic plastic cards.

In March 2018, Komerční banka rebuilt its website from scratch. The site is now clearer, simpler and more understandable. One of the new features is advisory for model life situations having financial implications, such as graduation, search for a first job and housing, inheritance or divorce.

In April 2018, the MojeBanka internet banking application was upgraded as well. The application's homepage was made clearer and easier to navigate. Clients got the option to shift money between their accounts simply by dragging a bookmark. Also introduced was a possibility to pay an invoice using a QR code by uploading it to the internet banking.

KB prepared another important improvement in the digital experience for clients with its KB Key (KB Klíč) token. Customers have been given a choice to replace their security certificates with a smartphone application, thereby allowing them access to banking services in a highly secure manner from any device.

Communication with corporate clients also is being progressively digitalised. This means that some products, such as current accounts or credit cards, can be operated without any paper documentation and delivered via internet banking. Clients can also use this manner of communication to send financial statements and other documents needed for approval of credit products and they can even apply for drawing of credit lines. Clients can be in touch with their Bank through a videocall, too.

Komerční banka was the first bank on the Czech market enabling clients also to check balances on their accounts with other banks using KB's internet as well as mobile banking applications. From November 2018, KB clients have been able to pay by smartwatches of an additional two brands, Garmin and Fitbit. Also, Komerční pojišťovna in co-operation with a partner start-up platform expanded its portfolio of insurance policies available online with a fully digital Cubiq insurance for personal belongings.

During 2019, KB Group will continue developing a range of solutions for improving client experience in digital banking, acquiring new clients, introducing and selling additional products and services, accelerating payments and leveraging on the open banking concept. In its operations, KB will prepare for replacement or upgrading of certain elements of IT infrastructure, including of monitoring and reporting tools.

Selected business indicators

Distribution network	31 December 2018	31 December 2017
KB Retail branches	365	387
KB Business centres	10	10
KB Corporate divisions	5	5
Modrá pyramida points of sale	204	216
ATMs	776	764
of which deposit taking	320	238

Number of clients	31 December 2018	31 December 2017
Komerční banka	1,668,000	1,664,000
– individual clients	1,410,000	1,406,000
– using at least one direct banking channel	1,455,000	1,422,000
Modrá pyramida	490,000	488,000
KB Penzijní společnost	532,000	532,000
ESSOX (incl. PSA Finance)	212,000	215,000

Direct channels	31 December 2018	31 December 2017
Active direct banking products	2,435,000	2,284,000
KB Payment cards – active	1,565,000	1,583,000
– debit cards	1,388,000	1,399,000
– credit cards	178,000	184,000
ESSOX credit cards – active	104,000	110,000

Loans to clients – gross loans (CZK billion)[1]	31 December 2018	31 December 2017
KB Group	**634.6**	**606.1**
KB – total loan portfolio	561.8	541.4
– Loans to individuals	249.5	244.0
– Volume of KB's mortgages	223.9	218.9
– Volume of KB's consumer and other loans	25.5	25.1
– Loans to small businesses	35.5	34.1
– Loans to medium corporates and municipalities	104.8	103.4
– Loans to top corporates and other loans[2]	172.0	159.8
Modrá pyramida – total loan portfolio	50.7	43.6
ESSOX – total loan portfolio (including PSA Finance)	17.3	15.5
Factoring KB – total loan portfolio	9.0	8.0
SGEF – total loan portfolio	28.1	26.1
Bastion – total loan portfolio	2.7	2.8
Consolidation and other adjustments	(34.9)	(31.3)

Amounts due to customers and assets under management (CZK billion)	31 December 2018	31 December 2017
KB Group deposits[3]	**795.6**	**756.0**
KB deposits	736.5	696.1
– individuals	276.6	251.5
– small business	187.1	175.9
– MEM corporates	157.9	150.5
– top corporates and other deposits[4]	114.9	118.1
Modrá pyramida – building savings	61.8	62.6
ESSOX	0.2	0.1
Factoring KB	0.8	1.3
Consolidation and other adjustments	(3.7)	(4.1)
Non-bank assets under management	**167.5**	**163.9**
Assets under management in mutual funds[5]	63.3	62.9
Clients' assets managed by KB Penzijní společnost	57.6	53.3
KP life insurance technical reserves[6]	46.6	47.8

[1] Excluding Other amounts due from customers and repo operations, but including debt securities issued by KB corporate clients.
[2] Including loans provided by KB Slovakia.
[3] Excluding repo operations with clients.
[4] Including deposits in KB Slovakia.
[5] Assets of KB Group clients managed by third party asset managers.
[6] Komerční pojišťovna is consolidated by the equity method.

New products and Services

February 2018	KB significantly improved access to bank branch services for hearing-impaired clients. More than 60 branches are now equipped with the eScribe online service that transcribes the discussion between a client and bank advisor into written form.
March 2018	In line with the European PSD2 directive, KB equipped its internet banking application for small businesses with a Fakturoid tool for issuing, administering, and following up invoices and similar payments.
	Komerční banka opened the first business centres within its branch network. Their aim is to provide services and advice to clients from small companies and entrepreneurs to an extent that heretofore has been reserved for large companies.
April 2018	With its KB Express Financing product, the Bank has shortened to 5 days the time to decide on uncomplicated loans for small and medium-sized enterprises up to CZK 25 million.
May 2018	KB enabled claims on card transactions via internet (and from August also through mobile banking).
June 2018	In co-operation with Société Générale, KB introduced a multi-bank internet banking application known as Sogecash Web, as well as its mobile version Sogecash Web Mobile. With a single login, clients are able to administer their accounts in several SG Group banks across multiple countries. With the possibility to extend the Sogecash® SWIFTNet and Sogecash® SFTP tools, KB is now able to meet the comprehensive cash management needs of multinational companies.
July 2018	In co-operation with Benzina, KB introduced a new type of ATM for motorists. The “Drive-up” ATM enables convenient cash withdrawals and deposits directly through the car window.
	KB clients can newly use possibilities for electronically exchanging and signing documents via the internet and mobile banking services. These documents are related to opening of current accounts and financing for legal entities.
August 2018	The client has an option to assign a selected authorised person a right solely to administer payment cards. Prior to creating this role, each authorised person was also permitted to work with accounts and other information, which had been unusable for some (especially business) clients.
September 2018	Komerční pojišťovna introduced MUTUMUTU online life insurance, which covers a loss of income due to incapacity, disability and death. It allows coverage of these risks to be combined freely according to the client’s needs. A component of the product is a reward for a healthy lifestyle whereby clients can earn back as much as 30% of the premium.
October 2018	Komerční banka was the first bank on the Czech market enabling clients to check balances on their accounts with other banks using KB’s internet as well as mobile banking applications.
November 2018	KB clients can now pay using smartwatches of two additional brands, Garmin and Fitbit.
	The Bank successfully rolled out KB Key, a new and secure authentication method for access to banking services via a smartphone app.
	In co-operation with a partner start-up platform, Komerční pojišťovna expanded its portfolio of insurance policies available online to include the fully digital CUBIQ insurance for personal belongings.
December 2018	Both KB’s internet and mobile banking allowed clients to view their balances and transaction histories on accounts at some other banks.
	KB began processing payment orders in 24/7 mode. Transfers between accounts within KB are executed in seconds.
	KB introduced a multicurrency overdraft with cash pooling for corporate clients, an effective liquidity management tool.
	SGEF introduced new inventory financing solutions designed for suppliers and producers (vendors), who can use it to finance new and used warehouse items, to demonstrate and lend them to end users, and even to have these items insured through SGEF.

for Business clients | for Individual clients | Internal efficiency | Positive environmental, social impacts

Selected awards

February 2018	Top Employer 2018 – 1st place in a survey of university students and graduates in the category Banking and Investments
May 2018	FocusEconomics – Best GDP Forecaster – Czech Republic 2018
October 2018	Hospodářské noviny Best Insurer award: 1st place in category Best Life Insurer 3rd place in category Most Client-Friendly
November 2018	Best Private Bank in the Czech Republic, title awarded by The Banker magazine from the Financial Times Group
	Bank of the Year competition in the Czech Republic: 2nd place in the category Bank of the Year 3rd place in the category Bank without Barriers

Indicators of business performance

Total gross volume of lending to clients rose by 4.7% year on year to CZK 634.6 billion.[1] In lending to individuals, the overall volume of housing loans[2] grew by 4.6% from the year earlier. Within this total, the portfolio of mortgages to individuals expanded by 2.3% to CZK 223.9 billion. The loan portfolio of Modrá pyramida grew by a strong 16.2% to CZK 50.7 billion. The volume of KB Group's consumer lending (provided by the Bank and ESSOX Group in the Czech Republic and Slovakia) was up by 4.6%, at CZK 39.2 billion. The total volume of loans to businesses provided by KB Group climbed by 5.5% year on year to CZK 321.2 billion. Lending to small businesses grew by 4.0% to CZK 35.5 billion. The overall CZK volume of credit granted by KB to medium-sized and large corporate clients in the Czech Republic and Slovakia[3] increased by 5.4% year on year to CZK 257.6 billion. At CZK 28.1 billion, the total credit and leasing amounts outstanding at SGEF were up by 7.7% year over year.

The volume of standard client deposits within KB Group rose by 5.2% year on year to CZK 795.6 billion.[4] Deposits at Komerční banka from individual clients grew by 10.0% from the year earlier to CZK 276.6 billion. The deposit book at Modrá pyramida contracted by 1.4% year on year to CZK 61.8 billion. Total deposits from businesses and other corporations climbed by 3.2% to CZK 446.3 billion.

Client assets managed by KB Penzijní společnost were higher by 8.1%, at CZK 57.6 billion. Technical reserves in life insurance at Komerční pojišťovna were down by 2.4% year on year to CZK 46.6 billion. The volumes in mutual funds held by KB Group clients grew by 0.7% to CZK 63.3 billion.

[1] Excluding volatile reverse repo operations with clients but including debt securities issued by KB's corporate clients. If reverse repo operations are included, gross lending increased by 4.8% to CZK 636.6 billion.

[2] Housing loans: mortgages to individuals provided by KB + loans to clients provided by Modrá pyramida.

[3] Inclusive of factor finance outstanding at Factoring KB and car dealers' financing from PSA Finance.

[4] Excluding volatile repo operations with clients. The total volume of 'Amounts due to customers' climbed by 6.6% to CZK 812.5 billion.

The Group's liquidity as measured by the ratio of net loans[5] to deposits (excluding repo operations with clients but including debt securities held by KB and issued by the Bank's clients) was at 77.9%.

Individuals

Komerční banka ranks among the three largest banks in the Czech Republic by number of individual clients.[6] KB acquired more than 88,000 new clients in this segment, bringing the total number of individual clients to 1,409,000, a year-on-year increase of 0.2%. The Bank also maintains a leading position in the segment for children and young people, with more than 404,000 accounts.

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According to an independent client satisfaction survey of a representative sample of the entire Czech population, the Net Promoter Score in the individuals segment reached a good level of 24. The survey detail showed that clients are most satisfied with KB's bank advisors, as 91% of clients reported they were generally positive about making a visit to a KB branch. Nearly three-quarters of clients (74%) would also recommend KB's mobile banking application, which earned the No. 2 rank on the Czech market under this rating. In addition, there was an improvement in the perception among clients in terms of the value for money they receive from the Bank.

In 2018, the Bank significantly expanded the number of branches with improved access to hearing impaired clients. At more than 60 leading branches, eScribe is now available free of charge. Negotiations between a hearing impaired client and the bank adviser are transcribed into a written form online so that the client can communicate with his or her adviser in a comfortable and independent way. The service is provided in co-operation with the social enterprise Transkript online, a successful employer of blind speedwriters.

[5] Gross volume of loans reduced by the volume of provisions for loan losses.

[6] Source: Statements of individual Czech banks

During 2018, Komerční banka simplified conditions for the free of charge variant of its exclusive TOP current account. Premium credit cards, service from the best bankers and many other appealing services can be obtained at no charge by clients having at least CZK 1.5 million within the KB Group or who have incoming payments to an account of at least CZK 100,000 per month.

KB also responded to the growing interest in longer fixation periods for interest rates among clients concerned about rising interest rates. KB clients can now take mortgages with interest rates fixed for as long as 15 years.

The complete segment price list has been shortened by one half and greatly simplified. A summary of those services most used can be found in a one-page price list that is available also on the Bank's website.

Private Banking

Komerční banka offers comprehensive Private Banking services to clients with financial assets exceeding CZK 20 million at its branches in Prague, Brno and Ostrava, as well as – if such clients prefer – outside the Bank's business premises. Clients with assets in excess of CZK 3 million have access to selected Private Banking products at 61 regional branches.

Services provided include in particular private portfolio management, a comprehensive range of investment instruments and first-class banking service, as well as real estate and Lombard loans for financing clients' private needs. Other services include alternative investment solutions (real estate funds and private equity funds) and bond instruments. In 2018, KB Private Banking further developed its services directed to structuring family assets and multi-generational planning for assets transfer.

An international jury appointed by the renowned magazines The Banker and PWM from the Financial Times group again recognised KB with the title "Best Private Bank in the Czech Republic 2018". The jury appreciated the Bank's leading position in terms of investment offerings, expertise and the long-time stability of the KB Private Banking trading teams.

Priorities for 2019 include continuing to develop portfolio management and investment advisory services in an open architecture and further developing digital services. KB Private Banking will focus, too, on services to company owners selling their businesses, intergenerational structuring of assets, and constructing financial asset portfolios.

Services for businesses and corporations

The economy hit its capacity limits in 2018 and the growth rate slowed compared to previous years. Unemployment in the Czech Republic during 2018 was the lowest in the EU and the number of vacancies significantly exceeded the number of unemployed. This has forced businesses to make investments in pursuit of further growth in productivity. Investments into new machinery brought benefits to engineering firms, which constitute one of the traditional and key sectors of the Czech economy. Better performance was achieved by construction companies, as production grew in both residential and infrastructure construction. Construction suffered from a lack of capacity as well, however, which was due to a previous downturn in that sector lasting several years. The first signs of deceleration occurred in another major sector – the automotive industry – after repercussions from uncertainties related to Brexit and new environmental regulations began showing up. Another factor was a slowing of demand from the euro zone at the end of 2018.

The fact that the tight labour market is generating strong wage growth was reflected in a strengthening of inflationary pressures, to which the CNB responded by gradually raising its monetary policy rate. Rising interest rates, the Czech crown's persistently unsettled exchange rate and, to some extent, growing uncertainty over an approaching slowdown in the global economic cycle resulted in a rising trend in both currency and interest rate hedging operations during 2018.

A key project during 2018 was to prepare, and in December comprehensively to launch, the concept for so-called Business Centres. This followed after several months of pilot operations at three branches. Business Centres are mainly focused on growing companies with annual sales in the range of CZK 10–60 million. Each of the 48 key branches offers clients professional and specialised support that, in comparison to universal branches, allows for more specific advisory and quicker satisfaction of clients' needs. Corporate clients within this size range have thus gained a breadth and quality of services to meet their comprehensive needs that previously had been available on the market only to larger companies.

In 2018, KB created a Corporate and Investment Banking unit, in charge of services for both medium-sized as well as large corporate clients. The merger of Corporate and Top Corporate segments is intended to further simplify and accelerate the processes that are similar or even identical for business clients and large corporations and to make the Bank more efficient in relation to clients.

The opening of new Business Centres will allow the Bank's consultants to effectively introduce new technical solutions, such as mobile banking applications for corporate clients, an internet platform for exchange rate risk hedging, and credit card acceptance devices.

Entrepreneurs and small businesses

Due to the enduring positive economic environment, entrepreneurs and small businesses continued to invest during 2018 into their operations. They utilised their own financial resources as well as affordable and price favourable medium- and long-term loans to do so. Their successful business management was seen in the ongoing increase in financial balances on deposit accounts at KB, which grew by 6.3% to reach a total 187.1 billion. The high deposit balances have somewhat limited clients' demand for short-term funding.

More than 16,000 entrepreneurs and small businesses opened business accounts at KB in 2018, and greater than half of those were just starting their businesses. The total number of clients served in this segment reached 246,000.

The volume of bank financing provided within this segment grew year on year by 4.0% to reach CZK 35.5 billion. Besides operating or investment loans, clients used in increasing volumes also leasing, loans from SGEF, ALD Automotive or ESSOX, and the financing of receivables from Factoring KB.

In this segment, too, and with its strategic goals fully in mind, KB is monitoring customer satisfaction through the Net Promoter Score (NPS). The Bank's NPS among entrepreneurs reached a solid level of 20, up year on year, with higher scores being achieved in higher segments of entrepreneurs. The survey identified areas for further boosting customer satisfaction and loyalty. KB's mobile banking achieved the best NPS score on the Czech market in the small business segment, as 78% of existing such clients would recommend it.

KB continued to support start-ups by offering preferential banking services as well as simplified access to funding. It further developed the Start Up! concept to provide business people and start-ups with useful information and experience, including discounted offers for practical services from selected external partners. Already in its sixth year, the grant programme associated with Start Up! drew the participation of 45 start-up projects from various industries.

During the year, KB expanded its offer of third-party services to add value for its clients. More than 1,000 clients began using Fakturoid's online billing service as a part of their business accounts since its launch in February 2018. Clients of selected branches could take advantage of the Czech Information Agency's CIA NEWS information services about business opportunities. In co-operation with Kooperace.cz, the Bank offered to prospective clients in engineering fields privileged access to this modern portal identifying new business opportunities directed to increasing utilisation of production capacities.

The Bank will focus during 2019 on quality implementation of the Corporate Centres concept, improving the online availability of financial services, and developing the concept of remote advisory. KB will further simplify access to credit, accelerate the development and deployment of new products, and focus on other factors affecting customer satisfaction and loyalty.

Corporates and Municipalities

The competition in the segment intensified further. Due to a rising trend in currency and interest rate hedging, the Czech market is becoming attractive for foreign institutions to provide alternative financing. Nevertheless, KB retained its leading position in the corporate banking market. According to a survey, more than 38% of small and medium-sized enterprises have accounts at Komerční banka.[1] The number of clients in the segment grew by a slight 1.6%. As at the end of 2018, the Bank was operating at 28 sites dedicated to this segment and serving 10,696 enterprises and municipalities. KB also remains one of the country's two largest banks in public sector financing.[2]

Deposit volumes were expanding within this segment during 2018, their overall volume growing by 4.9% year on year to CZK 157.9 billion. Even though the economic expansion is now past its peak, there remains stable demand for credit, including that accompanied by EU support. KB provides its clients a complete advisory service to obtain co-financing from EU structural funds. The volume of funding provided by the Bank increased by 1.3% compared to the previous year to reach CZK 104.8 billion. Demand for financing is mainly driven by investments into further development at corporations and by continuing construction of residential as well as commercial real estate. The share of public sector funding is gaining, too, with infrastructure investment being co-financed by EU structural funds as well as national resources. Growing demand for preferential financing stems from, among other things, the Bank's long-enduring co-operation with the international financial institutions (European Investment Bank, European Investment Fund). KB has long been one of the most active banks in this area. Altogether, KB provided corporate segment clients more than 3,700 loans with preferential terms in total volume exceeding CZK 52 billion. In 2018 alone, preferential financing was provided via 939 credit transactions in an overall volume of nearly CZK 11.3 billion.

The Net Promoter Score in the segmented reached 34. Contributing most to the year-on-year gain was the fact that clients reached by the survey appreciated the Bank's simplification of its credit process. The expertise and high professional level of bank advisers was confirmed by clients to be a pillar of KB's good rating. The quality of the product offer and electronic banking also were given good marks.

The Bank introduced a number of innovations in this segment during 2018. In particular, small and medium-sized business with a need for rapid financing have welcomed a new, simplified KB Funding Express process for loans up to CZK 25 million. Within this process, loan applications are settled in 7 days or less, compared to the earlier 15 to 25 days. Through the end of 2018, the offer had been used by almost 700 clients in a total amount of CZK 8 billion. Another successful activity is the provision of complete subsidy management for clients. This was delivered for 60 projects with a funding volume of CZK 600 million. In addition to digitalising communication with clients and some processes (e.g. sending documents for approving credit products or drawing credit lines), the Bank further expanded the availability of investment specialist services, especially in the provision of hedging of exchange rates or interest rates, as well as of financial market trades generally. This service is available now also for smaller companies that previously had not had access to it.

A priority for 2019 in the corporate and municipal segment is for KB to further improve customer care. During 2018, KB had unified corporate segmentation in order to provide smaller businesses with the same range of services and consultancy as was previously available to medium and large firms. Improved customer care is also associated with the creation of a special business division that will be devoted to municipalities and other public sector clients.

[1] Source: The Business Register of the Czech Statistical Office, KB's client database
[2] Source: reports of other Czech banks, KB's internal data

Top Corporations

Komerční banka has long been one of the leading banks in providing services and financing to large companies. The services of KB are used by 55% of enterprises[1] with turnover exceeding CZK 1.5 billion, and the market share for loans provided to these enterprises was almost 24% in 2018.[2] KB holds similar market share in the provision of payment and day-to-day banking services. The portfolio and number of clients in the Top Corporation segment is relatively stable. Among the Bank's strategic objectives are to maintain its leading position and to be regarded as a reference bank for this segment. KB provides its clients a wide range of banking products and services, including those highly specialised in the fields of investment banking, as well as export, structured and syndicated finance. It also provides comprehensive solutions for unique banking market transactions, including primary bond issues and M&A consulting. The offer is supplemented by the services of subsidiary and affiliated companies that provide leasing, factoring services and supplementary pension insurance.

KB's clients can rely on the professional approach and knowledge of its stable sales team, as well as the experience and contacts within the international network of the Société Générale Group, especially in the fields of trade and export finance, cross-border payments, international cash-pooling structures and investment banking. The Net Promoter Score among large corporate clients increased to an excellent level of 59, with relationship management and the scope of products and services quoted as main strengths of KB in the segment.

The situation on the banking market was most affected during 2018 by return to an environment with a floating exchange rate regime and non-zero interest rates. Consequently, the structure of deposits of non-financial corporations changed, with foreign currency deposits making a positive contribution to year-on-year growth. Meanwhile, crown-denominated deposits slightly declined. Deposits in KB from the Top Corporations segment recorded a decline by 2.0% to CZK 100.6 billion. The financing of these corporations in 2018 grew fastest in foreign currencies. The total volume of loans (excluding reverse repo operations) in the Top Corporations segment increased year on year by 9.1% to CZK 150.0 billion. Conditions remained favourable for mergers and acquisitions, which continued to be reflected in demand for structured and acquisition finance. In this area, KB participated in a record number of transactions not only in traditional sectors of the economy, such as telecommunications, engineering or healthcare, but also in the emerging e-commerce sector. Strong lending activity continued also in the area of real estate financing, where KB financed projects in residential, commercial, as well as office space. In addition to loans, clients used other forms of financing, and particularly bond issuance, where the Bank was an arranger and co-operated with Société Générale to issue bonds for Czech clients.

In order to optimise cash management, from the end of 2018, clients could use in combination with cash-pooling structures a multi-currency overdraft facility that Komerční banka had introduced in 2017. This was especially useful for multinational companies and those with branches abroad. During 2018, KB also made contractual loan documentation easier and clearer for clients.

With the economy expected to slow in 2019, the corporate banking market will continue to be characterised by strong competitive pressure on interest margins and fees. That is despite the CNB's further projected raising of rates. During 2019, KB will focus on improving the customer experience of top corporate customers, notably by providing higher value added services and digitalisation in corporate banking. In addition, internal processes for both lending and deposit-taking will be simplified, and the Bank will develop the exchange and signing of documents by clients through secure electronic communication. The first product innovations for large companies will be non-recourse factoring without insurance, which the Bank will offer in co-operation with its affiliate Factoring KB.

Komerční banka, a.s., pobočka zahraniční banky (KB SK)

KB SK is Komerční banka's sole foreign branch. It operates in Slovakia on the basis of a single banking licence issued by the CNB. KB SK is a trusted financial partner for top corporations within Slovakia, as well as for those clients of the KB and SG groups operating there.

The performance of KB SK reflects the situation on the Slovak market. The euro is the domestic currency of Slovakia, and therefore excess liquidity, magnified by the European Central Bank's ongoing asset purchase programmes, has influenced business in Slovakia's financial sector. KB SK experienced a narrowing of spreads for standard client financing, although this was successfully offset by deeper penetration into structured transactions and year-on-year growth in the total volume of loans to reach a new high point in the branch's history. Disciplined management of operating expenditures and the excellent result seen in the cost of risk allowed the branch to post the best result in its history.

KB SK's team remained very stable, and its professionals delivered the Bank's services to clients at a high quality standard. The Net Promoter Score among clients in Slovakia reached a great 58 level. The professionalism and expertise of the staff were also here mentioned as an important differentiating factor.

The branch further invested into its systems and processes to meet rigorous regulatory requirements. Projects mitigating operational risks, particularly in the area of anti-money laundering and combating the financing of terrorism, remain an ongoing top priority.

Even as the Slovak economy's solid performance is boosting clients' performance as well as their investment appetites, growing uncertainty and concerns of a global economic downturn are weighing on investor sentiment. That situation points to a cautiously positive outlook regarding the demand for financing that will be a key driver of KB SK's performance in 2019. A continuing focus on efficiency, prudence in lending and compliance with regulatory requirements will remain a proven recipe for growing stakeholders' value also in 2019.

[1] Source: The Business Register of the Czech Statistical Office, KB's client database

[2] Source: The Central Credit Register of the Czech National Bank, KB's internal data

Investment banking

After financial markets started out 2018 on an optimistic note, a break in trend came in April. Accumulation of risk-off events and monetary tightening by the US Federal Reserve triggered a sell-off on emerging markets. The Czech crown began to depreciate, and over the year it lost around 1% vis-à-vis the euro and almost 5% against the U.S. dollar. Compared to other regional currencies like the zloty and forint, however, this was still a sound performance.

The Czech stock market, as measured by the PX index, declined by 8.5% in 2018. Adding in the dividends paid out, the total return was about −4%. Although the result was in sharp contrast to the strong gain of the year earlier, the Czech PX index outperformed western European markets generally because a majority of them were down even more sharply. The Czech stock market was hit in December by the global sell-off on equity markets. After a delisting of Fortuna shares in the first half of the year, Unipetrol also left the PSE in the third quarter. Shares of a newcomer, Avast, have become very attractive among investors, gaining more than 15% in CZK terms between the IPO in May and the end of the year. Rising electricity prices that positively impacted on the share price of the electric utility CEZ and the CNB's raising interest rates were the main topics of interest in the Czech stock market. The crown's rate of exchange against the euro that was weaker than expected enabled the CNB to hike its two-week monetary policy rate to 1.75%, and that supported the stock prices of financial institutions.

KB's investment banking achieved excellent results in 2018 across all teams. The Bank further broadened its offer of products and services, often in professional co-operation with the financial markets division of Société Générale. The Czech and Slovak corporate sales desks put in a solid performance while executing large and sophisticated transactions in the interest rate, cross currency swap, foreign exchange and commodity markets. Volumes and revenues from the eTrading platform also increased. The Financial Institution Sales Desk executed several corporate bond issues and cross currency repo transactions. The good performance of the sales teams was supported by the greater volatility of exchange and interest rates associated with the CNB's rather significant rate increases. Traders earned good income from market making activities, as flows from clients were substantially greater. Moreover, interest rate derivative and bond flow was strong in relation to the CNB rate hikes.

Structured finance, Corporate finance

KB's Structured Finance Arm (SFA), established in early 2016 through reorganising and merging a number of front office teams into a single arm, offers structured financing, primary issues on capital markets and advisory solutions in a wide range of sectors, including export finance, real estate finance, energy finance, leveraged finance and debt syndications. In January 2017, KB relaunched its financial advisory services in the corporate finance area, including debt and M&A advisory.

Composed of approximately 50 professionals with in-depth knowledge in their respective areas, SFA aims to strengthen KB's origination and execution capabilities for structured financing transactions and financial advisory in its core domestic markets (Czech Republic and Slovakia). In addition, SFA supports and assists a number of Société Générale Group entities in Central and South-Eastern Europe by providing structured finance solutions to their clients.

This configuration addresses the growing needs of KB customers for sophisticated and tailor-made solutions. It also enables Komerční banka to provide better support to its clients for their international and complex transactions by enhancing co-operation with Société Générale Group and fully leveraging on Société Générale Group's expertise and worldwide reach.

During 2018, KB successfully set up complex financings for some of the most important projects on its domestic markets, doing so in close co-operation with Société Générale Group. This including, for instance, playing a leading advisory and structuring role in the largest syndicated loan made within the CEE region since 2011.

Komerční banka intends during 2019 to strengthen its leading position on the Czech and Slovak structured finance markets. In this context, SFA will maintain its client-centric approach while offering customised solutions and continuing to benefit from close and active co-operation with Société Générale Group.

Transaction and payment services

Cash payment operations
KB's greatest achievement during 2018 in the area of cash payment operations was to improve the efficiency of cash payment operations while maintaining the same level of convenience for clients.

All through the year there was growing interest in ATMs that accept cash deposits. During 2018, KB put in place more than 80 new deposit-taking ATMs. That means clients can deposit money at almost 320 locations (119 of which enable banknote recycling), and their number will continue to grow. The number of ATM deposit transactions exceeded 200,000 monthly at the end of the year, and the average deposit was in excess of CZK 23,000. Komerční banka operates the largest network of ATMs in the Czech Republic. Its monthly turnover of nearly CZK 5 billion reflects a year-on-year gain of 100%. Safely, without delay, and at any time of day or night, an amount deposited is immediately credited to the selected account.

An appealing new service in the past year was launch of the Czech Republic's first drive-up ATMs. Motorists can withdraw money right through the windows of their cars. The first ATM of this kind was installed at a Benzina petrol station in Prague, and the second was put into operation in Hradec Králové. A surprising finding was that clients use this cash machine more for deposits than for withdrawals.

In 2018, KB also began preparing ATMs for contactless card readers. From 2019, these can be accessed also by customers using NFC mobile phones.

Branch offices have proven the value of introducing recycling cashiers. KB launched 60 of these during 2018, and more will be added in 2019. Komerční banka is also testing a new way of depositing cash using free, one-time packaging with a special pocket. Such a deposit is credited to the client's account immediately upon the Bank's receipt of the package.

Non-cash payment operations

Komerční banka is among the largest players on the Czech market for non-cash payment operations. The Bank recorded a 3% year-on-year rise in the number of domestic non-cash payments and even 7% greater foreign payments. The share of euro payments within the Single Euro Payment Area (SEPA) in the total number of foreign payments already reached 85%.

In 2018, the Bank improved the clarity of information on executed and pending payments and other sections of its internet banking. It has also made it easier to enter domestic payment orders, such as by providing an option to enter a payment order within internet banking by reading a QR code or simply selecting from previously used beneficiary accounts.

From the end of August 2018, Komerční banka has accelerated the execution of payments in Czech crowns to other domestic banks. Payments made by clients on working days up until 1:00 pm and those posted on a business day by 2:15 pm, are credited to the account of the beneficiary in another domestic bank on the same day without any additional charge for priority processing. In total, more than 12 million payments have been processed in this way.

At the end of November 2018, Komerční banka introduced payment processing in 24/7 non-stop mode between current and savings accounts within KB that are denominated in the same currency. That means these payments made at any time of the day are processed immediately. So long as there are sufficient funds, the transfer is credited to the beneficiary's account in KB within seconds. Intra-bank 24/7 payment processing for direct payments to and from other domestic banks is in preparation and will be implemented during 2019.

In 2019, KB will further improve its payment processing, improve client awareness of payments processing, simplify payments orders, and improve the clarity of some statements for clients.

Payment cards

With 1.6 million payment cards issued, KB is one of the most important issuing banks on the Czech market. The number of KB transactions with merchants rose by 20% during 2018 and transaction volumes by 17%. A wide range of KB credit card types and designs contributed to the growing popularity of KB card payments.

In 2018, KB introduced another special limited edition of credit card designs. Following upon the successful series of Superheroes, which Komerční banka had offered in 2017 to clients in co-operation with Warner Bros., a new series of fiendishly famous heroes, including Harley Quinn, Joker or Catwoman, has arrived.

In addition to cards, Komerční banka is a pioneer in the market for introducing additional payment instruments. After being among the first banks in the Czech Republic to introduce Google Pay in 2017, KB was the first in 2018 to allow payments by smart watch in the Czech Republic and abroad using Garmin Pay and FitBit Pay.

In the area of credit card acceptance, KB is developing a business alliance with Worldline under the KB SmartPay brand. Within this co-operation, the number of merchant transactions grew by 17% and their volume by 14%.

Trade finance and cash management

KB is one of the leading providers of trade finance. For the second consecutive year, the Bank recorded a gain in sales volume for export letters of credit. In total, documentary payments grew by more than 30% year on year. The volume of new bank guarantees decline slightly, mainly due to an unfavourable situation on the domestic market (particularly in the areas of construction, civil engineering and forestry). Despite these negative effects, the overall exposure increased year on year. As a part of the digitalisation process, the proportion of clients' requests for trade finance submitted online through the Trade & Finance OnLine platform reached 95% for letters of credit and 73% for bank guarantees.

In offering cash management services for local companies as well as for the local representatives of international corporations, KB confirmed its strong position on the domestic corporate banking market. KB also co-operates with Société Générale to offer international solutions, and especially for countries where SG is present. A new service from KB enables clients to perform delocalized international payments in XML E2E format. The Bank offers clients centralised management of financial flows on accounts held abroad through multi-bank applications provided in co-operation with Société Générale.

Selected indicators on payment services

Komerční banka (Bank only)	2018	2017	Year-on-year change
Number of payment cards in circulation	**1,565,000**	**1,578,000**	**-1%**
– debit cards	1,388,000	1,396,000	-1%
– credit cards	178,000	182,000	-2%
Volume of payments using KB cards (in CZK million)	110,000	94,000	17%
Number of payments using KB cards	149,763,000	124,711,000	20%
Volume of cash withdrawals (in CZK million)	**236,000**	**254,000**	**-7%**
– via ATM	136,000	132,000	3%
– via non-ATM	100,000	122,000	-18%
Volume of cash deposits (in CZK million)	**259,000**	**300,000**	**-14%**
– via ATM	47,000	28,000	68%
– via non-ATM	212,000	272,000	-22%
Number of cash withdrawals	**27,650,000**	**28,289,000**	**-2%**
– via ATM	26,331,000	26,769,000	-2%
– via non-ATM	1,319,000	1,520,000	-13%
Number of cash deposits	**6,007,000**	**6,494,000**	**-7%**
– via ATM	2,073,000	1,368,000	52%
– via non-ATM	3,934,000	5,126,000	-23%

Komerční banka Group

As of 31 December 2018, Komerční banka had 10 subsidiaries and 1 associate, Komerční pojišťovna, where it held a 49% share. KB considers these companies as part of the Group. In addition to its ownership interests in the Group, KB held strategic interests of 20% in Czech Banking Credit Bureau, a.s. and 1% in Cataps, s.r.o.

With the aim of maximising all potential synergy effects, KB Group deepened mutual business co-operation within the Group during 2018 and also with other members of Société Générale Group operating on the Czech market. Special emphasis is given to improving co-ordination of product development in business areas, as well as in distribution, procurement, IT and other supporting services. The result should be optimal, comprehensive and effective satisfaction of clients' financial needs. An example is the merger of ESSOX and its subsidiary PSA Finance Czech Republic, s.r.o. with effect from 1 January 2018. PSA Finance Czech Republic, s.r.o. finances Peugeot and Citroën cars and has been a member of the Group since July 2016. Its merger with the parent company ESSOX will simplify and streamline the process of financing car acquisitions.

On 7 January 2019, KB SmartSolutions, s.r.o. (a wholly owned subsidiary of KB) was established with the aim to facilitate the preparation of some new KB Group services. Subsequently, My Smart Living, s.r.o. (a wholly owned subsidiary of KB SmartSolutions, s.r.o.) was established. This company will address clients' needs in relation to housing.

Information on values and changes in equity investments is provided in the Separate Financial Statements according to IFRS, Note 23 *'Investments in subsidiaries and associates'*.

Summary of the results of major companies in Komerční banka Group

CZK million, IFRS	Group Holding (%)*	Total assets 2018	Total assets 2017	Shareholders' equity 2018	Shareholders' equity 2017	Net profit 2018	Net profit 2017	Consolidation method
Domestic participations								
Modrá pyramida stavební spořitelna, a.s.	100	83,225	83,822	5,945	6,284	721	898	Full
Komerční pojišťovna, a.s.	49	51,674	53,167	2,007	2,406	347	437	Equity
KB Penzijní společnost, a.s.	100	2,372	2,092	1,863	1,658	205	256	Full
SG Equipment Finance Czech Republic s.r.o.	50.1	30,290	28,951	3,349	4,072	277	313	Full
ESSOX s.r.o.	50.93	16,713	13,164	3,544	3,577	375	412	Full
Factoring KB, a.s.	100	9,790	8,756	1,620	1,598	115	86	Full
Protos, uzavřený investiční fond, a.s.	100	6,109	6,146	6,095	6,133	157	195	Full
KB Real Estate, s.r.o.	100	937	956	504	498	6	1	Full
VN 42, s.r.o.	100	2,053	2,136	2,019	2,104	27	26	Full
STD2, s.r.o.	100	566	410	187	9	2	(1)	Full
PSA FINANCE ČESKÁ REPUBLIKA, s.r.o. (100% subsidiary of ESSOX s.r.o.)	50.93	N/A	2,574	N/A	755	N/A	(2)	Full
Foreign participations								
Bastion European Investments S.A.	99.98	3,233	5,524	533	2,726	20	5	Full
ESSOX FINANCE, s.r.o. (100% subsidiary of ESSOX s.r.o.)	50.93	2,368	2,166	236	150	4	(25)	Full

* KB direct and indirect holding

KB Group companies conduct their business in the Czech Republic, except for ESSOX FINANCE, which operates in the Slovak Republic, and Bastion which is financing an EU project in Belgium. Komerční banka is also active in Slovakia through a branch. Detailed information on activities of KB Group companies is provided in the following text of this chapter.

Basic information on Komerční banka Group's major companies

Komerční banka, a.s., pobočka zahraničnej banky

In Slovakia, Komerční banka serves corporate clients through its branch, Komerční banka, a.s., pobočka zahraničnej banky (KB SK). The KB branch in the Slovak Republic is oriented towards serving large and medium-sized enterprises with turnover of EUR 40 million or more. The position of the KB branch in Slovakia is a strong one in this field, having at its disposal the know-how of the parent KB and utilising the synergies of the KB and SG groups to provide its clients with comprehensive financial solutions. KB's branch in the Slovak Republic offers standard banking services, including cash management, direct banking, payment cards, financing, and investment banking products, as well as trade finance solutions.

Financial summary (IFRS, CZK thousand)

	31.12.2018	31.12.2017
Total assets	29,265,723	27,800,535
Shareholder's equity	289,376	294,102
Loans and advances to customers (gross)	22,502,115	20,825,828
Volume of deposits	5,236,284	5,979,692
Net operating income	508,449	424,064
Tax	(82,941)	(76,817)
Net profit	337,054	300,488
Average number of FTEs	41	40
Number of points of sale	1	1
Public support received	0	0

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811 06 Bratislava
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Fax.: +421/2/529 61 959
E-mail: koba@koba.sk

Modrá pyramida stavební spořitelna, a.s.

Modrá pyramida is a fully owned subsidiary of KB. This second largest building savings bank in the Czech Republic as measured by loan volume with an 18% market share[1]. Main products offered by Modrá pyramida include: state-subsidised savings accounts, bridging loans and building savings loans. With its 720 advisors, Modrá pyramida's distribution network provides such additional products of KB Group as mortgages and KB bank services, supplementary pension saving, mutual funds and life and non-life insurance.

Financial summary (IFRS,[2] CZK thousand)

	31.12.2018	31.12.2017
Total assets	83,163,448	83,212,400[3]
Shareholder's equity	5,944,572	6,284,309[3]
Loans and advances to customers (gross)	51,240,521	43,802,262
Volume of deposits	61,845,090	62,018,716
Net operating income	1,341,878	1,512,591
Tax	(52,690)	(50,821)
Net profit	720,962	896,523
Average number of FTEs	328	327
Number of points of sale	204	216
Public support received	0	0

Contact:
Modrá pyramida stavební spořitelna, a.s.
Bělehradská 128, č. p. 222
120 21 Prague 2
ID: 60192852
Phone: +420 222 824 111
E-mail: info@modrapyramida.cz
Internet: www.mpss.cz
www.modrapyramida.cz

[1] Source: comparison of internal data with reporting of other building societies and CNB ARAD statistics at http://www.cnb.cz/docs/ARADY/HTML/index_en.htm

[2] Not audited.

[3] As of 1 January 2018, adjusted for the effect of IFRS 9 implementation

KB Penzijní společnost, a.s.

A fully owned subsidiary of Komerční banka, KB Penzijní společnost's core business is to collect contributions and manage them in pension funds pursuant to the Supplementary Pension Savings Act and as supplementary pension insurance in the Transformed Fund. By number of participants, this pension company has a 14% share in the supplementary pension savings market (3rd pillar) and an 11% share in the pension insurance market (Transformed Fund).[4]

Financial summary (CAS,[5] CZK thousand)

	31.12.2018	31.12.2017
Assets under management[6]	58,850,207	54,590,966
of which		
in Transformed Fund	53,517,368	50,788,892
Shareholder's equity	1,609,778	1,658,411
Net operating income	491,448	470,126
Tax	(49,227)	(1,030)
Net profit	204,893	256,634
Average number of FTEs	49	48
Public support received	0	0

Contact:
KB Penzijní společnost, a.s.
nám. Junkových 2772/1
155 00 Prague 5
ID: 61860018
Phone: +420 955 525 999
E-mail: kbps@kbps.cz
Internet: www.kbps.cz

[4] Source: Association of Pension Funds of the Czech Republic, www.apfcr.cz

[5] CAS: Czech Accounting Standards, not audited.

[6] Total volume on client accounts

SOCIETE GENERALE Equipment Finance

SG Equipment Finance Czech Republic s.r.o.

SGEF is owned by Komerční banka (50.1%) and SG Equipment Finance International (49.9%). Through KB and its own network of seven branches in the Czech Republic and two in Slovakia, this company provides financing of equipment, agricultural and forestry technology, vehicles for transportation of goods and passengers, high-tech, real estate and special projects by leasing and lending. SGEF has a 9% market share in the non-bank financing market in the Czech Republic as measured by financed amount (excluding consumer loans).[1]

Financial summary (CAS,[2] CZK thousand)

	31.12.2018	31.12.2017
Total assets	31,442,046	30,120,410
Shareholders' equity	3,377,545	4,096,524
Volume of new financing	11,995,473	11,947,817
Net operating income	479,541	1,008,114
Tax	(49,375)	(149,466)
Net profit	193,021	606,579
Average number of FTEs	130	126
Public support received	0	0

Contact:
SG Equipment Finance
Czech Republic s.r.o.
nám. Junkových 2772/1, 155 00 Prague 5
ID: 61061344
Phone: +420 955 526 700
E-mail: info@sgef.cz
Internet: https://www.equipmentfinance.societegenerale.cz

[1] Source: Czech Leasing and Finance Association, https://www.clfa.cz/data/dokumenty/829-2018zebricky.xls
[2] CAS: Czech Accounting Standards, not audited.

ESSOX

ESSOX s.r.o.

Owned by Komerční banka (50.93%) and SG Consumer Finance (49.07%), ESSOX is a non-bank provider of consumer loans and financial leasing for consumers and performs activities of payment institutions within the scope of payment services under a licence from CNB. ESSOX has a 20% market share in consumer lending provided by companies associated in the Czech Leasing and Finance Association.[3] Main products include financing of consumer goods and automobiles, general-purpose loans and revolving credit (credit card). Through the acquisition of PSA Finance Czech Republic and PSA Finance Slovakia, ESSOX entered the market for financing new cars in 2016. As of 1 January 2018, PSA FINANCE Czech Republic became part of its parent company, ESSOX s.r.o., and PSA FINANCE Slovakia changed its name to ESSOX FINANCE, s.r.o.

Financial summary (CAS,[4,5] CZK thousand)

	31.12.2018	31.12.2017
Total assets	16,612,466	13,030,293
Shareholders' equity	3,415,427	3,381,966
Loans and advances to customers (gross)	14,909,954	10,843,369
Net operating income	952,863	904,890
Tax	(54,296)	(62,038)
Net profit	369,011	384,158
Average number of FTEs	376	352
Public support received	0	0

Contact:
ESSOX s.r.o.
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ID: 267 64 652
Phone: +420 389 010 111
E-mail: essox@essox.cz
Internet: www.essox.cz

[3] Source: Czech Leasing and Finance Association, https://www.clfa.cz/data/dokumenty/829-2018zebricky.xls
[4] CAS: Czech Accounting Standards, not audited, unconsolidated figures.
[5] ESSOX s.r.o. merged with PSA FINANCE ČESKÁ REPUBLIKA, s.r.o. as of 1 January 2018.

KB Factoring

Factoring KB, a.s.

Factoring KB is a fully owned subsidiary of Komerční banka and is the largest factoring company in the Czech Republic. It has a 32% share on the Czech factoring market according to the volume of receivables transferred.[6] Through its own and KB's networks, the company provides the following products: domestic factoring, export factoring, import factoring, modified factoring and receivables management.

Financial summary (CAS,[7] CZK thousand)

	31.12.2018	31.12.2017
Total assets	16,315,332	14,713,627
Shareholder's equity	1,620,585	1,598,323
Factoring turnover	50,168,004	42,837,855
Loans and advances to customers (gross)	15,470,803	13,941,147
Net operating income	166,502	203,679
Tax	(26,640)	(14,287)
Net profit	115,094	86,535
Average number of FTEs	41	42
Public support received	0	0

Contact:
Factoring KB, a.s.
nám. Junkových 2772/1, 155 00 Prague 5
ID: 25148290
Phone: +420 955 526 906
E-mail: info@factoringkb.cz
Internet: www.factoringkb.cz

[6] Source: Czech Leasing and Finance Association, https://www.clfa.cz/data/dokumenty/829-2018zebricky.xls
[7] CAS: Czech Accounting Standards, not audited.

Komerční pojišťovna a.s.

The shareholders of Komerční pojišťovna are SOGECAP (51%) and Komerční banka (49%). This insurance company has a 3% share in the life insurance market (according to methodology of the Czech Insurers Association, measured by premiums written).[1] Main products include: savings life insurance, risk life insurance, capital life insurance, investment life insurance, accident insurance, payment card insurance, travel insurance, travel insurance for payment cards, risk life insurance for credit cards, risk life insurance for consumer loans and, since 2016, non-life insurance for residential real estate and households.

Financial summary (CAS,[2] CZK thousand)

	31.12.2018	31.12.2017
Total assets	47,797,166	49,913,987
Shareholders' equity	1,936,468	2,902,470
Technical reserves (gross)	47,452,817	48,554,350
Gross premium written	5,146,804	6,149,823
Tax	(87,355)	(90,486)
Net profit	585,824	237,926
Average number of FTEs	210	186
Public support received	0	0

Contact:
Komerční pojišťovna a.s.
Karolinská 1/650, 186 00 Prague 8
ID: 63998017
Phone: +420 222 095 999
E-mail: servis@komercpoj.cz
Internet: www.komercpoj.cz

[1] Source: Czech Insurance Association, http://www.cap.cz/images/statisticke-udaje/vyvoj-pojisteno-trhu/STAT-2018Q4-CAP-CZ-2019-01-28-WEB.pdf

[2] CAS: Czech Accounting Standards, not audited.

ESSOX FINANCE s.r.o.

ESSOX FINANCE (formerly PSA FINANCE SLOVAKIA, s.r.o.) provides its services through the Peugeot and Citroën brands. Financial and insurance services include financial leasing, consumer credit, accident insurance for motor vehicles, liability insurance for motor vehicles, loss insurance and operational leasing, which is outsourced. The company also provides inventory financing to authorised dealers selling new Peugeot and Citroen cars. On 14 July 2017, the ownership structure of PSA FINANCE SLOVAKIA, s.r.o. changed and the sole owner of the company became ESSOX s.r.o. On 1 January 2018, the name of the company was changed to ESSOX FINANCE.

Financial summary (SAS,[3] EUR thousand)

	31.12.2018	31.12.2017
Total assets	92,121	84,802
Shareholder's equity	9,199	5,635
Loans and advances to customers (gross)	92,687	83,777
Net operating income	1,161	2,237
Tax	(94)	(8)
Net profit	64	(925)
Average number of FTEs	27	25
Public support received	0	0

Contact:
ESSOX FINANCE, s.r.o.
Karadžičova 16, 821 08 Bratislava, Slovakia
ID: 35846968
Phone: +421 5348 37 50
Internet: http://www.essoxfin.sk/

[3] SAS: Slovak Accounting Standards, not audited.

Bastion European Investments S.A.

Bastion European Investments S.A. is a Special Purpose Vehicle, based in Belgium, intended for financing a long-term transaction of the European Union. Given the long-term profile of this transaction, Bastion European Investments S.A. was financed by both a long-term loan and KB's own capital. This transaction helps to diversify the KB portfolio by adding a financial asset with a very low risk profile. The ownership share of Komerční banka a.s. in Bastion European Investments S.A. was 99.98% as of 31 December 2018.

Financial summary (IFRS,[4] EUR thousand)

	31.12.2018	31.12.2017
Total assets	125,692	216,297
Shareholders' equity	20,710	106,734
Loans and advances to customers (gross)	104,976	109,245
Volume of deposits	0	0
Net operating income	709	249
Tax	107	(11)
Net profit	784	205
Average number of FTEs	0	0
Public support received	0	0

Contact:
Bastion European Investments S.A.
Rue de la Science 14b, 1040 Brussels, Belgium
ID: BE 0877.881.474
E-mail: operations@bastion-ei.be

[4] Not audited.

VN 42 s.r.o.

VN 42 s.r.o. was established in 2013 to provide administration and maintenance for real property and real estate services. In 2013, KB placed into this company KB's headquarters at Wenceslas Square 42, which VN 42 s.r.o. subsequently leases to Komerční banka. VN 42 s.r.o. was fully owned by Komerční banka a.s. as of 31 December 2018.

Financial summary (CAS,[1] CZK thousand)

	31.12.2018	31.12.2017
Total assets	2,052,572	2,135,833
Shareholder's equity	2,018,711	2,103,548
Net operating income	178,398	174,338
Tax	(24,789)	(24,504)
Net profit	27,248	25,841
Average number of FTEs	0	0
Public support received	0	0

Contact:
VN 42 s.r.o.
Václavské náměstí 796/42,
Prague 1, 110 00 Nové Město
ID: 02022818

[1] CAS: Czech Accounting Standards, not audited.

KB Real Estate s.r.o.

KB Real Estate s.r.o. was established in 2011 to provide administration and maintenance of real property and real estate services. In 2012, KB Real Estate acquired the office building in Stodůlky, which was subsequently leased to KB. Komerční banka a.s. fully owned KB Real Estate s.r.o as of 31 December 2018.

Financial summary (CAS,[2] CZK thousand)

	31.12.2018	31.12.2017
Total assets	937,806	956,446
Shareholder's equity	504,445	498,484
Net operating income	60,321	58,752
Tax	(1,399)	(277)
Net profit	5,961	1,181
Average number of FTEs	0	0
Public support received	0	0

Contact:
KB Real Estate s.r.o.
Václavské náměstí 796/42,
Prague 1, 110 00 Nové Město
ID: 24794015

[2] CAS: Czech Accounting Standards, not audited.

STD2 s.r.o.

The company STD2 s.r.o. (originally named Office Center Stodůlky a.s.) was purchased in 2017 and owns the office building in Stodůlky, whose construction was completed in 2018. The company STD2 s.r.o. rents office space to KB. Komerční banka a.s. fully owned STD2 s.r.o. as of 31 December 2018.

Financial summary (CAS,[3] CZK thousand)

	31.12.2018	31.12.2017
Total assets	569,015	409,158
Shareholder's equity	186,869	9,418
Net operating income	17,967	266
Tax	(531)	181
Net profit	2,450	(1,005)
Average number of FTEs	0	0
Public support received	0	0

Contact:
STD2 s.r.o.
Václavské náměstí 796/42,
Prague 1, 110 00 Nové Město
ID: 27629317

[3] CAS: Czech Accounting Standards, not audited.

Protos, uzavřený investiční fond a.s.

Protos, uzavřený investiční fond a.s. (a closed-end investment fund) was established in 2007as a fund for qualified investors. The company's investment objective is the implementation of investment decisions, in particular primary issues of government bonds and other receivables issued or guaranteed by governments of the European Union member states. The company's long-term intention is to provide a regular and equitable dividend that follows the principle of accrued revenues and costs in the company's accounts. For this reason, the company prefers to minimise purchases and sales on the asset portfolio in such a way that trading gains and losses do not create additional dividend volatility. The ownership share of Komerční banka a.s. in Protos, uzavřený investiční fond a.s. was 83.65% as of 31 December 2018. The share of Factoring KB, a.s. in Protos, uzavřený investiční fond a.s. was 16.35% as of 31 December 2018.

Financial summary (CAS,[1] CZK thousand)

	31.12.2018	31.12.2017
Total assets	6,109,109	6,159,262
Shareholders' equity	6,094,898	6,133,383
Net operating income	357,891	444,282
Tax	(8,289)	(10,254)
Net profit	157,488	194,833
Average number of FTEs	0	0
Public support received	0	0

Contact:
Protos, uzavřený investiční fond a.s.
Rohanské nábřeží 693/10,
Prague 8, 186 00 Karlín
ID: 27919871

[1] CAS: Czech Accounting Standards, not audited.

Corporate governance

(A separate part of the annual report pursuant to § 118 (4) (b), (c), (e) and (j) and (5) (a)–(k) and (6) of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended)

Komerční banka acceded to and upholds all the principal standards of corporate governance in compliance with the Corporate Governance Code based on the OECD principles as amended in 2004 and issued by the Czech Securities Commission. The Czech wording of the Revision of the Code is available on the website of the Ministry of Finance of the Czech Republic at www.mfcr.cz. Moreover, in September 2018, Komerční banka registered for compliance with all main corporate governance standards set by the Corporate Governance Code of the Czech Republic (2018), issued by the Institute of Administrative Bodies on the basis of international standards of corporate governance (in particular G20 / OECD Principles of Corporate Governance from 2015). Its full text in Czech is available at http://www.cginstitut.cz/cs/dokumenty/ (hereinafter referred to as the "Codes").

Komerční banka's Board of Directors applies and develops the aforementioned principles of corporate governance in a spirit of transparency, accountability and long-term prospects, and it translates these best practices into its internal procedures and regulations.

Compliance with the Codes is maintained through the Bank's open approach to disclosing information on material matters of the Bank, in particular concerning its financial position, dividend policy, performance, ownership, corporate governance and company management. The financial reports provide a true and fair view of the Bank's accounting and financial position. Shareholders are informed in a timely manner as to the date, location, and agenda of the General Meeting, with the proposals of the individual resolutions and their rationale, including information on the proposal for paying out the share in profit and the method of this payment. Shareholders are informed of their rights relating to their participation in the General Meeting, including a description of how to participate in the General Meeting, whether in person or on the basis of a power of attorney, and have at their disposal in advance materials concerning the agenda of the General Meeting. The invitation to the General Meeting also explains the rules and voting procedures governing the General Meeting. This information is available on the Bank's website and in the press, and press releases are issued regularly.

Furthermore, the Code is fulfilled by the chosen management system. The Bank has a two-tier management system that entails a separation of the executive and control functions. The Board of Directors performs all key functions of the Bank's management. Operational management is divided among the individual members of the Board, and each member of the Board has competence over a certain area of the Bank's activities (functional division). The Board of Directors nevertheless decides collectively at its meetings, which are held regularly at two-week intervals. Under the Bank's Articles of Association, members of the Board are subject to rules and regulations over conflicts of interest even stricter than as defined by Act No. 90/2012 Coll., on Business Corporations. They are obliged to inform the Board of Directors and Supervisory Board of any existing or even potential conflicts of interest relating to functions they perform in any other legal entity and are obliged to abstain from voting on all matters concerning the Bank's relationship to such a legal entity. The Bank's corporate governance and management system provides the members of the Board of Directors and the Supervisory Board with timely and relevant information relevant to the performance of their functions. The Board of Directors and the Supervisory Board apply proper and effective procedures relating to their conduct, keep records of the decisions taken and retain them for the duration of the Bank's existence.

The Supervisory Board is a control body supervising the activities of the Board of Directors and of the entire Bank. Three of the Supervisory Board's nine members are independent and two are employee representatives. The Supervisory Board is to establish Audit, Risk, Nominations and Remunerations committees. Members of the Audit Committee are appointed by the General Meeting. The majority of members of the Audit Committee, including the Chairperson, are independent and professionally qualified. The Audit Committee plays an important role in supervising the Bank's proper management, the independence and objectivity of the external auditor, the auditor's conduct of the mandatory audit, effectiveness of the risk management systems (together with the Risk Committee), and mechanisms of internal management and control. The Risk Committee monitors the Bank's approach to risk, its strategy in the risk area, acceptable levels of risk and risk management.

The Bank applies a policy of diversity. The Supervisory Board endeavours within its scope of competence to ensure that the Board of Directors and Supervisory Board consist of persons with appropriate professional, time-related, and other requirements for the performance of their duties, that both bodies are balanced in terms of professional competence and experience, and that the composition of the Board of Directors and the Supervisory Board as a whole is diverse by taking into account the requirements of the Bank for the specifics of its business. For this purpose, the Nominations Committee of the Supervisory Board of Komerční banka adopted the Main Principles for Nominating Members of the Supervisory Board and the Board of Directors and for Their Composition and Performance. These principles reflect the tenets of corporate governance, requirements of the Act on Business Corporations, the Banking Act, CNB Decree No. 163/2014 Coll. and Stock Exchange Standards. Since mid-2018, the Bank has also implemented EBA guidelines for assessment of suitability of members of corporate bodies. In nominating candidates for open positions on the Supervisory Board and Board of Directors, the Nominations Committee follows the stated principles and instructions and assesses first the balance of professional competence and experience and the diversity of the Supervisory Board's and Board of Directors' composition as a whole (diversity is assessed in terms of experience, education, qualifications, profession, social position, gender, nationality, and age), followed by the profile of the current members of the Supervisory Board and Board of Directors and their specific knowledge, followed by the candidate's professional competence, experience, professional successes, understanding of the Bank's activities and its main risks on the candidate's side and, last but not least, his or her moral profile and integrity. The Nominations Committee also considers the target representation of the less represented gender according to the accepted principles and the candidate's time considering the time requirements of the obligations connected with the performance of the membership function. Candidates undertake to assess and evaluate compliance with the credibility, knowledge, experience, management and independence requirements and respond to questions prepared for evaluating their suitability for the Bank's bodies and submit a professional CV, an extract from the criminal record, and references. Once a year, the Nominations Committee evaluates the trustworthiness, professional competence, and experience of the individual members of the Supervisory Board and the Board of Directors and of the two bodies as a whole and submits reports on this evaluation to the Supervisory Board. These evaluations form the basis for seeking candidates for open positions and for ensuring that the two Boards as a whole as well as their members have suitable professional, time-related, and other requirements for performing their activities.

In 2018, these principles were applied to all changes that occurred during the year in the Board of Directors, in particular in the event of the termination of three members of the Board of Directors and appointment of two new members (while the sixth of the Board of Directors was appointed in January 2019. The main principles were applied during 2018 in relation to all changes made in the Supervisory Board of Komerční banka, when changing representative of the majority shareholder, as well as when electing new members of the Supervisory Board representing employees. The Bank has ensured the proper and effective exercise of the employees' right to elect one-third of members of the Supervisory Board and their right to seek election to the Supervisory Board.

At its meeting in March 2018, the Board of Directors also assessed the activity of the Board of Directors of Komerční banka, and its individual members during 2017 and proceeded similarly regarding the Supervisory Board of Komerční banka and its individual members.

In the course of 2018, five meetings of the Committee for appointment of the Supervisory Board of Komerční banka were held, one of which was per rollam.

The Board of Directors and Supervisory Board coordinate with each other the main strategies and changes in the management direction of the Bank. The Board of Directors shall periodically provide the Supervisory Board with information on all relevant facts in relation to all material facts concerning the Bank and its controlled companies.

There were no fundamental changes during 2018 that would adversely influence the aforementioned standards for the Bank's corporate governance. Komerční banka will continue to respect the principles of corporate governance, inasmuch as these best correspond with the Bank's business model as well as the interests of the Bank and its shareholders and employees.

Shareholders and the General Meeting

Komerční banka's share capital totals CZK 19,004,926,000 and is divided into 190,049,260 ordinary listed shares admitted to trading on the European regulated market, each with a nominal value of CZK 100. All the Bank's shares carry the same rights.

Major shareholders of Komerční banka owning more than 1% of the share capital as of 31 December 2018
(per the extract from the issuers register taken from the Central Securities Depository)

Shareholder	Proportion of share capital
Société Générale S.A.	60.353%
Chase Nominees Limited	4.878%
Nortrust Nominees Limited	3.872%
Clearstream Banking, S.A.	2.464%
State Street Bank and Trust Company	1.981%
GIC Private Limited	1.739%
Brown Brothers Harriman CO.	1.571%
Other shareholders	23.142%

Shareholder structure of Komerční banka as of 31 December 2018
(per the extract from the issuers register taken from the Central Securities Depository)

		Number of shareholders	Proportion in number of shareholders	Proportion of share capital
Number of shareholders		**48,265**	**100%**	**100%**
of which:	legal entities	746	1.55%	95.96%
	private individuals	47,519	98.45%	4.04%
Legal entities		**746**	**1.55%**	**95.96%**
of which:	from the Czech Republic	219	0.45%	1.94%
	from other countries	527	1.09%	94.03%
Private individuals		**47,519**	**98.45%**	**4.04%**
of which:	from the Czech Republic	42,907	88.90%	3.82%
	from other countries	4,612	9.56%	0.21%

The General Meeting is the supreme body of the Bank. The Regular General Meeting is convened at least once per year, and in no case later than four months from the last day of each accounting period. A quorum of the General Meeting shall be constituted if the attending shareholders hold shares the total nominal value of which exceeds 30% of the Bank's registered capital, provided that voting rights are attached thereto in accordance with generally binding legal regulations and except in cases specified in § 12, para.1 of the Articles of Association. The quorum is confirmed at the time of convening the General Meeting and always before each vote. The General Meeting shall approve resolutions by a majority of votes of the attending shareholders unless legal regulations or the Articles of Association require a qualified majority of votes. The General Meeting's order of business is governed by the agenda stated in the invitation to the General Meeting, which contains proposed resolutions and their justification and further information about the conditions of shareholders' participation, execution of shareholder rights, and the main information from the financial statements. At least 30 days prior to the General Meeting, the General Meeting shall be convened by means of a public notice calling the General Meeting, which shall be posted on the Bank's website **www.kb.cz** and on the notice board in the Bank's registered office, as well as published in the Mladá Fronta DNES daily newspaper. All documents relating to corporate governance are published on the Bank's website. Issues not included in the proposed agenda for the General Meeting are decided upon only with the attendance and consent of all the Bank's shareholders. The General Meeting shall be opened by a member of the Board of Directors authorised for this purpose by the Board of Directors or a person designated by the Board of Directors. This member of the Board of Directors shall also conduct the General Meeting until a Chairman of the General Meeting is elected.

Unless otherwise stipulated by law or the Articles of Association, all persons registered in the list of attending shareholders and present at the General Meeting at the time of calling a vote are entitled to vote. The sequence of voting corresponds to the order on the General Meeting's agenda. The casting of votes shall be carried out using an electronic voting system. Each CZK 100 of nominal share value represents one vote. Any proposal presented by the Board of Directors shall be voted upon first. Should such proposal of the Board of Directors be accepted by the required majority, other proposals or counter-proposals to this point shall not be voted upon. Other proposals or counter-proposals shall be voted upon in the sequence in which they have been presented. Should such a proposal or counter-proposal be approved in a vote by the General Meeting, other proposals or counter-proposals shall not be voted upon.

The Articles of Association allow the possibility of correspondent voting before the general meeting if the Bank's Board of Directors so decides and while thus voting under the conditions specified in the invitation to the General Meeting.

The General Meeting has within its powers to:

a) decide upon changes to the Articles of Association, with the exception of a change in consequence of an increase in the registered capital by the authorised Board of Directors or a change made on the basis of other legal circumstances;
b) decide upon a change in the amount of the registered capital, except that, unless it is reduced to cover a loss, the registered capital may be reduced only upon prior approval of the Czech National Bank;
c) elect and remove members of the Supervisory Board; elect and remove members of the Audit Committee;
d) approve the Board of Directors' reports regarding the Bank's business activities and the state of its property, at least once per accounting period;
e) decide upon the possibility of setting off a monetary claim of the Bank against a claim to be used for payment of the issue price, including the draft of the relevant contract for set-off;
f) decide upon a change in the class or type of the shares;
g) decide to issue convertible or priority bonds of the Bank;
h) decide to modify the rights attached to individual classes of the shares;
i) approve the regular financial statements, extraordinary financial statements, consolidated financial statements and, as established by law, interim financial statements;
j) decide upon distribution of profit or other funds of the Bank or coverage of a loss;
k) approve the service contracts with the members of the Supervisory Board and of the Audit Committee;
l) decide on transformation of the Bank, unless the act regulating transformations of companies and co-operatives establishes otherwise, provided that prior consent of the Czech National Bank has been given where so required by law;
m) decide to wind up the Bank with the prior consent of the Czech National Bank;
n) approve proposed distribution of the liquidation balance of the Bank's assets;
o) decide to file for admitting the participation securities of the Bank to trading in the European regulated market or for excluding these securities from trading in the European regulated market;
p) approve the transfer or pledging of an enterprise or such part thereof entailing a substantial change to the existing structure of the enterprise or a substantial change to the business activities of the Bank;
q) charge the Board of Directors to decide upon an increase in the registered capital under the conditions specified by law;
r) decide to acquire the Bank's shares into treasury in accordance with the applicable provisions of the Act on Business Corporations;
s) decide upon elimination or restriction of the pre-emptive right to acquire convertible or priority bonds, elimination or restriction of the pre-emptive right to subscribe for new shares in accordance with the Act on Business Corporations;
t) approve the acquisition or disposal of assets, when the law so requires;
u) decide upon appointment of the auditor to make the statutory audit or to verify other documents if such appointment is required by legal regulations;
v) convey principles and instructions to the Board of Directors of the Bank (with the exception of instructions regarding the business management of the Bank unless provided to the

Board of Directors upon its request); and approve principles and convey instructions to the Supervisory Board (with the exception of instructions regarding the statutory duty to check the competence of the Board of Directors);

w) provide its consent regarding a contract for settlement of a loss caused by a breach of the duty of due care on the part of a member of a body of the Bank;

x) decide upon suspending the service of a member of a body of the Bank who declares a conflict of interest under the Act on Business Corporations, or prohibit a member of a body of the Bank from entering into a contract which is not in the Bank's interest;

y) decide that the amount of variable remuneration for persons whose work activities have a material impact on the risk profile of the bank may be higher than the fixed remuneration component but not more than twice the fixed component of the remuneration;

z) decide upon other matters which according to the generally binding legal regulations or the Articles of Association are a part of the powers of the General Meeting.

The results and information from the General Meeting are available on Komerční banka's website **www.kb.cz**.

Principle resolutions of Komerční banka's Annual General Meeting held in 2018

At the regular General Meeting held on 25 April 2018, 488 shareholders holding shares with nominal value representing 81.53% of the Bank's share capital were present in person or through their representatives.

The General Meeting approved the Board of Directors' report on the Bank's business activities and the state of its property for the year 2017 as well as the annual financial statements of Komerční banka for the year 2017, decided to distribute profit for 2017 in the total amount of CZK 14,914,375,060.80, and decided to pay out dividends in the amount of CZK 47 per share before tax. The Annual General Meeting also:

- decided to change the Bank's statutes
- elected Mr Petr Dvořák as a member of the Audit Committee
- appointed the company Deloitte Audit s.r.o., with its registered office at Karolinská 654/2, 186 00 Prague 8 – Karlín, registration No. 49620592, as the external auditor of Komerční banka for 2018 and the company Deloitte Audit s.r.o. with its registered office at Digital Park II, Einsteinova 23, Bratislava 851 01 as the auditor of KB's foreign branch in Slovakia.

Additional information in accordance with § 118 (5), (i), (j) and (k) of the Act on Capital Market Undertakings

Komerční banka is not aware of any contracts made between its shareholders as a result of which the transferability of shares or of voting rights would become more complicated. The Bank has entered into no significant contracts which take effect, are altered or terminate if the person or entity in control of Komerční banka changes as a consequence of a takeover bid. Komerční banka has entered into no contract with a member of its Board of Directors or any employee stipulating an obligation for Komerční banka to perform in the event that such person would cease to serve as a member of the Board of Directors or cease to be employed in connection with a takeover bid. The Bank has not established any programmes enabling the members of the Board of Directors and employees of the Bank to acquire the Bank's securities, options on these securities or other rights under preferential conditions.

Information about special rules on the revision of the Bank's Articles of Association

According to the Bank's Articles of Association, decisions on amendments to the Articles of Association are within the powers of the General Meeting. Proposed resolutions for amendments to the Articles of Association and their justification are provided in the invitation to the General Meeting. Proposed changes in the Articles of Association are available for shareholders' inspection at no charge at the Bank's headquarters and on its website for the period established for convening of the General Meeting. The Bank shall notify its shareholders of these rights in the invitation to the General Meeting.

If a shareholder wishes to raise counter-proposals to the proposed changes to the Articles of Association at the General Meeting, the shareholder is obliged to deliver the written wording of such proposal or counter-proposal to the Bank no later than five business days prior to the day of the General Meeting. The Board of Directors shall notify its shareholders of the wording of the counter-proposal along with its viewpoint with regard to it in the manner specified for the convening of the General Meeting.

Decisions on changes in the Articles of Association are made by the General Meeting and carried by two-thirds of those votes of the attending shareholders upon a proposal of the Board of Directors, of the Supervisory Board or of one or more shareholders in accordance with the Act on Business Corporations and the Articles of Association. Decisions on changes in the Articles of Association must be recorded by notarial deed containing the approved text of the wording of changes in the Articles of Association. Komerční banka is obliged to report to the Czech National Bank its intention to make changes in the Articles of Association relating to those particulars which must be stated in the Articles of Association based on a requirement set forth by law.

Board of Directors

The Board of Directors is the corporate body which manages the Bank's activities. The Board of Directors is charged with business management, including to ensure the proper keeping of the Bank's accounting records, integration of the accounting system and financial reporting, reliability of financial and operating control, smooth conduct of activities and the Bank's operations on the financial market in compliance with the object and plan of its activities. The Board ensures consistent and effective implementation of the risk management, compliance and internal audit functions. The Board of Directors further ensures the creation of a comprehensive and adequate management and control system, ensures its compliance with legal regulations, and is responsible for its continuous functioning and effectiveness. The Board of Directors ensures the establishment and maintenance of the management and control system so as to ensure the adequacy of information and communication in conducting the Bank's operations.

The Board of Directors shall decide upon all matters concerning the Bank unless assigned to the competence of the General Meeting, the Supervisory Board or the Audit Committee by law or by the Articles of Association. The Board of Directors consists of six members, natural persons, who satisfy the conditions established in legal regulations for serving as a member of the Bank's Board of Directors and who are elected for four-year terms by an absolute majority of all Supervisory Board members at the recommendation of the Nominations Committee. The Nominations Committee ensures the trustworthiness, adequate professional qualifications and experience of the members of the Board of Directors. The professional qualifications, trustworthiness and experience of the members of the Bank's Board of Directors are assessed by the Czech National Bank.

In accordance with the requirement of the Czech National Bank, Komerční banka declares that the members of the Board of Directors of Komerční banka have not in the past 5 years been convicted of any criminal offence and that no charges, accusations or other sanctions have been brought against them by any regulatory body. No bankruptcy, receivership or liquidation has been declared in relation to the stated persons during the past 5 years.

In relation to his or her work in the Bank, no person with executive power has any conflict of interests between the duties of a person with executive power in the Bank and that person's private interests or other duties. Didier Colin signed an employment contract with Société Générale S.A. and he was delegated to serve as a director of the Bank.

Method of performing acts in law on the Bank's behalf

The Board of Directors, as the Bank's authorised body, shall act on behalf of the Bank in all matters, either by all members of the Board of Directors jointly or by any two members jointly.

Composition of the Board of Directors in 2018

Jan Juchelka
Chairman of the Board of Directors (since 3 August 2017, previously a member of the Board of Directors from 1 July 2006, re-elected on 2 July 2010, membership terminated as of 31 July 2012)

Didier Colin
Member of the Board of Directors (since 1 October 2017, previously a member of the Board of Directors from 9 October 2004, re-elected on 10 October 2008, membership terminated as of 31 December 2010)

David Formánek
Member of the Board of Directors (since 1 August 2018)

Miroslav Hiršl
Member of the Board of Directors (since 1 August 2018)

Vladimír Jeřábek
Member of the Board of Directors (since 1 June 2008, re-elected on 3 June 2016)

Libor Löfler
Member of the Board of Directors (from 1 April 2015, membership terminated on 5 October 2018)

Peter Palečka
Member of the Board of Directors (from 13 October 1999, re elected on 9 October 2017, membership terminated on 31 July 2018)

Jan Pokorný
Member of the Board of Directors (from 2 August 2016, membership terminated on 30 June 2018)

Jan Juchelka
A graduate of the Silesian University in Opava, he worked in the National Property Fund of the Czech Republic from 1995, and during 2002 to 2005 he was Chairman of its Executive Committee. From 1999 to 2006, he was a member of the Supervisory Board of Komerční banka. He joined Komerční banka in 2006, first as head of Prague's Corporate Banking Business Division and later that year he became a member of the Board of Directors responsible for managing Top Corporations and Investment Banking. From 2012, he worked in the Société Générale headquarters in Corporate and Investment Banking as Managing Director, Head of Coverage with responsibility for corporate clients in the Central and Eastern European Region, Middle East, and Africa. He also worked as Senior Banker for the Central and Eastern European Region. KB's Board of Directors elected Mr Juchelka as Chairman of the Board of Directors and Chief Executive Office of Komerční banka with effect from 3 August 2017. As of the end of 2018, Mr Juchelka has direct management competence for Human Resources, Internal Audit, Communication, Strategy and Finance, Marketing, Business Consulting and Agile Center of Expertise. Temporarily until election of another member of the Board of Directors, Mr Juchelka was also responsible for IT, Information Management and Organisation and Change Management, as well as "Business

Services", "Platform Services", "Enterprise Services" and "Data Management" tribes. Mr Jan Juchelka holds the position of Chairman of the Supervisory Board of Modrá pyramida, ESSOX and, since 2019, KB SmartSolutions and he is a member of the Supervisory Board of ESSOX FINANCE, SGEF and Komerční pojišťovna.

Vladimír Jeřábek
A graduate of VUT Technical University in Brno, Czech Republic, and from Nottingham Trent University, he has held the positions of economic director and member of the board of directors in several banking institutions and at Zetor, a.s., a producer of agricultural tractors. Upon his arrival to Komerční banka in 1998, Mr Jeřábek was the regional manager responsible for the Brno region and later was in charge of Komerční banka's distribution channels. In February 2007, he was appointed Executive Director of the Distribution Network. The Supervisory Board elected Mr Jeřábek as a member of the Board of Directors in charge of Distribution with effect from 1 June 2008. He was further responsible for the Bank's distribution network serving the Retail and Corporate segments and also for the alternative distribution channels such as internet banking and non-banking channels. Currently, Mr Jeřábek is responsible for the management of the Transaction and Payment Services, Support Services, Investment Banking, Compliance, Legal, Operational Risk and Data Protection Office and is also responsible for managing the "Payments and Corporate Cash Management" and "Card, Cash Acquiring and ATM" tribes. Moreover, Mr Jeřábek is chairman of the supervisory board of KB Penzijní společnost and a member of the Supervisory Board of Modrá pyramida.

Didier Colin
A graduate in finance at Dauphine University in Paris and also City University of New York (MBA), he has many years' experience within Société Générale Group, where he started working during the early 1990s in the Inspection arm. In 2000, he was promoted to Deputy Country Manager and subsequently to Country Manager for Canada. From this position, he moved into Komerční banka in 2004 as Member of the Board of Directors responsible for Risk Management. In 2011, he became Director for the European Region; as part of this function, he supervised Société Générale's activities in the Central and Eastern European Region. From 2013, he was deputy to the CEO of BRD Romania responsible for managing the bank's risk management. With effect from 1 October 2017, he was elected by the Supervisory Board as a Member of the Board of Directors of Komerční banka in charge of Risk Management. He also is responsible for the "Risk Services" tribe. Mr Didier Colin is also a member of the Supervisory Board of ESSOX and SGEF.

Miroslav Hiršl
A graduate from the University of Economics in Prague with a focus on foreign trade and banking and postgraduate studies at the Graduate School of Banking in Boulder, Colorado, United States of America. From 1996 to 2006, he worked in various positions within Komerční banka, first at a branch and a regional branch in Hradec Králové, then at a regional branch and at headquarters in Prague. From 2006 to 2014, he worked for Modrá pyramida, first as a director for business synergy, as a member of the Board of Directors, Deputy Chief Executive Officer, Executive Director of Trade and Marketing and finally as Deputy Chairman of the Board of Directors, First Deputy CEO, Executive Director of Business and Marketing. Between 2014 and 2018, he served as CEO and member of the Board of Directors of SG Montenegro Bank, a.d. in Montenegro. From 1 August 2018, he is a member of the Board of Directors of Komerční banka responsible for Retail Banking. He is also responsible for the management of "Consumer Financing", "Housing", "Digital Channels", "Physical Distribution Channels", "Securing Life Projects", "Client on-boarding and D2D", and "Retail Segments". Mr Hiršl is also a member of the Supervisory Boards of KB Penzijní společnost, Modrá pyramida, ESSOX and Komerční pojišťovna and, since 2019, KB SmartSolutions.

David Formánek
A graduate of the University of Economics in Prague in the field of foreign trade economics. From 1993 to 2001, he worked within the branch of Deutsche Bank AG in Prague. Between 2001 and 2014, he worked at Komerční banka, first as Deputy Director and subsequently as Director of the Prague Business Division, then as Deputy Director for Human Resources and Executive Director for Human Resources. Between 2014 and 2018, he worked as CEO and Chairman of the Board of Directors of Modrá pyramida. Since August 2018, he has been a member of the Board of Directors of Komerční banka responsible for Top Corporate Corporations, Investment Banking, Structured Finance, Corporate Finance, Corporate Banking, Global Transaction Banking, and KB, a branch of a foreign bank. He is also responsible for managing the Business Financing and Corporate Segments. Mr Formánek is also a member of the supervisory boards of KB Penzijní společnost and Modrá pyramida.

Activity report of the Board of Directors

The Board of Directors shall convene at its regular, periodic meetings, usually once every two weeks. Meetings shall be convened and presided over by the Chairman of the Board of Directors or, in his or her absence, by a member of the Board of Directors authorised to do so by the Board of Directors. Should it not be possible to hold a Board of Directors' meeting, a decision may be adopted by voting remotely in accordance with the Articles of Association.

The Board of Directors met at 21 regular and 1 extraordinary meeting in 2018 and held 7 remote votes in accordance with the Bank's Articles of Association. A quorum of the Board of Directors shall be constituted if an absolute majority of the Board members are present. Resolutions of the Board of Directors shall be adopted by an absolute majority of members of the Board of Directors present, except for the election of the Chairman of the Board of Directors, who shall be elected by an absolute majority of all members of the Board of Directors.

In 2018, the Board of Directors discussed the annual financial results of KB Group for the year 2017, as well as KB's consolidated financial statements, separate financial statements, and their footnotes as of 31 December 2017 and prepared under International Financial Reporting Standards (IFRS). The Board of Directors submitted these statements to the Supervisory Board for review and then to the General Meeting for approval. At the same time, it submitted to the Supervisory Board for review the proposed profit distribution for 2017, which was subsequently approved by the General Meeting.

The Board of Directors also discussed additional proposals for the General Meeting, in particular the proposal to amend the

Articles of Association, the Report of the Board of Directors on the Bank's Business Activities, the Report on Relations among Related Entities, the proposal for appointment of the external auditor and other matters falling within the competence of the General Meeting. Moreover, it approved the Bank's Annual Report for 2017, Corporate Social Responsibility Report and Half-yearly Report for 2018. It also was presented a contract with an external auditor and documents on the providing of non-audit services.

The Board of Directors regularly reviewed the quarterly financial results of KB Group. It continuously evaluated the Bank's capital adequacy and approved the Internal Capital Adequacy Assessment Process (ICAAP) submitted to the Czech National Bank on the basis of Decree No. 163/2014 Coll. on the performance of the activity of banks, credit unions and investment firms. On the basis of the test of solvency, it decided on the payment of dividends for the year 2017. It also discussed capital management policy, particularly with respect to new regulatory requirements on banks' capital requirements. In this connection, it approved a dividend policy in relation to the profit for the year 2018. Moreover, the Board of Directors discussed reports on the market situation, the development of structural risks for each quarter of the year, as well as the KB Group budget for 2018. It also discussed the financial plan for the period 2019–2022.

As part of its activities, the Board of Directors regularly assessed all of the Bank's risks. In the field of risk management, it discussed the reports on the development of market and capital risks and the development of lending on capital markets on a monthly basis. At the same time, it discussed and approved limits on market risks, and, within its competence, approved loans to economically connected groups above a specified limit. It also approved the strategy for dealing with clients assigned to the administration of the Asset Valuation and Recovery Department. Moreover, it approved competences in providing loans and the document on the level of so-called risk appetite. The Board also approved the steps taken in response to the CNB's recommendations on loans provided to individual clients. In the operational risks area, the Board of Directors discussed the regular quarterly reports and progressive steps in introducing so-called second-level controls and a new operational risk model. The Board dealt with IT areas and measures to ensure the IT stability of its operations, including the management of information security issues.

Compliance risks were evaluated both in the yearly report for 2017 and in quarterly reports on the development of these risks. At the same time, the Board of Directors approved the 2017 annual evaluation report on KB's system against money laundering and the financing of terrorism as well as assessment of the money laundering risk within the Bank. It was informed on new regulations impacting the Bank and needing to be implemented as well as their expected development in the next year. The Board of Directors decided the Bank would commit to PRIBOR – Code of Conduct and discussed the so-called Culture & Conduct Programme and its action plan. The Board of Directors also strengthened the Bank's ability to withstand a possible deteriorating situation by preparing a range of possible remedial measures and approving the so-called Group's recovery plan for 2018 (in accordance with Directive No. 2014/59/EU and with Act No. 374/2015 on recovery procedures), which was subsequently submitted to the CNB. The Board of Directors updated the list of those employees whose professional activities have a material impact on the Bank's risk profile. The Board of Directors was informed of the steps and actions taken in connection with the GDPR and the protection of personal data. It also conducted an annual evaluation as to implementation of the remuneration principles and approved these principles for 2019.

In the area of Internal Audit, the Board of Directors discussed a number of documents. It discussed reports on the status of corrective measures as of the end of each quarter of 2018 and was regularly informed of all actions carried out by Internal Audit. Management of corrective measures and their proper implementation were fully addressed. It also discussed the results of risk mapping, based upon which the annual internal audit plan for 2019 and a strategic plan for the period 2019–2023 were established and approved. It discussed, too, measures (and status of their implementation) taken in accordance with the findings presented in the Constructive Service Letter which had been prepared and presented to the Board of Directors by the external auditor Deloitte Audit, s.r.o.

The Board of Directors evaluated the overall functioning and efficiency of the Bank's management and control system, which is functional and effective, while there are certain areas for improvement covered by appropriate action plans. Furthermore, the Board of Directors addressed reports on the handling of complaints and claims (including complaints sent to the Bank's Ombudsman). The Board of Directors also discussed the Bank's strategic direction for the next year and took appropriate steps to implement the KB Change programme. The Supervisory Board and the Czech National Bank were informed about all these steps. In this context, the Board of Directors also newly created the Strategy and Executive Committee.

The Board of Directors discussed all issues falling within its competence as the sole shareholder in performing duties of the General Meeting in KB Group's subsidiaries, such as approving financial statements, election and remuneration of members of company bodies, amendments to the articles of association, appointment of auditors and other matters.

As part of its activities, the Board of Directors decided on many other issues related to organisational structure, approving directives within various arms or granting powers of attorney. Changes were made to the organisational structure with the aim of its streamlining, and several tribes were set up within the KB Change programme to operate in the agile working methods and are directly subordinated to the relevant members of the Board of Directors. Further steps were taken in the implementation plan for the utilisation of buildings for KB's head office. The Board approved an addendum to the agreement concluded between KB and Worldline and Cataps and the relevant contracts within the so-called Business Intelligence for small and medium-sized enterprises.

The Board of Directors, acting as founder, also discussed the orientation of Komerční banka's Jistota Foundation and was informed of the Foundation's activities. The Board of Directors approved the financial contribution for the Foundation's activities and a contribution was provided to the budget of the Debt Advisory Centre. It discussed and approved contractual documentation related to co-operation with the European Investment Bank and European Investment Fund.

Great attention was further devoted to corporate governance issues in the context of new developments in Czech law and in the context of corporate governance adopted by the parent company Société Générale. The Board of Directors evaluated its own activities in 2017 and submitted its report on those activities for this period to the Supervisory Board. The Board of Directors also approved the distribution of competences among individual members and approved the updating of its Rules of Procedure. It further discussed the setting and evaluation of Key Performance Indicators for Reconstruction Members, Chief Executive Officers and Chief Leaders of Tribes. The Board of Directors was kept informed about the state of collective bargaining and addressed the results of the KB satisfaction survey in 2018. In autumn 2018, the Board of Directors organised elections to the Supervisory Board as employee of the company, and the mandate of the three new members resulting from these elections was valid from 14 January 2019.

Committees established by the Board of Directors

The Board of Directors establishes specialised committees to which it delegates authority for making decisions in the various activity areas assigned to them. It authorises them to co-ordinate selected activities and to exchange information and opinions. The Board of Directors approves the statutes of these committees, while their members are appointed by the CEO. These committees include the following:

Strategy and Executive Committee of the Board of Directors (SEC)
The Committee decides on transformation issues related to KB Change and Agile@Scale method, expresses its views on the content of changes, their compliance with the KB strategy and their correlations, and the amounts of resources needed for their implementation (financial and non-financial). The Committee defines, decides and monitors KB's business strategy and business activities, including pricing for all segments except Investment Banking. The Committee approves the allocation of financial and other resources to tribes and projects, including subsequent regular monitoring. Decisions are taken by consensus of all participants. If no consensus is reached, the CEO decides.

Members	Position
Jan JUCHELKA	Chairman of the Board of Directors, Chief Executive Officer
David FORMÁNEK	Member of the Board of Directors, Senior Executive Director, Corporate and Investment Banking
Miroslav HIRŠL	Member of the Board of Directors, Senior Executive Director, Retail Banking
Didier COLIN	Member of the Board of Directors, Senior Executive Director and Chief Risk Officer
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Director and Chief Operations Officer
Jiří ŠPERL	Executive Director, Strategy and Finance
Secretary of the Committee: Michaela DINGOVÁ	

Watch Provision List Committee (WPLC)
The Watch Provision List Committee makes and proposes decisions regarding provisions. The Committee is responsible for clients' inclusion into or removal from the Watch Provision List used for rating clients according to the IFRS Stage system and for determining the appropriate amount of provisions.
The Committee decides on three levels. Each member of the WPLC expresses an opinion on proposals regarding each case discussed. A consensus of all regular members at the respective level is sought so that the final decision assumed by that level reflects the joint position of the risk management and business units. If a consensus is not reached (i.e. at least one of the regular members does not concur), then the case is moved up to the next WPLC level. If within WPLC Level 3 a consensus is not reached, then the final decision is made by the Chief Executive Officer.
A higher level WPLC is entitled to review and change any decision of a lower level WPLC.

Members – LEVEL 3	Position
Jan JUCHELKA	Chairman of the Board of Directors, Chief Executive Officer
Didier COLIN	Member of the Board of Directors, Senior Executive Director and Chief Risk Officer
David FORMÁNEK	Member of the Board of Directors, Senior Executive Director, Corporate and Investment Banking
Miroslav HIRŠL	Member of the Board of Directors, Senior Executive Director, Retail Banking
Jiří ŠPERL	Executive Director, Strategy and Finance

Members – LEVEL 2	Position
Didier COLIN	Member of the Board of Directors, Senior Executive Director and Chief Risk Officer
Dušan ORDELT	Deputy Executive Director, Risk Management, Manager of Credit Risk Approval
Lukáš HORÁČEK	Manager of Loan Consulting
Radek TRACHTA	Executive Director, Top Corporations
Agness HENN	Manager of Corporate Credit Portfolio Management

Members – LEVEL 1 Pilsen	Position
Alena VACÍKOVÁ	Manager of Regional Credit Risk Assessment
Martin ČERNÝ	Head of Loan Portfolio Management – Corporate
Petr PARUŽEK	Head of Loan Portfolio Management – Corporate
Dana HNOJSKÁ	Head of Loan Portfolio Management – Retail

Members – LEVEL 1 Hradec Králové	Position
Jiří DĚDEK	Manager of Regional Credit Risk Assessment
Alena SLÍPKOVÁ	Head of Loan Portfolio Management – Corporate
Vladislav BAREŠ	Head of Loan Portfolio Management – Corporate
Lenka KALINOVÁ	Head of Loan Portfolio Management – Retail

Members – LEVEL 1 Ostrava	Position
Lubomír ANDRLA	Manager of Regional Credit Risk Assessment
Miroslav SKLENÁŘ	Head of Loan Portfolio Management – Corporate
Milena VESELÁ	Head of Loan Portfolio Management – Corporate
Renata TOBIÁŠOVÁ	Head of Loan Portfolio Management – Retail

Members – LEVEL 1 Brno	Position
Markéta RIESNEROVÁ	Manager of Regional Credit Risk Assessment
Petr LUKÁŠEK	Head of Loan Portfolio Management – Corporate
Vladimír MINICH	Head of Loan Portfolio Management – Corporate
Ilona JARŮŠKOVÁ	Head of Loan Portfolio Management – Retail

Members – LEVEL 1 Prague	Position
Petr PLAŠIL	Regional Credit Risk Assessment Manager
Stanislav CHALUPA	Head of Loan Portfolio Management – Corporate
Kateřina MIKULÍKOVÁ	Head of Loan Portfolio Management – Corporate
Vlastimil DVOŘÁK	Head of Loan Portfolio Management – Retail
Secretary of the Committee: Blanka NEUHÄUSEL KOLÁŘOVÁ	

Assets and Liabilities Committee (ALCO)

The Assets and Liabilities Committee makes and proposes decisions regarding asset and liability management in KB. Each member of the committee has one vote. If a consensus is not reached, the committee acts based upon a simple majority of those members present.

Members	Position
Jiří ŠPERL	Executive Director, Strategy and Finance
Alan COQ	Capital Markets Risk Manager
Slawomir KOMONSKI	Executive Director, Investment Banking
Ivan VARGA	Manager of Trading and Institutional Sales
Tomáš FUCHS	Manager of Treasury
Marek DOTLAČIL	ALM Manager
Secretary of the Committee: Marek DOTLAČIL	

Credit Risk Management Committee (CRMC)

The Credit Risk Management Committee makes and proposes decisions regarding credit risk management principles and their implementation. A decision may be taken if at least 50% of all members are present. A consensus of all members is sought. If a consensus is not reached, the committee acts based upon a simple majority of those members present having voting rights. If a majority is not reached, the decision is moved up to the Board of Directors.

Members	Position
Didier COLIN	Member of the Board of Directors, Senior Executive Director and Chief Risk Officer
Miroslav HIRŠL	Member of the Board of Directors, Senior Executive Director, Retail Banking
David FORMÁNEK	Member of the Board of Directors, Senior Executive Director, Corporate and Investment Banking
Jiří ŠPERL	Executive Director, Strategy and Finance
Tomáš DOLEŽAL	Operational Risk Manager
Petr TROJEK	Supervision and Measurement Manager
Secretary of the Committee: Milada ČERNÁ	

Investment Banking New Product Committee (IB NPC)

The Investment Banking New Product Committee makes and proposes decisions on new investment banking products in accordance with its statutes. Its activities include assessing the risks related to new or significantly altered products, establishing the conditions for launching products and monitoring that these conditions are met. A consensus of all members is sought. If a consensus is not reached, the decision is made by the Chief Executive Officer.

Members	Position
Didier COLIN	Member of the Board of Directors, Senior Executive Director and Chief Risk Officer
David FORMÁNEK	Member of the Board of Directors, Senior Executive Director, Corporate and Investment Banking
Alan COQ	Manager of Capital Markets Risks
Dušan ORDELT	Deputy Executive Director, Risk Management, Manager of Credit Risk Approval
Norbert VANĚK	Manager of Investment Banking Services
Tomáš HORA	Head of Legal – Investment Products
Petr PINKAS	Manager of IT Application Development
Tomáš CHOUTKA	Manager of Compliance
Jakub DOSTÁLEK	Manager of Tax
Tomáš FUCHS	Manager of Treasury
Tomáš DOLEŽAL	Manager of Operational Risk
Ida BALUSKOVÁ	Manager of Accounting and Reporting
Secretary of the Committee: Norbert VANĚK	

Corporate and Retail Banking New Product Committee (CRB NPC)

The Corporate and Retail Banking New Product Committee makes and proposes decisions on new products other than investment banking products in accordance with its statutes. Its activities include assessing the risks related to new or significantly altered products, establishing the conditions for launching products and monitoring that these conditions are met. A consensus of all members is sought. If a consensus is not reached, the decision is made by the Chief Executive Officer.

Members	Position
Didier COLIN	Member of the Board of Directors, Senior Executive Director and Chief Risk Officer
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Director and Chief Operations Officer
Tomáš DOLEŽAL	Manager of Operational Risk
Yann DUMONTHEIL	Executive Director, Retail Banking
Jitka HAUBOVÁ	Executive Director, Corporate Banking
Antonín PRELL	Executive Director, Information Technology
Ivana OPOVÁ	Head of Steering and Quality
František KUBALA	Tribe Leader, Enterprise Services
Petr TROJEK	Manager of Supervision and Risk Measurement
Etienne LOULERGUE	Advisor, Strategy and Finance
Radek TRACHTA	Executive Director, Top corporations
Secretary of the Committee: Marcela KRÁLOVÁ	

Operational Risk Committee (ORC)

The Operational Risk Committee makes and proposes decisions regarding operational risks and safety. For a decision to be taken, at least 50% of all members must be present. A decision must be adopted by a majority of votes of those members present. If a consensus is not reached, the decision is adopted at the Board of Directors level.

Members	Position
Vladimír JEŘÁBEK	Member of the Board of Directors, Senior Executive Director and Chief Operations Officer
Tomáš DOLEŽAL	Manager of Operational Risk
Tomáš CHOUTKA	Manager of Compliance
Martin BERDYCH	Manager of Legal Services
Etienne LOULERGUE	Advisor, Strategy and Finance
Pavel POLÁK	Manager of IT Security
Petr TROJEK	Supervision and Measurement Manager
Norbert VANĚK	Manager of Investment Banking Services
František HRNČÍŘ	Executive Director, Support Services
Jan KRATOCHVÍL	Head Auditor
Secretary of the committee: Dušan PAMĚTICKÝ	

Information about special rules for the election and recall of members of the Board of Directors

Members of the Board of Directors of Komerční banka are elected by the Supervisory Board upon nomination by its Nominations Committee. A nominee must receive an absolute majority of votes of all Supervisory Board members. Members of the Board of Directors are elected to terms of four years. Only persons fulfilling the conditions for serving as a member of a Board of Directors as specified by the Civil Code, Act on Business Corporations and Banking Act may become members of the Board of Directors. The Nominations Committee ensures the trustworthiness, adequate professional qualifications and experience of the members of the Board of Directors. The Nominations Committee also assesses the balance of competences and experience as well as diversity in the Board's overall composition. The professional qualifications, trustworthiness and experience of the members of the Board of Directors are assessed by the Czech National Bank.

The Supervisory Board has the right to decide at any time to recall a member of the Board of Directors. Such decision is carried if approved by an absolute majority of its members. The Supervisory Board's decision is based on a proposal from the Supervisory Board's Nominations Committee.

Information about special competences of the Board of Directors under the law regulating legal relations of corporations and co-operatives

The Board of Directors of Komerční banka is the corporate body that decides upon all matters concerning the Bank with the exception of those matters falling within the powers of the General Meeting or of the Supervisory Board.

It is within the Board of Directors' exclusive competences to:

a) convene the General Meeting and implement its resolutions;
b) submit to the General Meeting for its approval the annual, extraordinary and consolidated financial statements and the interim financial statements along with a proposal for the distribution of profit (which must be available to the shareholders for inspection at least 30 days prior to the date of the General Meeting) or a proposal for coverage of a loss;
c) submit to the General Meeting proposals for amendments to and changes of the Articles of Association as well as proposals for increasing or decreasing the Bank's registered capital;
d) submit to the General Meeting a report on the Bank's business activities and on the state of the Bank's property at least once for each accounting period, as well as the annual report;
e) decide upon granting and revoking powers of procuration;
f) decide upon the appointment, removal and compensation of selected managers of the Bank;
g) approve acts in connection with the realisation of security instruments for the Bank's claims whose price exceeded CZK 100,000,000 as of the date of the claim's origin if the presumed realisation price thereof is lower than 50% of the security instrument's price ascertained upon entering into the loan agreement;
h) submit to the Supervisory Board for its information quarterly and half-yearly financial statements;

i) decide upon acts which are beyond the scope of the Bank's usual business relationships;
j) define and periodically evaluate the Bank's overall strategy, including the setting of the principles and targets for its fulfilment and ensuring the continued and effective operation of the internal control system;
k) approve the Bank's annual plans and budgets;
l) enter into a contract with an auditor for performing the statutory audit or, as the case may be, for the provision of additional services;
m) inform the Supervisory Board of the General Meeting date no later than within the period specified by the Act on Business Corporations for the General Meeting to be convened;
n) decide upon the issue of bonds of the Bank with the exception of decisions on the issue of bonds for which the decision of the General Meeting is required by law;
o) decide upon an increase in the registered capital if so authorised by the General Meeting;
p) enter into collective agreements;
q) decide upon providing loans or securing debts to persons or entities having a special relationship to the Bank pursuant to the Banking Act;
r) approve the charter and subject of the risk management functions, compliance functions and internal audit functions, as well as the strategic and periodic plan of internal audit;
s) decide about paying out a share in profit based upon fulfilment of conditions established by generally binding legal regulations;
t) approve and regularly evaluate the security principles of the Bank, including the security principles for information systems;
u) decide upon establishing other funds and the rules governing the creation and usage thereof;
v) prepare the report on relations among related entities pursuant to the Act on Business Corporations;
w) approve and regularly evaluate the Bank's organisational structure so that it is functional and efficient, including segregation of duties and preventing potential conflicts of interest;
x) approve the principles of the personnel and remuneration policy;
y) evaluate the overall functioning and effectiveness of the management and control system at least once annually;
z) approve and regularly evaluate the risk management strategy, the strategy relating to the capital and to capital ratios, the strategy for the information and communication system's development, and the strategy for human resources management;
aa) approve and regularly evaluate the principles of the internal control system, including principles aiming to prevent the occurrence of any possible conflict of interest and principles related to compliance and internal audit and security policies; and
bb) discuss the audit report with the auditor;
cc) after discussing with the trade unions operating in the Bank, to approve the Bank's voting rules governing the manner and rules for the election and dismissal of members of the Supervisory Board elected by employees of the Bank;
dd) declare and organise elections and recall of members of the Supervisory Board elected by employees of the Bank and inform the Supervisory Board of the results of these elections.

In addition to the aforementioned, the Board of Directors shall in particular:

a) manage the activities of the Bank and conduct its business affairs;
b) ensure proper conduct of the Bank's accounting, including the proper administrative and accounting processes;
c) exercise employer's rights;
d) exercise rights in respect to the Bank's property interests flowing from the Bank's ownership holdings;
e) approve the acquisition or disposal of the Bank's fixed assets exceeding CZK 30,000,000 in value as a single case or as a total of related cases; and
f) approve the business continuity plan.

The Board of Directors was not instructed to make a decision on increasing registered capital. Based on the consent of the General Meeting held on 25 April 2017, Komerční banka was authorised to acquire its ordinary shares into treasury. The conditions and information on the acquisition of its own shares are provided in the Acquisition of Treasury Shares chapter of this annual report.

Organisational chart of Komerční banka
(as of 31 December 2018)

Chairman of the Board and Chief Executive Officer
Jan Juchelka

- **Human Resources**
- **Internal Audit**
- **Marketing**
- **Communication**
- **Business Consulting**
- **Agile Center of Expertise**
- **Strategy and Finance**
- **Information Technology**
- **Organisation and Change Management**
- **Information Management**
- **Business Services**
- **Enterprise Services**
- **Platform Services**

Board Member and Senior Executive Director and Chief Operations Officer
Vladimír Jeřábek

- Compliance
- Legal Department
- Operational Risks
- Investment Banking Services
- Support Services
- Transaction and Payment Services
- Payments and Corporate Cash Management
- CAT (cards, cash, ATMs)

Board Member and Senior Executive Director, Retail Banking
Miroslav Hiršl

- Retail Banking
- Credit Portfolio Management
- Network Management Support
- Client on-boarding and day-to-day banking
- Consumer Financing
- Housing
- Digital Channels
- Physical Distribution Channels
- Securing Life Projects
- Retail Segment Tribe

Board Member and Senior Executive Director, Corporate and Investment Banking
David Formánek

- Investment Banking
- Top Corporations
- Corporate Banking
- Structured Financing
- Branch of Foreign Bank
- Corporate Finance
- Global Transaction Banking
- Business Financing

Board Member and Senior Executive Director, Risk Management and Chief Risk Officer
Didier Colin

- Risk Management
- Risk Services

Supervisory Board

The Supervisory Board is the supervisory authority of the Bank. It supervises exercise of the Board of Directors' powers, the Bank's activities, and the effectiveness and efficiency of the Bank's management and control system as a whole.

The Supervisory Board consists of nine members, who are individuals meeting the statutory requirements for becoming a member of the Bank's Supervisory Board and were elected by the General Meeting to four-year terms.

In accordance with the requirement of the Czech National Bank, Komerční banka declares that the members of the Board of Directors of Komerční banka have not in the past 5 years been convicted of any criminal offence and that no charges, accusations or other sanctions have been filed against them by a regulatory authority, except for the member of the Supervisory Board Giovanni Luca Soma, who was fined EUR 15,000 by the Bank of Italy as a member of the Executive Board of Fiditalia for deficiencies in control and organisation to ensure transparency of client conditions. No bankruptcy, receivership or liquidation was declared in relation to the stated persons in the past 5 years.

Composition of the Supervisory Board

Jean-Luc Parer
Chairman of the Supervisory Board (appointed as a substitute member of the Supervisory Board from 27 September 2012 until 24 April 2013 and thereafter elected by the General Meeting since 25 April 2013; elected Chairman as from 1 May 2013 and re-elected from 2 May 2017)

Giovanni Luca Soma
Vice-Chairman of the Supervisory Board (since 1 May 2013 and re-elected from 2 May 2017)

Petr Dvořák
Independent member of the Supervisory Board (since 2 June 2017)

Laurent Goutard
Member of the Supervisory Board (since 1 May 2013, re-elected from 2 May 2017)

Pavel Jelínek
Member of the Supervisory Board, employee representative (since 1 June 2013, re-elected from 2 June 2017, membership terminated as of 13 January 2019)

Bořivoj Kačena
Independent member of the Supervisory Board (since 29 April 2008, re-elected on 30 April 2012 and on 1 May 2016, membership terminated as of 13 January 2019)

Petr Laube
Independent member of the Supervisory Board (since 8 October 2001, re-elected on 29 April 2005, on 30 April 2009, on 1 May 2013 and on 2 May 2017)

Sylvie Rémond
Member of the Supervisory Board (since 23 April 2015, membership terminated as of 3 October 2018)

Miroslava Šmídová
Member of the Supervisory Board, employee representative (since 2 June 2017, membership terminated as of 13 January 2019)

Jean-Luc Parer
A graduate of the Business School HEC Paris and a Master's Graduate of Law, he began working at Société Générale in 1981 in the Inspection Department. From 1991 to 2001, he was head of structured financing within the Investment Banking Division. From 2001 to 2003, he participated in the development of the Debt Finance Department, and from 2003 to 2005 he was responsible for supervising activities in the debt capital markets. In 2005, he became Deputy Director of Debt Finance, and in 2008 he was appointed Director of Capital Markets and Finance. In 2009, he became Director of Global Finance. In 2012, he became a member of the Executive Committee of the Société Générale Group, serving as head of the International Banking Division and, since 2013, head of the International Banking, Financial Services and Insurance Industry Division. Currently, he has been an advisor to SG executive management. Since 2012, he has also been a member of the Supervisory Board of Komerční banka, and, since 2013, he has been its Chairman.

Giovanni Luca Soma
An MBA graduate of the University of Turin, Italy, and a graduate of LUISS University with a degree in business economics, he also holds qualifications to work as a certified auditor and certified public accountant. From 1984 to 1989, he was the manager of Arthur Young Consulting in Rome, Italy. From 1989 to 1994, he worked with Deloitte & Touche Consulting in Milan, Italy. During 1994–1997, he served as Sales and International Services Director of Hyperion Software Inc. Between 1997 and 1998, he served as managing director of GE Capital Insurance and subsequently, during 1998–1999, as Corporate Sales Director for Italy in GE Capital. From 1999 to 2000, he served as CEO of Dial Italia (Barclays Group). During 2000–2005, he served as CEO of ALD Automotive Italy; 2005–2007 as Chairman of ANIASA, the Italian Association of Automotive Leasing and Services Providers; 2006–2008 as Group Regional Director and Deputy CEO of ALD International Paris; and 2008–2011 as CEO of ALD International Paris in France. Between December 2012 and September 2013, he was Deputy Head of the International Retail Banking Department and became a member of the Group Management Committee of Société Générale. He served as CEO of SG Consumer Finance, France (from 2010) and Deputy Head of IBFS, International Banking and Financial Services (from December 2012). Since October 2017, he has been a manager of the Business Unit Europe within SG International Retail Banking. Since 2013, he has been a member and Vice Chairman of the Supervisory Board of Komerční banka.

Petr Dvořák
A graduate of the University of Economics in Prague (VŠE), where he completed his PhD in 2003 and was named associate professor of finance in 2005. He has been active at VŠE throughout his entire professional career, in 1984–1990 within the Finance and Credit Department, and from 1990 to the present within the Banking and Insurance Department, which he headed during 1994–1998. From 2006–2014, he was also

Dean of the Faculty of Finance and Accounting, and, since 2014, he has been Vice Rector for Academic Affairs. He is a member of several scientific and editorial boards and an author of numerous publications. Since 2017, he has been a member of the Supervisory Board of Komerční banka and chairman of the Audit Committee of Modrá pyramida.

Laurent Goutard
A graduate of four-year economics studies at the University of Paris Dauphine and of the Paris Institute of Political Studies, faculty of public services, with a major in economics, he joined Société Générale in 1986, working first at the General Inspection and then, between 1993 and 1996, as Deputy Managing Director for Large Corporations at the Paris–Opera Branch. During 1996-1998, he was Director of the Corporate Banking Division on the French territory. From 1998 to June 2004, he was a member of the Board of Directors and Chief Executive Officer, later Chairman of the Board of Directors of Société Générale Marocaine de Banques. In 2004, he became Vice-Chairman of the Board of Directors and, in 2005, Chairman of the Board of Directors and CEO of Komerční banka. He served in that position until 2009, when he became French Network Director. Between 2014 and 2017, he was Director of Retail Banking, Société Générale, France, and member of the Management Committee of Société Générale. From 2018, Laurent Goutard is the Director of the retail banking department of Société Générale in France ("Business Unit Retail Banking of SG in France"). He has been a member of the Supervisory Board of Komerční banka since 2013.

Pavel Jelínek
Having completed studies at the Secondary School of Economics in Chrudim, he began working in Komerční banka in 1993 in various positions in cash processing (as a warden, ATM operator, cashier, deputy manager of cash section). Beginning in 2002, he was commercial clerk, and later he was a relationship manager for individuals, a relationship manager for small businesses and a team leader. Until the end of 2013, he was a relationship manager for top small business clients, and, since 2014, he has been a relationship manager for corporations. He has been a member of trade unions at KB since joining the Bank. Since 1994, he has represented employees as chairman of the union's local unit in Pardubice, and at the same time he has been a deputy chairman of the all-company committee of trade unions at KB. Since 2011, he has been a member of the union's negotiating team for collective negotiation with the employer. From 2013 to 13 January 2019, he was a member of the Supervisory Board of Komerční banka.

Bořivoj Kačena
A graduate of the Czech Technical University in Prague (Faculty of Civil Engineering), he started working in 1966 for Stavby silnic a železnic, n. p. (SSŽ), where he held various positions. From 1978, he worked in SSŽ as director of its branch office 4, and from 1983 as director of the organisation "Investor of Transport Construction" for metro and urban road construction within the Prague Public Transit Company. He became director of the state enterprise SSŽ in November 1988 and its chief executive officer and Chairman of the Board of Directors in 1992. From 2007 to April 2008, he was Chairman of the Board of Directors of SSŽ. From 2008 to 13 January 2019, he was a member of the Supervisory Board of Komerční banka.

Petr Laube
A graduate of the University of Economics, Prague, specialised in foreign trade, he worked during 1974 to 1991 at Polytechna, a foreign trade company for technical co-operation. From 1991 to 1992, he was at Deutsche Bank, A.G. in Nuremberg. Between 1992 and 1993, he worked for Lafarge Coppée, Paris, and, since 1993, he was Chief Executive Officer and Chairman of the Board of Directors of Lafarge Cement, a.s., Prague. From 2005, he served as director of the segment electricity, gas and liquid fuels at SG&A at Lafarge, S.A., Paris. From January 2007, he was Chief Executive Officer of Lafarge Cement, a.s., in Ukraine. He has been retired since December 2009. Since 2001, he has been a Member of the Supervisory Board of Komerční banka. From 2014, he was Chairman of the Supervisory Board and now is a member of the Supervisory Board of LafargeHolcim, Česká republika.

Miroslava Šmídová
A graduate in finance from the University of Economics, Prague. She has been working at Komerční banka since 1990 (before that, in the State Bank of Czechoslovakia). During this period, she has held various positions: credit clerk during 1987–1990; accounting, investment, and personnel analyst during 1990–1992; branch manager during 1992–1999; regional branch manager's assistant during 1999–2003, and later head of the business division; head of support for south-west Bohemia during 2003–2007; business centre specialist during 2007–2011; and from 2011 to February 2019 as a head commercial employee. From 2017 to 13 January 2019, she was a member of the Supervisory Board of Komerční banka.

Activity report of the Supervisory Board

Regular meetings of the Supervisory Board shall be held once per calendar quarter and with the possibility of remote voting. A quorum of the Supervisory Board shall be constituted if at least five members of the Supervisory Board are present at the meeting. Resolutions of the Supervisory Board are adopted by an absolute majority of all its members.

In 2018, the Supervisory Board held four regular meetings and three remote votes in accordance with the Bank's Articles of Association. The Supervisory Board reviewed the Bank's separate and consolidated financial statements as of 31 December 2017 prepared under International Financial Reporting Standards (IFRS) and recommended that the General Meeting approve both sets of financial statements as proposed by the Bank's Board of Directors.

The Supervisory Board also examined the Board of Directors' proposal for distribution of net profit for the 2017 accounting period and recommended that the General Meeting approve this proposal. Furthermore, it reviewed the Report on Relations among Related Entities for 2017 compiled in accordance with the provisions of § 82 et seq. of Act No. 90/2012 Coll., on Business Corporations and Co-operatives (the Act on Business Corporations) and stated that, based on the presented documents, Komerční banka did not incur during the accounting period from 1 January 2017 to 31 December 2017 any damages resulting from any concluded contract, agreement, other legal action taken or received by the Bank, or from any other influence imposed by Société Générale. At the same time, upon the recommendation of the Audit Committee, the Supervisory Board agreed to submit a proposal to the General Meeting to approve Deloitte Audit s.r.o. as the external auditor of the Bank for the year 2018.

During 2018, the Supervisory Board was continuously informed of the Bank's activities and was regularly presented reports and analyses. The Supervisory Board assessed, in particular, the functionality and efficiency of the Bank's internal control systems, concluding that the internal control systems are functional and effective, while there are certain areas for improvement covered by appropriate action plans. Moreover, it examined the 2017 annual assessment report on KB's system for anti-money laundering and preventing the financing of terrorism and the annual compliance risk management report. KB Group's budget for 2018 was submitted for discussion to the Supervisory Board. The Supervisory Board discussed remuneration of the members of the Board of Directors and decided on the amounts of bonuses, the payment of which is subject to the principles (scheme) of deferred bonuses. The Supervisory Board also discussed developments in the areas of employee demographics, sickness rate and overtime. It discussed the annual analysis as to the handling of all complaints sent to KB and its Ombudsman. The Activity Report of the Board of Directors for 2017 also was presented to the Supervisory Board. Based on the proposal of the Nominations Committee, the Supervisory Board elected two new members of the Board of Directors and approved contracts for the performance of their duties. The Supervisory Board has been regularly informed by the Chairman of the Board of Directors of all steps taken under the KB Change Transformation Program.

The Supervisory Board regularly discussed the Bank's quarterly financial results and its position on the market with a view to developments in the macroeconomic environment. Furthermore, it discussed the actions of Internal Audit and their results in individual periods of the year, as well as the internal audit plan for 2019 and the strategic plan for 2019–2023. In the course of its activities, the Supervisory Board continued to rely on the opinion of its Audit, Risk, Remuneration and Nominations committees and was informed of the issues discussed by these committees. The Supervisory Board re-elected members of the Nomination, Remuneration and Risk Committee.

The Supervisory Board's committees

The Supervisory Board established within its competences the Audit Committee, the Risk Committee, the Nominations Committee and the Remuneration Committee as its advisory and initiative bodies. Committees of the Supervisory Board provide the Supervisory Board with regular reports on their activities and within the areas entrusted to their jurisdiction submit to the Supervisory Board recommendations directed to preparing resolutions for adoption by the Supervisory Board.

Audit Committee

The Audit Committee is a committee of the Supervisory Board and was established in accordance with Act No. 93/2009 Coll., on Auditors, as amended. Its powers are stipulated by that act and the statutes of the committee.

The Audit Committee consists of three individual members who meet the requirements for performing duties of a member of an audit committee set forth by legal regulations and by the statutes of the committee. Audit Committee members shall be appointed by the General Meeting from the members of the Supervisory Board for terms of four years. The major members of the Audit Committee, including its Chairman, are independent and professionally qualified.

Composition of the Audit Committee

Petr Laube
Independent Member of the Audit Committee (since 29 April 2009) and Chairman of the Audit Committee (since 30 September 2010, re-elected on 30 April 2013 and on 1 May 2017)

Giovanni Luca Soma
Member of the Audit Committee (since 25 April 2013, re-elected on 26 April 2017), Vice Chairman of the Audit Committee (since 3 May 2016)

Bořivoj Kačena
Independent member of the Audit Committee (from 23 April 2016, membership terminated on 25 April 2018)

Petr Dvořák
Independent member of the Audit Committee (since 26 April 2018)

The Audit Committee meets as a rule once per quarter, but at least four times in a calendar year. A quorum of the Audit Committee shall be constituted if a simple majority of all Audit Committee members attend the meeting. Decisions on all matters discussed by the Audit Committee must receive an absolute majority of votes to be carried. If the votes are equal, the chairperson shall cast the deciding vote. The person in question shall not vote in the proceedings with respect to the election and removal of the Chairman and Vice-Chairman of the Audit Committee.

The Audit Committee held seven regular meetings in 2018. The committee performed its monitoring activities and worked closely within the Bank, especially with Internal Audit, Strategy and Finance, Risk Management, and Compliance departments, and also with the external auditor, who kept it informed about the ongoing audit of the Bank.

The committee discussed KB Group's annual financial results for 2017, the consolidated and separate financial statements and notes thereto as of 31 December 2017 prepared under International Financial Reporting Standards (IFRS), and the proposal for distribution of net profit for 2017. In this context, it discussed the scope, strategy and the main areas of external audit of financial statements for 2017, prepared by Deloitte Audit, s.r.o., and in this context it also monitored the integrity of the financial information. It further evaluated the independence of the external auditor and recommended that the Supervisory Board submit to the General Meeting for approval a proposal to appoint Deloitte Audit, s.r.o. as the Bank's external auditor for 2018. KB Group's budget for 2018 was presented to the committee for discussion. The committee also regularly discussed Internal Audit's reports on the status of corrective measures and was continuously informed about all of Internal Audit's investigations conducted in individual periods. The committee discussed the Constructive Service Letter prepared by the external auditor, Deloitte Audit, s.r.o. It monitored the external audit process and was informed about the external auditor's plan in compiling the financial statements for 2018. It was also presented with the contract for an external audit with Deloitte Audit, s.r.o. Furthermore, the committee examined in detail risk mapping, the annual internal audit plan for 2019, and the strategic plan for 2019–2023.

The Audit Committee regularly discussed at its meetings the Group's financial results for each quarter. Attention was also devoted to the capital adequacy of the Bank and Group. In this context, the committee discussed the Bank's capital management strategy, particularly with respect to new regulatory requirements regarding capital base. It also discussed the dividend policy in relation to the profit for the year 2018. The committee was regularly informed about the Bank's functioning in the internal control area and the development of all associated risks that it evaluated. The committee also considered the report on its activities for 2017, which was submitted to the Public Audit Board. The committee approved the received non-auditing services.

Risk Committee

The Risk Committee has three members, one of whom is independent. The committee meets according to need, but at least twice per year. A quorum is constituted if a simple majority of all members of the committee is present at the meeting. Resolutions shall be adopted by agreement of an absolute majority of all its members.

Composition of the Risk Committee
Petr Laube
Independent Member and Chairman of the Risk Committee (from 25 September 2014, re-elected from 3 October 2018)

Jean-Luc Parer
Member of the Risk Committee (from 25 September 2014, re-elected from 3 October 2018)

Giovanni Luca Soma
Member of the Risk Committee (from 25 September 2014, re-elected from 3 October 2018)

The committee held three regular meetings in 2018. The committee discussed all issues of the Bank's risk management system and its efficiency (including the Bank's credit risk profile and remuneration principles). It concerned itself with the acceptable risk appetite and the Bank's strategy in the risk area.

Remuneration Committee

The Remuneration Committee has three members, one of whom is independent. The committee meets according to need, but at least twice per year. A quorum is constituted if a simple majority of all members of the committee is present at the meeting. Resolutions shall be adopted by agreement of an absolute majority of all its members.

Composition of the Remuneration Committee
Jean-Luc Parer
Chairman of the Remuneration Committee (from 25 September 2014, re-elected from 3 October 2018)

Giovanni Luca Soma
Member of the Remuneration Committee (from 25 September 2014, re-elected from 3 October 2018

Bořivoj Kačena
Independent Member of the Remuneration Committee (from 25 September 2014, membership terminated on 13 January 2019)

The committee held three regular meetings in 2018 and two remote votes. The committee discussed issues of the deferred bonus scheme and remuneration of KB's employees. It provided recommendations to the Supervisory Board within the scope of its powers. Moreover, it discussed and provided its recommendations for remunerating members of the Board of Directors, and it provided information in relation to updating the remuneration principles. The committee was informed on the progress of collective bargaining and further on the regulatory changes of the CNB and their impacts on KB.

Nominations Committee

The Nominations Committee has three members, one of whom is independent. The committee meets according to need, but at least twice per year. A quorum is constituted if a simple majority of all members of the committee is present at the meeting. Resolutions shall be adopted by agreement of an absolute majority of all its members.

Composition of the Nominations Committee
Jean-Luc Parer
Chairman of the Nominations Committee (from 25 September 2014, re-elected from 3 October 2018)

Giovanni Luca Soma
Member of the Nominations Committee (from 25 September 2014, re-elected from 3 October 2018)

Bořivoj Kačena
Independent Member of the Nominations Committee (from 25 September 2014, re-elected from 3 October 2018, membership terminated on 13 January 2019)

The committee held three regular meetings in 2018 and two remote votes. The committee discussed issues of the Bank's personnel policy and proposed election of members of the Board of Directors. It furthermore concerned itself with the re-election of some members of the Supervisory Board and nomination of new ones and with the election of new members of the Supervisory Board elected by employees. It evaluated the suitability, structure, size, composition and performance of the Board of Directors and Supervisory Board. It discussed the evaluation as to the trustworthiness, competence and experience regarding individual members of the Board of Directors and the Supervisory Board, as well as of these two bodies as a whole.

Remuneration of members of the Board of Directors and Supervisory Board of Komerční banka

No person with management power in relation to his or her activities in the Bank has a conflict of interests between the obligations of persons with a managerial power to the Bank and his or her private interests or other duties. Komerční banka has performance contracts for the members of the Board of Directors signed and approved by the Supervisory Board with all members of the Board of Directors. The contracts are signed for the term of office of each member of the Board of Directors. The contracts do not provide for any benefits when terminating the job. Some members of the Board of Directors also have signed contracts for being members of the Supervisory Boards for subsidiaries. In these cases, the contracting parties are defined by description of the functions in the subsidiaries listed in the subsection on the composition of the Board of Directors. Didier Colin has, while active in the Bank, also a signed employment agreement with Société Générale S.A.

Principles of remuneration for members of the Board of Directors

The remuneration of Board of Directors members is based on remuneration principles as described in the section 'Employee relationships'. In particular, their remuneration is in accordance with regulatory risk management principles in remuneration and with the strategy of remuneration. Furthermore, their remuneration is regulated under special rules for employees with a significant impact on the risk profile of the Bank (IS) in accordance with the European Capital Requirements Directive (CRD IV) and its transposition into the Czech legislation by CNB Decree No. 163/2014 Coll. as amended. The Supervisory Board decides on the amount of remuneration based upon a proposal from the Remuneration Committee.

The remuneration of the Board of Directors consists of two parts: fixed and flexible, performance-dependent. The fixed part of the remuneration is paid on a monthly basis, reflecting the experience and responsibility of the individual members of the Board of Directors. The flexible, performance-dependent part of the remuneration (i.e. the annual performance bonus) is non-compulsory, reflects the performance of a member of the Board of Directors during the year, and is closely related to the Bank's performance. The Supervisory Board and the Remuneration Committee while deciding upon the amount of the flexible, performance-dependent part of remuneration for Board of Directors members consider all relevant financial and business performance indicators, including, but not limited to, profit, market share, net operating income and cost of risk. The Supervisory Board and Remuneration Committee also take into account the outcome of an independent performance evaluation of the individual members of the Board of Directors from the viewpoint of risk management performed by the Compliance and Risk Management departments. The maximum amount of the flexible, performance-dependent part of the remuneration cannot exceed 200% of the fixed part of remuneration, and any variable component of the flexible, performance-dependent component that is greater than 100% of the fixed remuneration is subject to approval by the General Meeting.

The budget for the flexible, performance-dependent part of the remuneration as a whole is set in accordance with the financial plan for the given fiscal year. In line with KB's strategy, it reflects the year-on-year changes in net operating income, operating expenses, provisioning and allowances for loan losses and other risks (the cost of risk) and net profit at the individual (non-consolidated) level of Komerční banka (excluding the effect of the dividend received). The budget for the variable component of the remuneration as a whole is drawn up according to the fulfilment of KB's financial and business plan in all its main indicators. It may be reduced by 0–100%, depending on the key indicators of net banking income, trading results, operating costs, cost of risk, net profit inclusive of extraordinary items, capital adequacy and liquidity of the Bank (according to quarterly results and cumulative results from the beginning of the fiscal year).

Rules are adopted regarding payment of the variable component of the remuneration of the Chairman of the Board of Directors and other members of the Board of Directors. These rules consist of retaining and postponing the payment of part of the flexible, performance-dependent component and using a non-cash instrument linked to KB's share price. In accordance with the regulation, the rules do not include the payment of interest or dividends during the deferral period. The only period with the right to dividends is the period of retention.

Remuneration scheme for the Chairman of the Board of Directors

The flexible, performance-dependent remuneration of the Chairman of the Board of Directors is subject to a five-year postponement scheme, with 60% of the assigned variable component being spread over a period of five years. The postponement scheme is as follows: The first pay-out (12%) is made in March of the year following the year the bonus was awarded (N + 1). The second pay-out (12%) will take place in March of the year N + 2 after the bonus was awarded. The remaining three parts are transformed into a non-cash instrument linked to the KB share price, which are granted in March in N + 3 (12%), N + 4 (12%) and N + 5 (12%), and are always paid out after the 12-month deferral period. The non-deferred part of the flexible, performance-dependent remuneration of 40% of the amount awarded is paid as follows: the cash part of the unpaid flexible, performance-dependent part of 20% is paid in the March of the year in which the remuneration was awarded (year N). The remaining 20% non-deferred part is transformed into a non-cash KB share price-linked instrument and is paid after the 12-month deferral period.

Scheme of variable remuneration for other members of the Board of Directors

Flexible, performance-dependent remuneration for other members of the Board of Directors also is subject to a five-year postponement scheme. With respect to the ratio of the flexible, performance-dependent and the fixed remuneration component, the flexible, performance-dependent component is paid in two different modes:

If the variable component is less than or equal to EUR 300,000, or less than or equal to 100% of the fixed remuneration component, then 40% of the flexible, performance-dependent component is spread linearly over a period of five years as follows: The first payment (8%) will take place in March (N + 1). The second pay-out (8%) will take place in March in year N + 2 following the bonus award. The remaining three parts are transformed into a non-cash instrument linked to the KB share price and are granted in March of N + 3 (8%), N + 4 (8%), and N + 5 (8%) after a 12-month deferral period. The non-deferred part of the variable remuneration in the amount of 60% is paid as follows: 30% of the amount awarded is paid out in March of the year in which the remuneration was awarded (year N). The second part (30%) is transformed into a non-cash instrument linked to the KB share price and is paid after the 12-month deferral period.

If the flexible, performance-dependent remuneration is greater than the value of EUR 300,000 or is greater than 100% of the fixed component of the remuneration, then the same scheme applies to the members of the Board of Directors as for the case of the Chairman of the Board of Directors.

Settlement (payment) of the flexible, performance-dependent part of remuneration linked to the KB share price is made in cash. Members of the Board of Directors may not hedge the price of the non-cash KB share price-linked instruments. The awarded flexible, performance-dependent part of the remuneration may not be wholly or partially settled in cases when a member of the Board of Directors exposes the Bank to a risk exceeding the level that the Bank considers acceptable and that decision caused material damage to the Bank, or if the person had severely violated internal regulations (e.g. unethical behaviour) or legal rules. Furthermore, this remuneration may not be paid if it has been awarded on the basis of intentionally incorrect or distorted information.

The reference price of the non-cash KB share price-linked instrument is determined as the 20-day arithmetic mean of the KB share price at the Prague Stock Exchange (PSE) before the settlement day. The settlement date for setting the initial reference price of the non-cash KB share price-linked instrument was March 13 (2018). On that date, the number of non-cash KB share price-linked instruments that were attributed to the members of the Board of Directors was determined. Another decisive date for determining the final amount for the payment of the relevant variable component on the basis of the non-cash KB share price-linked instrument and the KB share price on the PSE was 13 December 2018. The two Valuation Days were set by the Supervisory Board's Remuneration Committee.

In addition to the remuneration schemes described above, members of the Board of Directors who are citizens of the Czech Republic are entitled to these additional benefits exceeding the conditions established for other KB employees (as described in the subsection 'Employee relationships'):

(i) Superior health care (Silver Card Santé),
(ii) Contribution to supplementary pension schemes and supplementary pension savings of 3.5% of the wage components which are used to compute social security and state employment policy contributions.

Members of the Board of Directors of KB who are not citizens of the Czech Republic and who are temporarily allocated to the Czech Republic are entitled to the benefits established for other KB employees (as described in the subsection 'Employee relationships') except for contribution to supplementary pension insurance and supplementary pension savings, financial support during long-term illness, risk life insurance and extraordinary social assistance. Furthermore, they are entitled to these additional payments benefits exceeding the conditions established for other KB employees (as described in the subsection 'Employee relationships'):

i) Superior health care (Silver Card Santé),
(ii) Contribution related to their stay abroad (e.g. moving and transport costs at the beginning and end of the working contract in the Czech Republic, accommodation costs, insurance including health and social insurance, support for the immigration process, traveling costs within an established budget, costs for children's tuition).

The Bank also provides members of the Board of Directors for needs connected to their functions as well as for their private purposes: a passenger car, a fuel allowance, a mobile phone with unlimited calling and data tariff, and a personal computer.

The value of all in-kind and monetary income of the members of the Board of Directors is set out in the section "Information on monetary and in-kind income of the members of the Board of Directors and the Supervisory Board".

Principles of remuneration for members of the Supervisory Board

Remuneration for members of the Supervisory Board consists of a fixed monthly part and a flexible part dependent on the members' attendance at meetings. Remuneration is set by decision of the General Meeting. In accordance with a resolution of the annual General Meeting held on 17 June 2004, remuneration for members' attendance at Supervisory Board meetings is limited to a maximum of six meetings per year.

Members of the Supervisory Board elected by employees are additionally entitled as employees of the Bank to a basic monthly salary and other compensation in lieu of salary according to their employment contracts pursuant to the Labour Code.

Members of the Supervisory Board of KB, if they fulfil the specified conditions, and on the basis of their employment relationship with KB, are remunerated under the same conditions as KB's other employees.

Komerční banka has concluded service contracts with all members of the Supervisory Board, and these were approved by the General Meeting held on 30 April 2014. The contracts are concluded for the term of office of each member of the Supervisory Board. The contracts provide no benefits upon termination of service. Information on all in-kind and monetary payments to the members of the Supervisory Board is given in the following section.

Information on monetary and in-kind income to members of the Board of Directors

The total value of remuneration to members of the Board of Directors includes all monetary and in-kind income received in 2018 by current and former members of the Board of Directors in relation to their membership in the Board of Directors. Furthermore, all bonuses awarded (but not necessarily paid) in 2018 are also included:

Board of Directors
(in total 12 current and former members)

	Total CZK	Of which for performance of Board responsibilities
A	29,806,739	29,806,739
B	1,844,531	1,844,531
C	23,738,880	23,738,880
D	0	0
E	5,320,000	5,320,000
F	3,352,142	3,352,142
TOTAL	**64,062,292**	**64,062,292**

Notes:
(A) Total amount of remuneration awarded, which is at the same time remuneration paid for services performed in the given fiscal year;
(B) Remuneration and benefits received from any company within the KB Group;
(C) Bonuses to members of the Board of Directors awarded in 2018, regardless of when individual parts become due;
(D) Remuneration to members of the audit committee;
(E) Paid or payable compensation for former members of the Board of Directors in connection with termination of their activities during the given fiscal year; and
(F) Total estimated value of non-monetary income considered as remuneration not included in points (A) to (E).

The management of KB is convinced that the aforementioned net summary most faithfully describes the trend in remuneration for the given group of the Bank's representatives.

In accordance with Act No. 256/2004 Coll., on Capital Market Undertakings, as subsequently amended, Komerční banka also releases information on all monetary and non-monetary income received by members (including former members) of the Board of Directors from Komerční banka and from entities controlled by the Bank during the 2018 financial reporting period, including for services provided outside the period of their membership in the Board of Directors. The data are published in a structure similar to that from the provisions of Section III, point 5.3 of the European Commission Recommendation of 14 December 2004 (2004/913/EC):
(A) Total amount of remuneration paid for services performed in the given fiscal year;
(B) Remuneration and benefits received from any company within the KB Group;
(C) Remuneration paid in the form of profit sharing and/or bonuses;
(D) Significant additional remuneration paid for special services beyond the scope of usual duties;
(E) Paid or payable compensation for former members of the Board of Directors in connection with termination of their activities during the given fiscal year; and
(F) Total estimated value of non-monetary income considered as remuneration not included in points (A) to (E).

Board of Directors
(in total 12 current and former members)

	Total CZK	Of which for performance of Board responsibilities	Of which for other income (employment / income from entities controlled by the Bank)
A	36,041,546	29,806,739	6,234,807
B	2,169,844	1,844,531	325,313
C	26,308,487	22,888,495	3,419,992
D	0	0	0
E	5,320,000	5,320,000	0
F	5,587,499	3,352,142	2,235,357
TOTAL	**75,427,376**	**63,211,907**	**12,215,469**

The tables describe all remuneration received by members of the Board of Directors of Komerční banka in 2018, including that accepted in 2018 by former members of the Board of Directors of Komerční banka as a result of the deferral of remuneration (the deferral of remuneration applied to 10 former and present members of the Board of Directors, who were paid a bonus in 2018). If there are no items listed, then no such consideration was provided to the members by Komerční banka or by entities controlled by KB in the given year.

Information on monetary and in-kind income to members the Supervisory Board

In accordance with Act No. 256/2004 Coll., on Capital Market Undertakings, as subsequently amended, Komerční banka also releases information on all monetary and in-kind income received during the 2018 financial reporting period by members (including former members) of the Supervisory Board from Komerční banka and from entities controlled by the Bank. The data are published in a structure similar to that from the provisions of Section III, point 5.3 of the European Commission Recommendation of 14 December 2004 (2004/913/EC):
(A) Total amount of remuneration paid for services performed in the given fiscal year, including remuneration for meeting attendance approved by the General Meeting of shareholders;
(B) Remuneration and benefits received from any company within the Group (note: KB Financial Group) – concerns only members who are employees;
(C) Remuneration paid in the form of profit sharing and/or bonuses – concerns only members who are employees;
(D) Significant additional remuneration paid for special services beyond the scope of usual duties;
(E) Paid or payable compensation for former members of the Supervisory Board in connection with termination of their activities during the given fiscal year; and
(F) Total estimated value of non-monetary income considered as remuneration not included in points (A) to (E) – concerns only members who are employees.

Supervisory Board
(in total 9 members during the year)

	Total CZK	Of which for performance of responsibilities	Of which for employment*
A	4,425,124	3,319,370	1,105,754
B	44,252		44,252
C	239,491		239,491
D	300,000	300,000	0
E	0		0
F	93,685		93,685
TOTAL	**5,102,552**	**3,619,370**	**1,483,182**

* Employee income is included for employee members newly appointed or outgoing during the year only for periods when the employee was also a member of the Supervisory Board.

The table above presents in the aforementioned structure the compensation received during 2018 by members of the Supervisory Board of Komerční banka for performing the duties of a member of the Supervisory Board or the Audit Committee. If no value is shown for a given category, then no such compensation was made within the given year to the member of the Supervisory Board of Komerční banka.

Information on shares and share options held by members of the Board of Directors and the Supervisory Board and by related persons

The following table provides information on the numbers of shares issued by Komerční banka that were held as of 31 December 2018 by members of the Board of Directors and members of the Supervisory Board and related persons, as well as information on options and comparable investment instruments whose values are linked to the price of KB shares and which were concluded by or on behalf of the listed persons:

31 December 2018	Shares	Share options
Members of the Board of Directors in 2018 (total)	17,040	0
Members of the Supervisory Board in 2018 (total)	19,595	0
Related persons (total)	0	0

No members of the Board of Directors or members of the Supervisory Board were contractual parties to any option or similar contract concerning comparable investment instruments whose values are linked to KB shares, nor were any such contracts concluded on their behalf.

Responsible Business

Komerční banka recognises and monitors how its business operations and services create value for clients, shareholders, employees, and society. KB defines its long-term interests in accordance with the expectations of stakeholders and the relevant compulsory rules. Doing business responsibly in relation to these partners is a precondition for the Bank and Group's sustainability and long-term success.

Although responsibility is an integral aspect of all our activities, in terms of monitoring and implementation, KB is developing its corporate social responsibility in the following organisational areas:

- Client satisfaction
- Ethical banking
- Responsible employer
- Environmental protection
- Social trends and innovations
- Sponsoring and charity

Detailed non-financial information about Komerční banka's corporate social responsibility activities and results, including topics concerning the environment, social and employment relations, upholding human rights, and fighting against corruption and bribery, are stated in the following text within this section.

Information about the activities focused on improving client satisfaction and introducing improvements and innovations are described in the introductory parts of the "Clients and their service" subsection.

Banking in accordance with ethical and regulatory rules

Rules of conduct

Komerční banka is aware that among the basic preconditions for successfully developing the company are the professional behaviour and conduct of its employees that are based upon building open relationships with the clients and deepening trust between KB and its clients and partners. KB Group has created rules for ethical behaviour and conduct of its employees that are based on general obligations as defined both by regulatory provisions and by standards of professional conduct applicable to banking. These obligations comprise in particular rules protecting against conflicts of interest and corruption, rules for accepting gifts, rules protecting against abuse of position, and rules protecting from misuse of confidential information. The principles of ethical conduct and the necessity for upholding these are effective for all employees and are defined in KB's internal regulations. Employees are regularly reminded of them as part of their training, and managers are regularly reminded of the need to uphold them. Also contributing to raising awareness of ethical conduct among KB employees is a Société Générale training programme designed for all employees of the Group that is focused on principles of conduct and values for individuals and the Group as a whole.

Anti-corruption measures

The adoption and upholding of clear rules against corruption and KB's zero tolerance towards any kind of corruption constitute basic standards and a foundation for the workings of a socially responsible business, even as they are prerequisites for maintaining and strengthening the position of the Group and bolstering its position in the competitive market. The rules and principles of ethical behaviour and professional conduct, including rules adopted to fight corruption and bribery, are anchored in our internal regulations and are elements of mandatory training for all employees. To comply with the rules on combating corruption, suppliers and other business partners of the Bank also are bound by obligatory contractual clauses. The Compliance Department is responsible for establishing the rules and individual measures against corruption and for ongoing monitoring of these measures.

Whistleblowing

It is in Komerční banka's interest that its employees will prevent breaches of any regulatory and ethical rules and will actively report such breaches. In this respect, all employees are given the possibility to inform the Compliance Department of any substantiated suspicion as to breaches of regulatory or ethical rules. Rules for this procedure are spelled out in the Code of Ethics and described in more detail in the related handbook. Employees are informed of this possibility during entry training, continuous e-learning, and via the intranet. Employees are guaranteed that their submissions will remain anonymous to the maximum possible extent and that no retaliatory measures will be taken against them.

Measures against money laundering, financing of terrorism and circumvention of international sanctions

KB exerts maximum efforts to prevent the abuse of its services for any purposes relating to money laundering and the financing of terrorism or circumvention of international sanctions. To this end, KB applies rules, methods, and verification procedures in harmony with the corresponding legal regulations, norms, and rules of the Société Générale financial group. KB's internal prevention system is periodically verified and updated. Information in this area is periodically shared with all of our employees in the forms of, for example, operational reports and training classes and/or e-learning courses. The Bank has an established system for monitoring all transactions and business relationships.

Products development and offer, restrictions on deals with a potentially negative impact on the natural and social environment
The Bank is continuously developing a number of new products with the objective of satisfying the needs of clients from various segments. Their parameters, processes, and related risks are analysed in advance and approved by the responsible units, including oversight units (the Risk Management, Legal, and Compliance departments). This ensures compliance with laws and regulations. When offering products to clients in the distribution network, the suitability of a given product for a specific client is evaluated, and the client's needs are determined in advance. KB follows the principle of responsible lending and provides all information regarding its products in a clear and transparent manner.

KB respects business restrictions relating to the provision of banking services and products for the trade in weapons, ammunition, or other goods and technologies that constitute military materiel. These restrictions also cover individual private or state entities or business groups whose business activities are considered within the weapons industry to be non-transparent.

In the area of environmental and social responsibility, KB is also guided by specific sector rules of the Société Générale financial group which govern the provision of financial products in areas that can have a fundamental impact on the natural or social environment.

Know Your Customer rules and client data protection
In all business relationships with its clients and other commercial partners, Komerční banka diligently applies the "Know Your Client" rules as defined by both local laws and regulations and Société Générale Group policy. These rules include all recognised international standards. Because this area is continuously developing, the Bank progressively implements corresponding changes into its processes.

The Bank regards protection of clients' personal data and data covered by bank secrecy to be one of those crucial areas always duly demanding its attention. Transparent handling of this data and its maximum security are considered essential requirements both for fulfilling KB's regulatory obligations and also for maintaining responsible business operations and long-term relationships with its clients. Further information about implementation of the EU's General Data Protection Regulation (GDPR) is provided in the subsection on compliance risk management.

Protecting economic competition
KB had previously introduced an internal directive covering protection of competition based upon both general obligations as established by regulatory provisions and on the standards of Société Générale Group. This regulation describes the regulatory framework, risk areas concerning the banking sector, and behaviour of individual employees in negotiating with third parties and with the regulator so that the employees are sufficiently informed regarding risks and methods for avoiding them. Selected employees also are subject to internal training in this area. Employees negotiating on the Bank's behalf at the level of the Czech Banking Association also undertake to uphold the rules of the Czech Banking Association in this area.

Employee relationships

Key data on employees

Average recalculated number of employees during year	2018	2017	2016
– KB Group	8,413	8,492	8,476
– Komerční banka	7,458	7,551	7,549
– of which in Slovakia	42	40	38
– of which in Czech Republic	7,416	7,511	7,511
– of which at headquarters	3,993	4,009	3,949
– of which in the distribution network	3,423	3,502	3,562

Age structure of employees (KB, Czech Republic, as of end of year)			
≤30	17%	17%	17%
31–40	26%	27%	27%
41–50	33%	32%	32%
51+	24%	24%	23%
Employees by type of employment contract			
– Full-time	94%	93%	93%
– Part-time	6%	7%	7%
Employees by contract type			
– Permanent employment	86%	85%	85%
– Other employment (temporary, limited assignment, other)	14%	15%	15%
Employees' qualifications			
– University	44%	45%	44%
– Secondary school	53%	52%	54%
– Other education	3%	3%	2%
Proportions of men and women			
– Men	35%	34%	33%
– Women	65%	66%	67%
Proportion of women in leadership positions (including team leaders)	**51%**	**53%**	**52%**
Number of employees on maternal and parental leave	**724**	**727**	**711**
Illness rate	**2.95%**	**2.99%**	**3.02%**
Number of employees with disabilities	**151**	**137**	**72**

A key aspect of Komerční banka's strategic vision is to pursue the creation of longstanding partnerships with its employees. In doing so, Komerční banka presumes there to be a professional relationship that stems from mutual trust, respect, communication, equality of opportunity, and the availability of attractive professional and career development prospects. These values are shared across the Group.

Concerning the legal framework, Komerční banka and the entire Group are subject to the same legal conditions and standards as apply to any other employer in the Czech Republic. Its activities are supervised by the Czech National Bank, which may apply other regulatory measures, for example in relation to employee education and remuneration. Rules of Société Générale and international standards also can have an influence. Conformity with all legal standards, decrees and regulations is subject to regular or random control, and failure to uphold these standards can be sanctioned in accordance with the applicable regulations.

Komerční banka upholds the Czech Republic's laws and regulations, including binding regulations of the European Union and all international agreements ratified by the Czech Republic and that are a part of the Czech Republic's legal order. These include, in particular, the Convention of the International Labour Organisation. In case of overlap into international employment, it follows in particular Regulation (EC) No 593/2008 of the European Parliament and of the Council of 17 June 2008 on the law applicable to contractual obligations (Rome I).

Work safety and working conditions
To the full extent of law, KB ensures its employees' occupational safety as well as health and fire protection against possible risks that would endanger their lives and health when performing their work. It provides its employees with sufficient and adequate information and instructions on safety standards and on providing first aid. The Bank also ensures respect for the prohibition against smoking and consumption of alcoholic beverages in the workplace. Management employees at all levels are responsible that the employer's obligations in this area be honoured. These tasks are an equal and integral part of their work obligations. As an employer, KB provides work-related medical services through EUC Premium and regular employee training in safety, health and fire protection standards according to the relevant legal standards. The Bank regularly organises checks and employee training in these areas while documenting and recording the results.

Komerční banka is also modernising the environment within its branches in accordance with both safety and health requirements, as well as regarding the social environment and state-of-the-art technologies.

Right to information and to social negotiation and employee satisfaction survey
Information designated for employees is shared openly in numerous and various ways. For each employee, the main source of information is his or her superior. Since 2016, an Employee section has been in operation within the new KB intranet. All necessary and updated information from the human resources area is accessible. Employees can call the Moje HR (My HR) telephone line, submit their inquiries by e-mail or contact HR Business Partners and consultants.

The right of KB employees to social bargaining is exercised through the KB Trade Unions Organisation. KB is in regular contact with representatives of the trade unions organisation, and collective bargaining is ongoing every year.

The right to information is based in the Collective Agreement. The collective agreement has been concluded for the period 2017–2020. The results of employer and trade union negotiations are fully accessible to all employees, including the full text of the Collective Agreement. The benefits of the collective agreement are valid for all employees, including those not organized into unions.

Employee care is a priority in human resources management and for KB's top management. The Bank regularly determines employees' opinions, satisfaction, and engagement, and it enacts corresponding measures. Satisfaction surveys are taken using SG Employee Barometer and within the agile area by regular surveys. The objectives of the KB Change transformation program include to increase employee engagement, as expressed by a rise in the composite index from 72% to 80%. The index's level for KB is determined by an independent agency. One of five indicators is employee motivation, which, in accordance with the employee survey from September 2018, increased from 61% to 71% year on year. The Bank provides cares also for its departing employees, in particular in the form of counselling.

Employee health
Komerční banka has for several years been systematically attentive to the health of its employees. KB continued in 2018 – and further developed – its Moje Vitalita programme. It aims to support high work performance from KB employees by looking after their physical and mental well-being. Physical well-being was given special focus in 2018, and the programme featured Health Days across the Czech Republic.

Supporting employees in difficult life situations
KB respects all its employees' human and social rights. All forms of discrimination are prohibited. KB has long been accommodating in relation to its employees who happen to be in difficult life situations. This support is effected in various ways, and it considers the life situation an employee is facing (for example, through flexibly adjusting work time, reducing working hours, home office, financial support, unpaid vacation). Every situation is assessed and resolved individually.

Support of employees in difficult life situations is based on the Collective Agreement and corresponding implementation rules. Any drawing of financial aid is recorded by the employer.

Gender diversity
The principles of equal opportunities and non-discrimination are among Komerční banka's basic principles as an employer. Employees are hired on the basis of their experience and competence, and the same approach is applied with regard to internal mobility. Moreover, KB applies a diversified approach to the individual employee groups based upon their needs and current situations. This approach can impact the offer of educational programmes for certain groups (new graduates, managers, sales positions, specialists).

Another specific group of employees consists of those on maternity and parental leave (ML/PL). Their successful reintegration into the workflow is among Komerční banka's important goals. KB is in contact with these employees also during the maternity and parental leave; they are invited to networking events and, in case of mutual interest and needs, co-operation during the leave is established. After return from ML/PL, employees may take advantage of reduced work responsibilities, home office or flexible work hours, if the type of operation and job character so permit.

The principle of equal treatment is anchored in KB's basic documents, such as the Code of Ethics, the Rules of Employment and the Principles of Remuneration. Employees and managers conducting recruitment are trained regarding discrimination and in the essentials of the Labour Code. The Bank regularly monitors the proportion of employees reintegrated after returning from ML/PL as a part of the managerial reporting.

Equal conditions in employment
Komerční banka applies the principle of non-discrimination in selecting employees. Paramount is that the expectations for the work position and job description are in accordance with the knowledge, competencies and expectations of each individual applicant. A specific population upon which KB wants to focus attention is that of handicapped applicants with disabilities. Recruitment employees are trained in recruiting applicants with disabilities, and monthly monitoring of this area has been established.

For the second time, KB won a silver prize in the Same Chance – Employer of 2018 competition, and it also was recognised in the Employer without Barriers competition for its approach to people with health disabilities.

Talent search and acquisition
In 2018, Komerční banka again co-operated actively with institutions of higher education, including universities, and student organisations. The Bank thereby continues in its tradition of sponsorship and expert support to state tertiary schools throughout the Czech Republic. Among the most active co-operation was that with the University of Economics in Prague (VŠE), Masaryk University in Brno, and Czech Technical University in Prague (ČVUT). Other forms of co-operation with university students consisted of meetings at job fairs, open-house days, workshops, and special events with specific economic topics. These activities took place both at the partners' premises as well as at Komerční banka itself. More than 100 interns from secondary and tertiary schools acquired practical experience at Komerční banka's headquarters as well as within its branch network. The Bank's main partners among student organisations in 2018 were AIESEC, the Association of Students and Graduates (ASA), and Prague Banking Club.

Employee education and career development
Long-term partnerships with employees are supported by the Bank through education, among other things. The Bank prepares for its and the Group's employees a broad range of educational activities and programmes, even as strong emphasis is given to individual responsibility for his or her career development.

As in previous years, the Bank devoted particular effort to the development of those employees in direct contact with clients within the branch network. Special attention was given to the development of managers and high-potential employees, who are participants in the Strategic Talent Management programme. The M'Academy management academy focuses on enhancing long-term, personalised skills in the areas of human resources development, responsibility, innovation and the pro-client approach. In 2018, KB supported a major change in project management and innovation by training all employees of the affected teams in agile product development. Komerční banka co-operates on development programs with the parent company Société Générale. Thus, KB employees have the opportunity to develop their skills and capabilities in an international environment.

The Bank also supports a healthy lifestyle, even in the work environment. Traditionally, Health Days are organised, during which employees can take advantage of a number of individual consultations, expert examinations, try different types of exercise, or go for a massage.

Corporate values and The Leadership Model
Inasmuch as corporate culture is a cornerstone in the foundation for achieving long-term success in business, KB is applying a new definition of its corporate values that are shared across SG group.

KB applies the following basic values: **team spirit, innovation, commitment and responsibility**. The values contribute to the basis of an updated model for managers and employees' conduct, known as "The Leadership Model". It is built on the following five pillars:
- Client satisfaction,
- Innovation in creativity and change management,
- Responsibility,
- Our teams' commitment, and
- Team spirit with a strong sense of achieving results together.

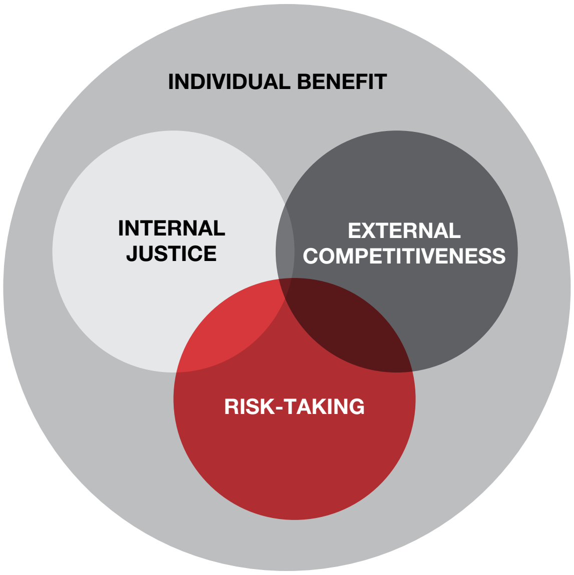
The updated corporate values are progressively being reflected in all associated processes, and particularly in recruitment, assessment, remuneration and education.

Remuneration in KB
General rules of remuneration stated in the following subsection are applicable for KB employees and members of the Board of Directors and Supervisory Board. More detailed information about remuneration of the members of the Board of Directors and Supervisory Board is provided in the Corporate Governance section.

Remuneration strategy in KB aims to:
- Support the general strategy and business targets,
- Prevent inappropriate risk-taking and improvident behaviour,
- Take into account the rights and interests of clients,
- Promote cost-effectiveness, and
- Boost the value of the Bank in terms of its employees, shareholders and clients.

Remuneration strategy is an integral part of KB's human resources strategy and its overall business strategy.

The remuneration system in KB is based on the following principles that support the Bank's strategy, objectives, values and long-term interests:



- ***Internal justice*** is a principle ensuring that the same remuneration is paid for the same work and same performance under the same transparent circumstances. That remuneration must not be affected by gender, age, religion, membership in trade unions or political parties, or other personal characteristics of an employee that are not directly related to his or her work performance or competencies.

- ***External competitiveness*** is ensured through regular market surveys, taking into account the intended market position and significant differences in the remuneration market. These surveys then lead to determination of the aforementioned basic wages.

- ***Individual benefit*** is taken into account in the wage and bonus. Wages may reasonably differ from the target level to take into account all aspects such as individual contribution or potential. A bonus is determined, inter alia, based upon an assessment of the goals achievement and performance.

- ***Risk-taking.*** In KB, remuneration is aligned with sound and effective risk management and supports such management; remuneration does not encourage the taking of risks going beyond the risk tolerance of the Bank.

The structure of remuneration is based on three basic pillars:

1. Basic wage for work performed (fixed component)

Wages of all employees are determined in terms of the sophistication of their positions, particularly in terms of the required knowledge, experience and skills, and the resulting responsibilities.

2. Flexible performance-dependent remuneration component

In addition to the basic wage, employees have a variable remuneration scheme for the quality of meeting corporate, team, and individual goals. The amount of the variable component is expressed as a percentage of the annual basic wage and is different for different groups of employees. The maximum level of the moving component is set in the collective agreement, and for legislative reasons it cannot exceed 200% of the basic wage. Up to the entire variable component can be cancelled in the case of an employee's misconduct or behaviour that is not compliant with the Compliance rules.

3. Employee benefits and advantages supporting employees' loyalty within Komerční banka Group

The cost-effective structure of benefits reflects the Bank's targets to be a responsible employer while providing employees with a choice. The structure and level of benefits are subject to collective bargaining agreements each year. For the year 2018, the structure agreed was as follows:

a) Daily meal vouchers worth CZK 100 without the employee's financial participation,
b) An amount of CZK 6,720/employee/year for recreation, sports, health, culture and personal development provided via the Cafeteria system,
c) 3,000 CZK/year for disabled employees and CZK 600/year for employees 55 years of age and older via the Cafeteria system,
d) Contribution to supplementary pension insurance and supplementary pension savings amounting to 2% from the components of wages, which are used for the contribution to social insurance and state employment policy computation. The employer's minimum contribution is 400 CZK/month,
e) A contribution to capital life insurance of CZK 650 per month,
(f) Contribution to the purchase of employee shares within the Société Générale Global Stock Exchange Program,
g) Premium conditions for retail banking products and services provided by Komerční banka to employees,
(h) Financial support during long-term illness,
i) Two working days off with wage compensation and 1 additional working day off with wage compensation for employees who work for Komerční banka for a continuous period of 7 years and longer, with the condition of non-transferability to the next calendar year,
j) Risk life insurance,
(k) Extraordinary social assistance.

Regulatory risk management principles in remuneration

Taking into account risks is part of the basic remuneration principles. It includes in particular the following measures:

i. The overall system of flexible performance-dependent components is set in a way not to limit the Bank's ability to strengthen its capital. Payment of the flexible performance-dependent component of the remuneration is based on the Bank's performance. Therefore, the size of the flexible performance-dependent component is in no way guaranteed, even when the individual employee achieves his or her individual goals. The criteria used for calculating the aggregate amount of flexible performance-dependent component to be paid include corrections for both current and future risk. The same criteria will be used when setting the flexible performance-dependent remuneration budget in order to take into account any current and future risks.
ii. It is not the Bank's policy to provide any reward from previous employment. If necessary, such a component would always be a variable remuneration according to these Remuneration Principles.
iii. In the case of an employee's termination of employment, "golden parachute" bonuses are forbidden.
iv. Assuming there to be no violation of applicable laws and treaties, KB will at all times make every effort in its power to recover all flexible performance-dependent remuneration that has been paid but the pay-out of which has been found to be unjustified.
v. Employees with significant influence on the Bank's risk profile (hereinafter referred to as IS) are identified in accordance with the relevant regulation and their list is regularly reviewed. The variable remuneration of SG expatriates identified as IS is assessed in accordance with the Bank's rules.
vi. In order to restrict taking on of inappropriate risk, the variable remuneration component for an IS always is performance-linked and risk-adjusted. Non-financial criteria (such as employee ethics, complaints and mistakes) are taken into account when assessing employee performance. At the same time, some ISs are independently rated from a Risk and Compliance perspective.
vii. For the IS group, which most strongly affects the Bank's risk profile, specific rules are adopted: the KB Deferred Bonus Scheme. These rules consist in postponing payment of part of the variable component, the use of non-cash instruments (KB quasi-equity / KBPT) and the Remuneration Committee's approval regime.

viii. The decision on remuneration of the members of the Board of Directors is taken by the Supervisory Board in view of any findings of control functions (Risk Management, Compliance and Internal Audit).
ix. Appraisals of internal control staff (in particular Risk Management, Compliance, and Internal Audit) are tied to achieving the goals associated with their functions, independently of the performance of those areas of activity of the Bank they control.
x. An independent audit of remuneration principles and practice is conducted annually by Internal Audit.
xi. Remuneration policy and practice must be verifiable and reviewable for at least 5 years.

Environmental protection

Komerční banka is aware of the influence that its activities have on the surroundings wherein it operates, and it considers responsible behaviour to be important. Therefore, it adopts adequate measures that on the one hand should eliminate negative influences on the environment and on the other contribute to its protection and improvement. KB monitors the impacts of its activities on the environment and identifies those areas upon which it needs to focus. Komerční banka then adopts measures directed towards effectively reducing its environmental impact.

Consumption of resources
KB is achieving long-term savings in electricity consumption. In comparison with 2017, there was a perceptible 1% reduction. Total consumption for 2018 was 30,751 MWh as compared to 30,973 MWh in 2017. Contributing to this was the continuing replacement and installation of LED lighting at branches. In 2018, the Bank reconstructed a total of 23 branches. The result for 2018 was also influenced by moving into a new administrative building that was for some time operational concurrently with the previous workspace being vacated by the employees.

In order to improve measurement accuracy, a change in recording consumption at Komerční banka's headquarters buildings was introduced in 2018. This is why values for gas consumption and heat supply are different from those reported in the Corporate Social Responsibility Report of Komerční banka for 2017.

Gas consumption in 2018 was 19% lower (10,887,743 kWh) as compared to 2017 (13,459,791 kWh). This substantial reduction was facilitated by vacating 23 buildings due to the opening of a new administrative building having a LEED Gold energy certificate at Stodůlky in Prague and by refurbishing technologies and utilities equipment at KB buildings (heating, cooling, air conditioning and lighting). Heat supply was reduced by 9%, from 16,808,393 kWh in 2017 to 15,275,971 kWh for 2018. The heat consumption was influenced not only by factors stated in the previous paragraph concerning gas consumption, but also by weather, temperature fluctuations, and the mild winter.

KB has also kept water consumption at roughly the same level. In 2018, 71,717 m^3 of water was consumed, which is only a very slight increase compared to the previous year 2017, when 71,523 m^3 of water was consumed.

Harmful emissions
The Bank also reduced overall CO_2 emissions by cutting back on energy consumption, limiting business trips, operating a new office building, and newly using electric cars in the KB fleet.

Digitalisation at KB is being implemented by (among other ways) organising meetings via Skype for Business. This accounts for a year-on-year reduction in kilometres travelled for business trips. Whereas in 2017 KB reported 7,024,187 km of employees' business trips, this figure was substantially less, at 6,547,823 km, in 2018. In June 2018, the Bank expanded its fleet with seven Nissan Leaf electric cars that the employees drove a total of 23,806 km.

Sorting waste
We enable every employee to participate in waste sorting. For each of our branches and other premises, we have set a sorting system that should ideally reflect their needs. Waste-handling information cards are posted in each building; these give detailed information on how waste is sorted in that building. To ensure compliance with all valid regulatory requirements, KB entrusted waste handling during 2018 to AVE CZ odpadové hospodářství, a company providing not only waste collection but also disposal and recording of all waste. A reduction in the amount of especially plastic waste was achieved by cancelling orders for water in PET bottles, plastic cups, and single-use cutlery. All workplaces were equipped with soft drink dispensers and kitchens with sufficient dishware. The Bank also provides to employees and clients take-back of used batteries at all its branches.

Supplier relationships

Within its supplier relationships, Komerční banka is committed to protecting the environment, social and human rights and respecting the principles of sustainable development.

In its purchasing processes, KB implements the sustainable development principles common to the Société Générale Group. KB thereby demonstrates its responsibility in the field of sustainable economic and social development, as well as in risk management.

The commitment to sustainable development was affirmed by Société Générale when it joined the United Nations Environment Programme Statement by Financial Institutions on the Environment and Sustainable Development on 27 November 2001. As of the date of its accession to the Declaration, Société Générale has been a participant in the measurement of sustainable development by the most important international indicators of sustainable development.

As part of the joint commitment, KB and its suppliers share and improve best practice with respect to the environment, social and human rights. KB also applies the Ethical Sourcing Programme that is enforced throughout the Société Générale group. Every supplier with whom we close a contract commits to comply with the principles that follow from this programme and KB reserves the right to initiate the conduct of an independent audit. In particular, suppliers under contract with KB undertake to observe the labour laws and, in the event of their non-existence, at least the provisions contained in the International Labour

Organisation's Declarations, Conventions and other acts, and environmental legislation. At the same time, suppliers undertake not to co-operate with Subcontractors and other natural or legal persons who, according to their knowledge, do not comply with those rules.

Sponsoring and philanthropy

KB continuously supports culture, sport and education. KB and other Group companies are partners of institutions, projects and events of general public interest, with particular emphasis on the extraordinary human, social and artistic aspects of the projects, and on long-term co-operation.

The National Gallery in Prague is among the largest entities we sponsor. One key point in our co-operation with the Gallery is our support for free entry to its permanent exhibits for everyone aged 18 and under and for students aged 26 and under. With KBs support during 2018, 78,513 people visited the gallery for free. Each year, we support a selected large cultural project. KB likewise supports the French Film Festival, which presents the best French-produced or co-produced films; it is among our nation's most important film festivals. A new feature is support of the PKF - Prague Philharmonic Orchestra, which had been founded by conductor Bělohlávek and has an excellent international reputation. For the second year, the Bank collaborated with the Rock for People music festival, which has provided KB clients with the opportunity to purchase discount tickets.

Our long-term partnership with the Prague Zoo is among the most successful. Every year, the Family Day for KB employees and the general public is greatly popular.

Again in 2018, KB supported Czech floorball. KB's main joint project is the floorball challenge. This is attended by thousands of secondary school students each year, and the final of the tournament takes place before the climax of the entire floorball season, the Spring Superfinal. For 16 years, the Bank has been co-operating, too, with the Dostih Foundation horseracing track in Pardubice.

Supporting financial literacy

Komerční banka is a large bank helping thousands of people every day with solutions to their financial situations. Its objectives, therefore, include also to improve financial literacy and identify all the various ways it can act preventively in the area of encouraging financially responsible behaviour among Czech people and in applying an emergency brake when problems do occur. Target groups are elementary and secondary school students, the general public, and senior citizens. In this area, the Bank has participated in the following projects and activities:

- Bankers to Schools – a project of the Czech Banking Association on development of financial literacy of elementary and high school students,
- Poradna při finanční tísni – an advisory in financial distress and organiser of educational events,
- the LIFE board game that teaches children to manage their finances,
- an internal start-up helping children learn in a playful manner to recognise the value of money and financial management,
- articles on themes of financial education, and
- additional activities of KB Jistota Foundation.

In December, co-operation was initiated with the yourchance non-profit organisation, as was a partnership with the Economics Olympics for secondary-school students organised by the Institute for Economic Education INEV.

The KB Jistota Foundation

The Jistota Foundation's main mission is to help with specific projects and to support activities in the areas of developing civil society, addressing health and social issues, education, and integrating individuals into society. Part of the projects focus on early care, with extensive support to organisations that help people who are socially or physically disadvantaged. It also supports hospice care. The Jistota Foundation thus provides a source of funding to help throughout human life.

Last year, the main donors to the Jistota Foundation were Komerční banka and its subsidiaries and affiliates. We also must not forget, however, the employees of KB Group, whose contributions account for a significant part of the total funds.

Last year, employees supported the Foundation through active participation in various events, such as a golf tournament, by buying a calendar, auctioning photos, or during the so-called Week with the Foundation. The latter also offered them many activities of a similar nature to help, such as the floorball tournament, garment collection, or the Breakfast for the Foundation.

Open Fund
Through its Open Fund, the Foundation supported 19 projects in total value of CZK 3,130,689. These projects were designated to help the socially disadvantaged, to support employment of adults with medical disabilities, and also for palliative and hospice care.

Senior Fund of KB Group
This KB Group fund exists due to the long-term generosity of the subsidiary and affiliated companies. Last year, the proceeds were directed to support projects for activating seniors and for inter-generational meetings. Eight projects were selected, with aid totalling CZK 1,177,074.

Matters of the Heart and volunteers
The traditional Matters of the Heart, whereby the Foundation supports organisations within which KB Group employees help as volunteers, also was conducted. Through Matters of the Heart, the employees supported ten organisations and shared a total of CZK 951,230.

Help to employees
Also in 2018, the Jistota Foundation helped out KB Group employees and their families in difficult life situations. In total, six employees (or their families) were supported with an amount of CZK 454,886.

Jistota Foundation
The largest amount, CZK 4,421,800, was disbursed from the Jistota Fund, generally to finance co-operation of long-term character. A total of 14 projects were supported, four of which were initiated in 2018.

Non-financial support
In total, 51 projects were supported, as well as six employees of KB Group. Moreover, the Foundation provided non-financial support, in particular financial literacy training for social workers and workers in social services.

Further information on activities of KB Jistota foundation is available at: *http://www.nadacejistota.cz/o-nadaci/vyrocni-zpravy/*

Volunteer activities

Each year, many KB employees are enthusiastically involved in various volunteer activities. Principal among these are in support of the Jistota Foundation, which further distributes funds to those in need.

KB has long been organising regular blood drives in co-operation with General University Hospital in Prague. In 2018, KB employees donated 81 litres of blood, which is almost twice as much as in 2017. Employees also regularly take part in the Bike to Work programme. Last year, it led them to walk or bike 29,288 km, thus reducing CO_2 emissions by 3.21 tonnes.

Cyclists among KB employees also joined the Bikes for Africa project. In total, they provided 80 bicycles that were either sent directly to Africa and served children for travelling to and from school, or they were dismantled for spare parts, with the proceeds going for the same purpose.

The already traditional pre-Christmas photo competition and auction of calendars brought in CZK 28,500. A special charitable activity was the folding of paper origami cranes, 3,895 of which were created by the employees, and the whole event brought in CZK 50,635 for the Foundation. That amount was used to restore babyboxes.

The so-called Week with the Foundation already is slowly becoming a tradition. In 2018, it also included educational and volunteer events. An especially popular activity is the breakfast, which is prepared by employees for their colleagues, and the proceeds are provided to the Foundation. Also popular is the garments and accessories collection, and interest in the floorball tournament is growing each year. The Week with the Foundation brought in a total of CZK 188,610 CZK in 2018. The breakfast was separate from the Week with the Foundation last year, and the proceeds from that event were CZK 57,698. Every year, the Foundation organises a charity golf tournament involving many players. Last year's raised CZK 210,000.

In 2018, Komerční banka's people were for the first time involved in the Clean Up Czech Republic initiative. Here, the Bank provides financial support. A total of 247 employees cleaned at more than 20 locations throughout the country.

Risk management

Risk governance

Main principles of risk management in KB Group

Risk management at Komerční banka is based on an integrated concept that takes into account the advanced risk management standards of the Société Générale Group together with the statutory and regulatory norms as defined and required by the Czech National Bank and other regulatory bodies. Komerční banka's corporate governance standards assure that the risk management function is independent of commercial and operational functions.

Credit risk management, including management of Komerční banka's market risks and counterparty risks arising from financial market activities and recovery of receivables as well as management of related information systems, is carried out within the Risk Management Arm. The Risk Management Arm co-operates closely with risk management at Komerční banka's subsidiaries and supervises their activities. Operational risk, legal risk and compliance risk are managed within the Corporate Secretariat. Management of interest rate risk and foreign exchange risk in the banking book is conducted within the Strategy and Finance Arm.

Overall risk management strategy

Through its risk management strategy, KB Group continues to pursue a prudent and balanced approach to all types of risks assumed (i.e. credit, market and liquidity risks, as well as regulatory, legal, operational and environmental risks). At the same time, it aims to support development of the Group's business activities, including sustainable growth of its lending activities and reinforcing the Group's market positions.

The objective is to ensure profitable credit and market activities across the business cycle and, at the same time, to preserve a sound balance sheet with strong capital and liquidity ratios. To this end, advanced risk management tools, including statistical tools, are continuously enhanced and analytical and risk management skills are maintained at high levels for both risk management and business staff.

A general target of Komerční banka's risk management is to harmonise risk management processes and tools throughout the Group. The Group enables shared access to selected tools within the credit risk system for designated subsidiaries, thereby providing a unified credit risk view and harmonising the credit risk approach.

Risk appetite

KB Group risk appetite is outlined in the KB Group Risk Appetite Statement, which since 2015 has been prepared in compliance with Financial Stability Board recommendations. It defines at aggregated level all risks that KB Group is ready to accept or intends to avoid and defines a prudent and balanced approach to them, namely in relation to:

- credit risk, including concentration risk;
- market risk, liquidity and structural risk, including interest rate risk in the banking book, and FX risk;
- as well as operational, compliance and reputation risk.

The KB Group Risk Appetite Statement is elaborated with the aim of ensuring consistency among the risk-taking capacity, capital adequacy, and the business and financial targets. The level of the Group's risk appetite and its risk management strategy are fully aligned and within the boundaries of SG Group Strategy & Risk Appetite.

The Risk Appetite Statement is revised annually or, according to need, more frequently.

Credit risk

Regulatory development – IFRS 9

Starting from 1 January 2018, KB Group has introduced new provisioning rules in accordance with IFRS 9 requirements. The Bank utilised the SG Group IFRS 9 methodology with a few local adjustments. Provisions calculation in accordance with IFRS 9 is consistent with the risk-weighted assets calculation (the same statistical models are used in both calculations) and with the regular stress-testing approach (forward-looking predictions in the IFRS 9 calculations are the same as those used in the regular stress testing). Also a part of the IFRS 9 standard implementation was to introduce the new three categories (Stages 1, 2 and 3). Stages 1 and 2 represent the performing (non-defaulted portfolio), while Stage 3 constitutes the non-performing (defaulted) portfolio.

A one-off impact connected with IFRS 9 adoption was seen in a net decrease of accounting consolidated capital in the amount of CZK 2,184 million (after tax), of which measurement changes accounted for CZK 1,440 million (mainly net cancellation of revaluation reserve on securities in equity) and increase in provisions CZK 744 million. The impact on regulatory capital consisted of a net decrease in the amount of CZK 197 million (after tax), of which measurement changes accounted for CZK 80 million and increase in provisions CZK 118 million. That had a negligible impact on the capital adequacy ratio of –5 bps. The level of provisions increased by 6% from 1 January 2018 (CZK 882 million, of which subsidiaries CZK 253 million) as a one-off effect due to introduction of IFRS 9.

During 2018, the Bank updated models used for allowances of both performing and non-performing portfolios while taking into account (i) the latest observed history of defaults and losses, (ii) a new macroeconomic forecast, and (iii) expected changes in the legal environment. As a part of this update, the Bank also enhanced its methodology used for allowances relating to the performing portfolio that had been introduced on 1 January 2018 in the context of transition to the IFRS 9 standard. The Bank updated its methodology towards full alignment with that of Société Générale and further improved the criteria for classifying Stages 1 and 2 in accordance with IFRS 9, which resulted in transfer of a part of the exposure from Stage 1 to Stage 2.

Credit risk development

Credit risk remained at a low level during 2018. Low credit risk in the Retail segment was positively influenced by the Czech economy's continued favourable environment characterized by sufficient growth, low unemployment and rising real wages. The Corporate segment remained healthy overall, and the low cost of risk was affected by recoveries on historical defaulted cases.

The Group's cost of risk[1] decreased to –10 basis points (net release) in 2018 from –6 basis points (net release) in 2017, driven by net releases in both Retail and Corporate segments.

Financial assets at amortised cost grew by 7.3% to CZK 951.1 billion. The largest portion of this consisted of (net) loans and advances to customers, which went up by 5.3% to CZK 625.0 billion. A 97.3% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.7% of the loans were classified in Stage 3 (non-performing loans). Loans and advances to banks rose by 15.0% to CZK 256.3 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was down by a slight 0.7% and reached CZK 69.9 billion at the end of the fourth quarter. The volume of loss allowances created for amounts due from customers came to CZK 12.2 billion.

[1] Cost of risk in relative terms: ('Allowances for loan losses') ÷ (('Gross amount of client loans and advances' as of the end of reported period + 'Gross amount of client loans and advances' as of the end of the previous period) ÷ 2)

Principal activities in 2018

KB Group concentrated during 2018 especially on the following activities in the credit risk area:

- preparing KB Group for new regulatory requirements (AnaCredit, new definition of default, several 2018 stress test exercises, compliance with CNB regulations in the area of mortgage loans, etc.);
- implementing the optimised risk management function in KB Group with a focus on aligning and interconnecting subsidiaries' risk management processes with those of the Bank;
- simplifying and accelerating granting processes for small and medium enterprises, including to integrate new internal and external data sources; and
- updating key risk models to reflect the latest observations of portfolio development with the goal of maintaining sufficient margins across the entire business cycle.

Credit risk management tools

Credit risk assessment and monitoring

Client credit risk is managed on the basis of comprehensively assessing clients' risk profiles from quantitative (financial) and qualitative viewpoints using advanced scoring and rating models along with individual approval by competent risk or business managers. The system of approval authorities is set up to reflect the risk profiles of the counterparties and the levels of competencies required for their assessment.

No credit exposure can be originated until internal credit limits for the client and transaction have been first duly established.

The Bank has a strong monitoring process for clients financed and exposures granted that allows for triggering corrective actions in case deterioration is evidenced.

All KB scoring, rating and Basel (e.g. Loss Given Default, Probability of Default) models are back-tested at least annually and adjusted whenever needed.

Credit fraud prevention

Komerční banka uses an automated system for detecting individual credit frauds and for co-ordinated reactions to credit fraud attacks. The system is fully integrated into KB's main applications. Anti-fraud tools and processes are continuously adjusted according to the market situation.

Staging

Komerční banka allocates its receivables arising from financial activities into three categories (Stages 1, 2 and 3) in accordance with the new IFRS 9 standard. Stages 1 and 2 represent non-default (performing) while Stage 3 comprise default (non-performing) receivables. The staging reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge). The staging of individuals also reflects the default sharing principle for co-debtors and guarantors of defaulted receivables in accordance with the Basel III principles.

Real estate valuation

In compliance with Czech and EU regulations, the valuation and monitoring of real estate collaterals accepted by the Bank as security for corporate and retail loan exposures are delegated to a dedicated independent unit. This unit is a part of the Risk Management Arm and co-operates with a broad group of external valuation experts.

Komerční banka continuously monitors both residential and commercial real estate markets and regularly revaluates the real estate collaterals. The Bank utilises appropriate techniques (individual or statistical) for this purpose in order to react adequately to market developments. Komerční banka uses statistical monitoring of residential real estate market developments and applies an adjustment for pertinent residential real estate appraised values if residential real estate market values significantly decrease in relevant regions and periods. Moreover, Komerční banka monitors the development of commercial rents and performs individual revaluation of pertinent commercial rental real estates if rents significantly decrease in relevant regions and commercial real estate segments. In addition, real estates securing exposures exceeding EUR 3 million or real estates securing defaulted exposure over CZK 10 million are individually revaluated every 3 years.

Recovery activities

Komerční banka closely monitors changes in the legal environment, analyses their impacts in the area of receivables collection, and ensures their proper reflection in KB processes.

The inflow of clients into recovery has been relatively stable, influenced especially by good macroeconomic conditions and clients' financial situations.

Given the size of the portfolio in recovery, Komerční banka continued in optimising its recovery capacity and performance by using external capacities as well as regular auction sales of unsecured and secured retail portfolios to selected qualified investors.

Credit concentration risk management

Komerční banka's credit concentration risk is actively managed as a part of overall credit risk management and utilising standard tools. The Bank maintains its objective of taking on no excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors and collateral providers. A system of internal limits (based on exposure and counterparty rating) is established, so that Komerční banka is able to thoroughly monitor concentration risk and comply with the regulatory limits set in respect to concentration risk.

Provisioning and capital adequacy

Main principles of provisioning

Since the beginning of 2018, Komerční banka introduced the IFRS 9 standard in the area of allowances for receivables. Depending on the client segment, materiality, risk profile and characteristics of the receivables, allowances are created either (i) individually (for defaulted, exceptionally performing clients) while taking into account the present value of expected future cash flows and considering all available information, including the estimated value of collateral foreclosure and the expected duration of the recovery process; or (ii) for the non-performing portfolio, according to statistical models using historical delinquency statistics regularly updated based on the latest loss observations and new risk drivers reflecting the phase of the business cycle; or (iii) for the non-defaulted portfolio, using models based on expected credit loss.

Capital adequacy

The volume of the Group's risk-weighted assets (RWA) stood at CZK 451.1 billion as of 31 December 2018, compared to CZK 424.6 billion as of 31 December 2017. RWA for credit risk (including credit valuation adjustments) constituted 84%, operational risk 10%, and market risk 6% of the total RWA. The increase in RWA was caused by growing exposure across the entire portfolio and increasing market RWA, partially offset by improving risk profile mainly in retail segments. The average risk weight for credit risk stood at 32.1% as of 31 December 2018, close to the 32.2% of a year earlier. The decrease of the residential mortgages portfolio risk weight to 22.0% as of 31 December 2018 compared to 24.3% a year earlier was significantly influenced by the effect of CNB's adjusted loan-to-value regulation.

Stress testing

During 2018, Komerční banka was conducting two fundamental stress-testing activities: Internal capital adequacy assessment process (ICAAP) together with Internal Liquidity Adequacy Assessment process (ILAAP) and CNB Supervisory Stress Test. Komerční banka also participated in the 2018 EU-wide stress test as a part of SG Group.

Stress-testing exercises provide forward-looking simulation of bank results and key characteristics in various adverse scenarios that may occur in the economic or business environment. Projected macroeconomic variables are translated to the development of risk parameters and relevant exposures and/or positions and impacts on profit or loss, own funding requirements (capital adequacy) and other variables.

Within the ICAAP/ILAAP framework, which is designed by the Bank, all the material risks to which the Bank is or might be exposed were covered under three scenarios: baseline, plausible stress and severe stress.

The CNB Supervisory Stress Test constituted a qualitatively and quantitatively more complex task than in previous years, as it prescribed restrictive conditions and a requirement to deliver a great deal of detailed information across many areas. The impact of introducing IFRS 9 in 2018 was taken into account in all scenarios.

In both stress tests, Komerční banka proved itself solidly resilient to unfavourable conditions of the economic and business environment. KB Group has a strong capital base consisting mostly of the highest quality common equity Tier 1 capital. KB Group is able to maintain its capital adequacy ratio above the Overall Capital Requirement under all considered scenarios.

Market risk

Capital markets risks management

Market risk and counterparty risk on market transactions in KB Group's financial markets activities are managed by a dedicated Capital Markets Risks Department. This department reports directly to the Bank's Chief Risk Officer and is fully independent of business units. It operates within the framework of Société Générale Group's Market Risk Division. Methodologies for measuring risks and control procedures are thus aligned with the best practices of Société Générale.

Market risk management methods for the trading portfolio

Several types of measures are used for assessing risks in Komerční banka's trading portfolio:

- Value-at-Risk (VaR) is calculated using historical scenarios with a 99% confidence level and 1-day time horizon. The reliability of the VaR model's results is back-tested while checking the daily P&L against the VaR. KB's Board of Directors is regularly informed about the results of the back-testing.
- The impacts of low-probability events not covered by VaR are assessed using various stress-testing methods and scenarios.
- Volume and sensitivity metrics are used to measure exposure to all relevant risk factors (e.g. FX, interest rate, basis, flight-to-quality, commodities, and credit spread risks).

Market risk limits are approved by two members of the KB Board of Directors (the Member of the Board in charge of Risk Management and Member of the Board in charge of Corporate and Investment Banking) after being validated by SG's Market Risk Division.

The Bank uses enhanced valuation techniques for derivatives while taking into account whether a given derivative is concluded with or without collateral agreement and thus reflecting the cost of the Bank's liquidity.

Komerční banka is not exposed to risk of change in volatility on its market book, as all option derivatives are traded on a back-to-back basis.

Counterparty risk on financial markets activities

A market transaction may be concluded with a counterparty only on validated products and if approved limits exist for this counterparty. Counterparty limits for financial markets operations are monitored on a daily basis. Any breach of such limits is immediately reported to the relevant management level within the Bank.

The measurement of counterparty risk arising from derivative products is based on the Credit Value at Risk (CVaR) indicator. This indicator is calculated using Monte Carlo simulation while taking into account netting and collateral effect. With a 99% confidence level, CVaR quantifies the potential future replacement costs of a transaction with a client in case of such client's default.

Financial risks

In addition to credit and non-financial risks, the Group is exposed to risks related to changes in interest and exchange rates and liquidity of assets (financial risks). The process of managing financial risks aims to hold risks undertaken to a minimum while also facilitating the Group's organic development. The methods for identifying, measuring and managing risks in the areas of foreign exchange and interest rates are typically based on the requirement to minimise the impact on earnings. Supervision of the financial risk management process is by the Assets and Liabilities Committee (ALCO), which includes, among others, members of Komerční banka's senior management. The ALCO approves rules and methods used in managing the aforementioned risks. It also oversees the levels of risk taken on and the proposed hedging transactions that the Bank will execute in managing risk. KB's Asset and Liability Management (ALM) Department defines methodologies for identifying and measuring these risks, subject to approval by the ALCO and Board of Directors. The ALM Department also measures the risk indicators and reports them regularly to the ALCO and Board of Directors. KB's Treasury Department proposes and implements investment and hedging operations for managing the Bank's risk profile. Treasury is also in charge of setting up appropriate economic benchmarks for price setting, again subject to ALCO approval. Mirroring the regulatory developments in France and the USA, the liquidity risk management has been centralised into the Treasury Department.

The ALCO, as well as the ALM and Treasury departments, supervise the processes of asset and liabilities management also in other KB Group entities. All financial risk management activities fully comply with the rules of Czech regulatory authorities and with relevant international banking regulations.

Price setting

The process of product price setting is organised on two levels. The first involves the economic principle of determining a proper benchmark in terms of current market conditions and at the level of Komerční banka's portfolio (by ALCO). The second is to determine the price for the customer in view of a combination of marketing objectives and product parameters from the client perspective (by the Commercial Committee). Treasury provides tools and supports the Bank's business network in valuing transactions, setting client rates, and determining exchange rate spreads. The price-setting strategy is to offer clients products bearing competitive interest rates while always taking into account those costs connected with the price of liquidity and hedging against interest rate risk. In that manner, margins and financial stability are preserved even despite possible changes in market conditions.

Interest rate risk in the banking book

Interest rate risk constitutes the risk of possible financial loss or negative changes in the Group's net interest income due to movements in market interest rates. KB Group has divided its business activities according to their nature into the banking book and market book. Transactions executed with clients through the branch network typically fall within the banking book while operations on the interbank market belong in the market book. Interest rate risk is measured and managed separately for the banking and market books. With regard to interest rate risk in the banking book, the parent company (i.e. Komerční banka) and Modrá pyramida are the most significant members of the Group. The Group manages its banking book interest rate risk using such standard methods as gap analysis and interest rate sensitivity analysis. The aim of the Group is to minimise banking book risk and not at all to speculate on interest rate changes. To this end, the Group has established prudent limits. These limits were not exceeded in 2018. KB uses such standard market instruments for hedging against interest rate risk as interest rate swaps and forward rate agreements, as well as investing into securities. All hedging and investment transactions are immediately entered into the Bank's front office system, where they are recorded and priced.

As of 31 December 2018, the Group classifies financial assets pursuant to the new IFRS 9 Financial Instruments into the following business models: for the banking book – Hold to Collect contractual cash flows (HTC portfolio) and Hold to Collect and Sale (HTCS portfolio) contractual cash flows, and for the trading book – Hold to Sale. The choice of portfolio for holding an investment in the banking book is defined by accounting requirements and the associated internal rules (for classification of securities, the Bank is considering the business model and the nature of the cash flows). Revaluation of the HTCS portfolio to fair value impacts upon regulatory capital through changes in Other Comprehensive Income (OCI). The volume of regulatory capital could be impacted mainly by a worsening in the credit quality of bonds, whereas an impact from movements of market interest rates is substantially limited due to the bonds' interest payments being hedged. Selection of the HTC or HTCS portfolio allows for hedging an investment against interest rate risk.

Interest rate derivatives (derivatives for hedging risk in the banking book) are recognised pursuant to valid accounting rules (including IAS 39) so as to achieve the most precise accounting recognition. KB has prepared a detailed strategy for managing interest rate risks that includes descriptions of permitted derivatives, instructions on using them, and methods for their accounting valuation.

Foreign exchange risk in the banking book of KB Group

Foreign exchange risk is defined as the risk of potential loss to the Group due to fluctuations in currency exchange rates. The Group's foreign exchange risk is measured and managed on a daily basis, and its position is controlled by a system of limits. The strategy is to minimise the impact of foreign exchange risk in the banking book, which means essentially to achieve neutral foreign exchange positions. For the purposes of hedging these, the Bank uses such standard instruments as FX spot and FX forward operations. Within the Group, foreign exchange risk is concentrated especially in Komerční banka itself. The maximum open foreign exchange position of the Group's banking book in 2018 was less than 0.25% of the Group's capital, and thus it was essentially negligible. Part of foreign exchange risk management also involves KB's ability to respond quickly to market developments so as to prevent the conclusion of economically disadvantageous transactions. Komerční banka uses an automatic system for continuously monitoring the development of market rates, and it changes those rates used in client transactions once the market movement reaches a predetermined threshold.

Operational risk

The overall strategy for operational risk management is determined by the Operational Risk Committee, which also adopts appropriate steps in case of any negative development in the operational risk area and approves principal changes in the insurance programme utilised for mitigating impacts of operational risk events.

KB has been applying the Advanced Measurement Approach (AMA) to operational risk management and capital requirement calculation since 2008. Capital requirement calculation is performed using a central model of Société Générale. In addition to the standard tools utilised within the AMA approach, such as collecting data on actual operational risk losses, risk control self-assessment, key risk indicators, and scenario analysis, KB also has implemented a system of permanent supervision composed of daily and formalised controls. The headquarters departments use the SG group instrument GPS (Group Permanent Supervision) to manage and report on these formalised controls. In 2018, the concept of "second-level controls" based on SG group principles was further developed, aiming at independent control over setting up and performing formalised controls. In 2018, KB decided to reinforce the independence of the organisation, and at the same time to significantly enhance the staffing of this control layer, with implementation coming in the next year. The Bank continuously enhances the effectiveness of individual operational risk management processes, including the collection of information about internal events. In 2018, Komerční banka Group recorded 475 operational risk events in a final amount of CZK 36.3 million. In a year-on-year comparison, this represents an 8.1% decrease in the number of losses and a 24.7% decrease in terms of total loss volumes. Regarding loss volumes, fraud and other criminal acts constitute the most significant long-term risk category.

KB devotes considerable effort and resources to the fight against fraud. Within the Bank, there are several teams and systems specifically focused upon preventing and fighting against various types of fraud. In 2018, several fraud prevention teams were partially consolidated through their organisational inclusion into Operational Risks. Since 2017, KB has significantly strengthened its ability to detect and subsequently investigate suspected fraudulent behaviour of employees.

KB is participating in the Permanent Control Transformation Program initiated by SG, which aims to further streamline operational risk management procedures and strengthen the control environment throughout the SG Group.

Co-operation within local consolidated operational risk management has been deepened among KB Group companies. Within KB Group, the AMA approach is already used in four Group companies. In addition to the Bank itself, these include Modrá pyramida, as well as two non-banking entities, SGEF and ESSOX.

Business continuity

Business continuity management consists in developing Komerční banka's structures, procedures and resources intended to cope with extraordinary situations in order to reduce the potential damaging impacts these may have on the Bank; protect the entity's employees, clients, assets and activities; and enable it to continue providing basic services and thus to protect KB's reputation, business assets, brands, products, processes and know-how while limiting the impact on KB's financial position. KB has developed business continuity plans for all main vital and critical processes. These plans are regularly updated and tested. The system is subject to regular reviews by external and internal auditors, as well as regulatory authorities.

Cyber and information security

The goal of risk management in the area of cyber and information security is to ensure that the key pillars of information security – confidentiality, integrity, availability and non-repudiation – are properly maintained. Sound management of the mentioned pillars provides adequate security for clients and the internal bank environment. Komerční banka continually monitors the external environment and reacts both to the steadily increasing number of threats originating from the cyber environment and to new types of sophisticated attack vectors. New types of attacks on clients and on bank information systems may potentially go so far as to violate the Bank's cyber and information security. We recognise that the greatest risks originate from the external environment, such as risks of fraud, of attacks on our clients, of penetrating the Bank's information systems and of losing electronic services availability. Furthermore, Komerční banka does not underestimate those threats that originate from inside of the bank organisation, where the highest risks are associated with internal fraud, misuse of access rights, and potential leaking of banking or other internal information.

Similarly as in the past, Komerční banka faced in 2018 the trend of rising insecurity within the external cyber environment. The Bank was exposed to a number of serious publicly announced cyber security threats that had to be addressed immediately as they inherently brought about increased risk for breach of the Bank's cyber and information security. Those temporarily increased cyber risks were responded to quickly and mitigated by applying recommended fixes. There was no actual breach of the Bank's cyber and information security identified in connection with those threats.

Proper risk management in the area of cyber and information security is ensured via strict application of preventative security policies. These policies are based on several key foundation sources. These sources are Czech and EU laws and regulations, Société Générale's internal policies, and the family of ISO/IEC 2700x norms. Within the implemented information security management system, the Bank regularly performs risk assessment of information and IT assets. The results are fully integrated with overall risk control self-assessment practice (RCSA). Komerční banka is continually strengthening the security of the internal bank environment. In 2018, the Bank further increased the level of protection against internal and external malicious attacks on the level of network infrastructure, including by introducing a new security monitoring system aimed at monitoring the Bank's internal technical environment. The Bank completed implementation of technical measures that significantly increased control over usage of highly privileged technical accounts. It also continued investing into refreshing and improving all employees' security awareness.

Komerční banka reviewed its approaches and procedures for data management in the area of client data processing. It prepared plans and executed a first set of measures aligning core practices for internal data management procedures with the GDPR regulation.

With the aim to further mitigate risks associated with client security, Komerční banka introduced in autumn 2018 a new secure authentication method, called KB Klíč, together with a new central client accesses management module. The KB Klíč method is based on modern PaaT (phone as a token) technology. It is utilised in secure two-factor authentication that is available to smartphone users for access and transaction authorisation in the internet banking application. Komerční banka continued to pursue its "Securely together" initiative within which it communicated directly to its clients current threats and the principles of safe behaviour in the digital world. It educated clients and offered them guidance in case of an actual digital emergency. Moreover, Komerční banka continued in maintaining its dedicated security website (https://www.kb.cz/security) and in promoting usage of IBM's protective client security tool Trusteer Rapport among clients using the internet and mobile banking solutions. Trusteer is focused on protection from specific threats, such as fake, harmful websites (phishing) and malware, and on preventing attempts to detect passwords (e.g. keylogging). Our anti-fraud detection system again helped to save the funds of many of our clients by detecting and blocking suspicious payments which had been initiated in an authorised manner by an impacted client but on the basis of an originally fraudulent request.

Komerční banka continually monitored a defined set of key risk indicators (KRI), such as number of security exceptions, number and criticality of open vulnerabilities, and number of security incidents. None of the monitored KRIs deviated from long-term approved levels in 2018. The Bank neither recorded nor reported any cybersecurity incident as per the definition included in the Cyber Security Act No. 181/2014 Coll.

Compliance risk

Compliance risk is so called because it arises from possible breaches of regulatory rules, standards, principles of ethical conduct, and, last but not least, the Bank's internal regulations, the upholding of which is obligatory for the Bank and its employees and which are based on regulatory rules and general ethical and corporate social responsibility principles. Materialisation of this risk means the possibility of bringing the Bank into conflict with regulatory authorities and institutions or with the Bank's clients, as well as financial penalties, reimbursement for damages and costs for corrective measures, as well as loss of reputation and goodwill with clients and the general public.

To manage compliance risk, KB has established a set of rules and processes within the control and management system. The Bank is scrupulously attentive to their observance. The Compliance Department is an important part of the Bank's management and control system. It has clearly defined functions and powers to identify these risks and prevent their being realised, particularly consisting in monitoring compliance with the established rules and procedures.

Risk management rules and processes are embedded in the Bank's internal regulations. Those internal regulations are regularly communicated to all employees, and their compliance with them is regularly controlled. Senior employees are responsible for the continuous education of their colleagues to ensure compliance with the rules.

The Bank conducts a series of activities for the purposes of compliance risk management. The first step is systematically to monitor outputs of the relevant regulatory bodies as well as proposed new regulations through monitoring those bodies' discussions and approvals. The next activity is to co-ordinate implementation of the regulations within the Bank by creating internal regulations and procedures. Finally, there is follow-up that involves inspection and consulting.

Komerční banka has developed a broad basis of internal regulations within risk management whereby it focuses primarily on preventing violations of regulatory and ethical rules and minimising the associated risks. The main areas relevant for the Bank include in particular:
- preventing money laundering and financing of terrorism,
- rules for preventing corruption and accepting gifts,
- managing conflicts of interest,
- rules for providing financial market services,
- rules for handling insider information,
- distribution and advertising of products,
- payment operations,
- protecting banking secrecy,
- consumer protection,
- client data protection,
- competition, and
- rules regulating advertising.

Within these areas, the Bank provides training to relevant groups of employees and informs them about new regulatory developments. The purpose of this training is to ensure understanding of these rules and compliance with regulatory requirements while maintaining general awareness about the main principles and rules of conduct that both Komerční banka and its employees must observe. The Bank provides advisory and support in the aforementioned areas across all KB Group companies.

In the context of compliance risk management, KB insists upon a zero tolerance for fraudulent and dishonest conduct of any sort, as well as for any infringement of the pertinent regulatory and ethical rules, whether consciously or through negligence. Special attention is given also to reputational risks that must be taken into account within the context of the Bank's activities.

A number of mechanisms have been put into place to minimise the risks of regulatory non-compliance by Komerční banka and its employees. Monitoring compliance with the rules is among the most important of these. The results of particular controls are regularly reviewed, especially in terms of the effectiveness of the implemented rules but also with a view to the proper settings for the individual controls. At the same time, the Bank records findings and conclusions from inspections carried out by regulatory institutions. This includes monitoring the implementation of corrective action where a regulatory institution's inspection has found a discrepancy. Furthermore, individual regulatory inconsistencies identified through normal bank operations are recorded and carefully evaluated. Based on such findings, consideration is always given to measures for stopping and preventing these. All these activities and identified indicators are evaluated on a regular basis and reported to KB's board of directors.

Main compliance risk management activities during 2018

A priority for KB remained to implement local, European and international regulatory requirements. The scope and complexity of the new regulations, as well as the high degree of legal uncertainty in relation to implementing the new rules, placed considerable demands on the Bank's capacities and on aligning the affected systems and processes. The short time between publication of the requirements under regulatory rules and their entry into force, as well as the fact that some related regulations were adopted only shortly before or after the effectiveness of the overall requirement, made their implementation very challenging.

In the area of preventing money laundering and financing of terrorism, the Compliance Department focused during 2018 on adjusting the internal control system following adoption of an amendment to Act No. 253/2008 Coll., on Certain Measures against the Legalisation of Proceeds from Criminal Activity and the Financing of Terrorism. It also created conditions for updating internal processes and rules in accordance with the project programmes of the Société Générale Group.

The control mechanisms for enforcement of international sanctions programmes had been reinforced during 2017 at the overall Société Générale Group level, reflecting the worldwide business activities of the group. Control mechanisms were expanded in 2018 in accordance with international rules. Primarily this concerns monitoring compliance with sanction requirements and identifying politically exposed persons.

During 2018, there continued to be projects direct to implementing the requirements of the EU Directive on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features, as well as the EU Directive on payment services in the internal market (so-called PSD 2) which were transposed into Act No. 370/2017 Coll., on Payment Services, effective from 13 January 2018.

Protection of personal data is another area where substantial changes occurred. Regulatory rules for this area, effective from 25 May 2018, are now governed by the directly applicable General Data Protection Regulation (EU) 2016/679 of the European Parliament and of the Council (GDPR). Following onto these changes, KB's project focused on implementation and application of rules defined by this regulation, which resulted, among other things, in introducing the function of Data Protection Officer (DPO). On the national level, preparations and approving of the act relating to the application of GDPR continued. The adoption of this act was, however, postponed to 2019.

In the financial markets area, an ongoing project involved implementing the requirements of the Markets in Financial Instruments Regulation and Directive (MiFIR and MiFID II). MiFID II requirements were further transposed into Act No. 256/2004 Coll., on Capital Markets Undertakings. All these regulations became effective from 3 January 2018. Implementation of these regulations is highly demanding of all the Bank's resources, in particular due to the ambiguous wording and differing interpretation of these regulations by both the individual regulatory authorities and the individual market participants across the EU. Protection of customers is the common objective of these regulations, which is why their correct and complete implementation has been a priority for the Bank for several consecutive years.

In the insurance products area, the Bank continued with its project implementing the requirements of the Insurance Distribution Directive (IDD), which was transposed into the Czech legal order through Act No. 170/2018 Coll., on Distribution of Insurance and Reinsurance, which became effective on 1 December 2018. In connection with the new requirements under these regulations, the Bank decided to change its status from that of a tied insurance intermediary of Komerční pojišťovna, a.s., and it was registered as an insurance agent as of 29 November 2018. Because Act No. 170/2018 Coll. does not recognise the status of an insurance agent, the Bank will be entered as of 1 February 2019 in a register maintained by the Czech National Bank as an independent insurance intermediary.

As of the effective date, the Bank had implemented all requirements of the new insurance regulatory package while closely co-operating with Komerční pojišťovna, whose products it primarily distributes.

The Bank also focused on new rules defined by a directive that strengthens the rights of shareholders. Implementation into the Act on Capital Markets Undertakings is expected in mid-2019, with the new rules being fully applied by the Bank from 2020.

Implementation of EU legislation (regarding the capital markets and other areas) remains the main task of the Compliance Department for 2019.

Governing law

As an issuer of publicly traded securities, during 2018 Komerční Banka was governed in its activities particularly by the following laws:

- Act No. 21/1992 Coll., the Banking Act;
- Act No. 256/2004 Coll., on Capital Market Undertakings;
- Act No. 90/2012 Coll., on Business Corporations and Co-operatives;
- Act No. 257/2016 Coll., on Consumer Credit;
- Act No. 284/2009 Coll., the Payment Systems Act (from 13 January 2018 the newly effective Act No. 370/2017 Coll., on Payment Systems);
- Act No. 170/2018 Coll., on Distribution of Insurance and Reinsurance;
- Act No. 253/2008 Coll., on Certain Measures against the Legalisation of Proceeds from Criminal Activity and the Financing of Terrorism;
- Act No. 69/2006 Coll., on Implementation of International Sanctions;
- Act No. 300/2016 Coll., on the Central Register of Accounts;
- Act No. 563/1991 Coll., on Accounting;
- Act No. 101/2000 Coll., on Personal Data Protection;
- Act No. 143/2001 Coll., on Protection of Economic Competition;
- Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins;
- Act No. 190/2004 Coll., on Bonds;
- Act No. 240/2013 Coll., on Investment Companies and Investment Funds;
- Act No. 89/2012 Coll., the Civil Code;
- Act No. 277/2013, on Foreign Exchange Activities;
- Act No. 634/1992 Coll., on Consumer Protection;
- General Data Protection Regulation (EU) 2016/679 (GDPR);
- Regulation (EU) No. 596/2014, on Market Abuse;
- Regulation (EU) No. 575/2013 on Prudential Requirements for Credit Institutions and Investment Firms and Related Implementing Regulations of the European Commission; and
- Regulation (EU) No. 648/2012 on OTC Derivatives, Central Counterparties and Trade Repositories (EMIR).

These regulations entail the main legal basis for the Bank's operations. In addition to what is stated above, the Bank's activities must also comply with a number of other regulations, government decrees, implementing regulations, guidelines and other documents issued by European bodies.

Legal risk

Managing legal risk consists in minimising uncertainty associated with enforcement and interpretation of legal acts, contracts, regulations and laws. KB Group applies a variety of techniques, procedures and tools, including regular monitoring of proposed and adopted legislation, close co-operation among the legal teams within KB Group, a system of continuous education of and specialisation among lawyers, detailed documentation and evaluation of outputs and, last but not least, a set of corresponding control mechanisms to manage legal risks.

In addition to standard legal functions within such various areas as contract, banking and corporate law, the main tasks of KB's lawyers during 2018 involved in particular implementation of the GDPR regulation on personal data protection, implementation of the IDD directive on distribution of insurance products, further revision of processes related with the MiFID II Directive on markets in financial instruments, as well as finalisation of the PAD Payment Accounts Directive implementation.

Significant legal disputes

With respect to its overall financial situation, Komerční banka considers as significant all litigations involving principal amounts exceeding CZK 10 million and any bankruptcy proceeding in which the Bank is a creditor with a claim exceeding CZK 50 million.

As of 31 December 2018, KB Group was a party to 9 significant legal proceedings as a plaintiff. The principal that was the subject of these legal proceedings totalled CZK 409 million. KB Group was a bankruptcy creditor with a claim exceeding CZK 50 million in 24 bankruptcy proceedings. The total of claims filed in relation to these proceedings was CZK 5.3 billion. As of 31 December 2018, KB Group was a party to a total of 8 significant legal proceedings as a defendant. The principal that was the subject of these legal proceedings totalled CZK 713 million.

Information concerning the provisions created for litigations in which the Group is a defendant is stated in the Notes to the Consolidated Financial Statements according to IFRS, Note 37 – "Commitments and contingent liabilities".

Internal audit

The main tasks of KB Internal Audit include to assess the functionality and effectiveness of risk management, control processes and the Bank's corporate governance, as well as contribute to improving the organisation's overall operational effectiveness.

KB Internal Audit is integrated into the organisation of the global division of Internal Audit within the SG Group. In addition to conducting audits at KB, it also provided coverage for KB Group subsidiaries and SG Group entities in the Central European region.

The strategic goals of Internal Audit are primarily focused on covering major risks and the most important activities of the Group, including fulfilment of all regulatory requirements. Internal Audit's engagements are driven by the annual audit plan prepared mainly on the basis of assessments of the risks and priority areas (such as embargoes and sanctions). In 2018, 71 audits were carried out, 22 of which were performed in KB Group subsidiaries and one of which was conducted across the KB Group as a whole, including the Bank itself. Forty-nine audits performed within the Bank covered both the distribution network and head office units, as well as selected companies providing KB Group with important services (outsourcing). In total, 158 recommendations addressing issues identified by audit engagements were implemented within KB Group during 2018. Of these, 16 were given significant priority. The Bank maintained a low number of long-term unresolved recommendations.

As of 31 December 2018, six recommendations had been outstanding for more than 18 months.

In its regular report to KB's Board of Directors, the Audit Committee and the Supervisory Board, Internal Audit evaluated the Bank's internal control system and declared it effective. A review of the remuneration system in KB, which focused mainly on the fulfilment of CRD IV requirements, was performed for the seventh time, with no significant shortcomings identified.

Using a methodology shared across the entire SG Group, the plan for 2019 draws upon outcomes from a risk assessment and the five-year audit cycle.

Internal control and approach to risks in the process of accounting and preparing financial statements

The Bank uses a number of tools in several areas to ensure true and accurate presentation of facts in the accounting and proper compilation of financial statements. These begin with tools for proper recording of individual transactions, include various controls, and finally involve preparing the statements and their control.

The tools used for proper recording of transactions, events, trades and the like in the accounting include, in particular, the selection of appropriate systems (applications) for their recording and processing, and continue thorough testing during their implementation, maximum automation of all repetitive processes, and managing of access rights to individual systems. Setting up systems, processes and controls is always formally governed by the Bank's internal regulations.

Compliance of those accounting methods employed with IFRS in particular is ensured by an independent department that regularly monitors developments in these standards and other regulatory rules, analyses effects ensuing therefrom, and implements the standards in co-operation with relevant departments. For more information on the rules used, see Notes to the Financial Statements, Note 3 – "Principal accounting policies" and Note 41 – "Risk management and financial instruments".

The Bank utilises a system of defining responsibilities for individual ledger accounts (the so-called ownership system) under which a particular employee authorised to transact with the account and an employee responsible for account analysis are assigned to each account of the general ledger. The control over account analysis includes, in particular, the duty to specify at any time the account balance and to monitor its balance and movements, as well as responsibility for documentary stock taking of accounts. The control over account analysis also involves reconciliation of data in supporting systems relating to the data in the general ledger at specified regular intervals.

The area of control tools may be divided into two parts: control as to the accuracy of input data and follow-up control over the consistency and integrity of the functioning and accounting of the individual systems. Control over the accuracy of input data is performed especially in the Distribution and Transaction and Payment Services arms within the First Level Control system, which constitutes the basis of the Bank's internal control system. The First Level Control system establishes the control activities of the management employees so that there occurs oversight over operational risks arising from the activities of the relevant departments; monitoring of the quality, effectiveness and reliability of the established work procedures; verification of the employees' compliance with the applicable regulations and procedures; and determination of corrective measures in cases when deficiencies are identified.

Follow-up control is carried out in particular by an independent department of the Accounting and Reporting Division which expressly checks the data in the accounting by means of analytical procedures. The main analytical procedures may be classified as control over data consistency as of the current date with the development in the past, consistency between financial and non-financial data (numbers of transactions, trades, etc.), and consistency between the changes in the balance sheet and income statement. The changes in the development of individual items of the financial statements or directly in the general ledger accounts are regularly analysed, and these changes are subsequently reconciled to the changes in trades, prices for services provided and market data, or to changes attributable to one-off items.

An automated system is used to process most financial statements. In most cases, detailed data from source systems is used for their creation and this data is reconciled with the general ledger while at the same time the accuracy of the data in the general ledger is checked.

The effectiveness of internal controls is evaluated by an independent Second Level Control system that examines design and operating effectiveness of both First Level Controls and operational controls. Key risk indicators (such as number of manual transactions, or number and volume of various reconciliation gaps) are also regularly followed up and evaluated in the Bank while their values are kept at very low risk levels in the long term. The internal control system in the financial reporting area is also regularly evaluated by Internal Audit.

Capital and liquidity

Regulatory framework

Komerční banka is subject to supervision by the Czech National Bank (CNB), and since November 2014 the Société Générale Group has been supervised by the European Central Bank.

The regulatory requirements in the European Union are established within the Basel III capital framework through Regulation No. 575/2013 on prudential requirements for credit institutions and investment firms (the Capital Requirements Regulation, or “CRR”) and by Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirements Directive 4, or “CRD IV”). CRD IV was transposed into Czech law by an amendment to the Banking Act and publication of CNB Decree No. 163/2014 Coll. The new regulation establishes, above all, the newly conceived capital ratios as well as more stringent requirements mainly on regulatory capital, liquidity, risk-weighted exposures and overall corporate governance.

The Basel III rules did not change the processes of capital adequacy management, but they were reflected in those processes’ parameters, particularly with regard to implementing an additional combined capital buffer and Pillar 2 requirement above the 8% minimum required capital. The regulatory methodology substantially stabilised in 2016 (in particular the stacking order of capital buffers), and subsequently in 2018 the additional Pillar II buffer of 1.5% over the minimum required capital ratio of 8.0% was applied to the Bank. This brought the required TSCR (i.e. total SREP) capital ratio to 9.5%. The combined capital buffer of 6.5% was applied on top of the TSCR capital ratio, thus resulting in a required overall capital ratio of 16.0% for 2018. This marked an increase by 0.6% in comparison to the previous year, due to an increase in the additional Pillar II buffer. The combined capital buffer consisted of the capital conservation buffer of 2.5%, the systemic risk buffer of 3.0%, and a required countercyclical buffer of 1.0% for exposures in the Czech Republic.

Komerčni banka’s overall capital requirements as of 1 January 2019 reached approximately 16.25% in relation to the consolidated volume of risk-weighted assets. That is higher by 0.25 percentage points in comparison with 2018 due to increase in the countercyclical buffer for the Czech exposures to 1.25%. The total requirements increase by an additional 0.10 percentage points as of 1 March 2019 due to an increase in the additional Pillar II buffer to 1.6% and by a further 0.25 percentage points as of 1 July 2019 when the Czech National Bank increases the coutercyclical buffer requirement to 1.5%. The required ratio of Core Tier 1 capital as of 1 July 2019 thus reaches 12.70% and the minimum Tier 1 capital ratio 14.60%.

The Bank and Group meet the overall capital ratio requirements with adequate reserve, because their respective capital ratios stand well above the minimum required level. The Bank has decided not to apply the transitional arrangements relating to introduction of IFRS 9 in the area of regulatory capital according to article 473a of Regulation (EU) No. 575/2013 (regulating capital requirements) as amended by Regulation No. (EU) 2017/2395. The impact of the transition to IFRS 9 is insignificant in relation to regulatory capital, and the Bank is able to absorb it immediately.

In application of the Basel III regulatory framework, the Czech National Bank appointed Komerční banka as an Other Systemically Important Institution (O-SII). In 2018, this decision was affirmed following the regular regulatory review.

IFRS 9 Financial Instruments supersedes the existing standard IAS 39. It introduces a new approach to the classification and measurement of financial assets, a new credit risk impairment methodology and new hedge accounting rules. Application of the new classification and measurement methodology means that financial assets must be classified upon initial application of the standard based on both the entity’s business model for managing the financial assets (hold to collect, hold to collect and sell, other business models) and the financial asset’s contractual cash flow characteristics, i.e. applying of the “solely payment of principal and interest” test (SPPI). Based on business model determination and consideration of contractual cash flow characteristics, financial assets are newly measured at amortised cost, at fair value through profit or loss, or at fair value through other comprehensive income. The detailed information on implications of IFRS 9 is provided in Note 3.6.1. to the Separate financial statements.

Consolidated capital and risk-weighted assets

Total shareholders' equity comprises the following main items: share capital, reserve funds and retained earnings. As of 31 December 2018, total equity grew year to date by 5.3% to CZK 103.3 billion. The growth was due to a creation of net profit, partly offset by a payment of dividends. The value of non-controlling interests reached CZK 3.4 billion. As of 31 December 2018, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital. These shares had been acquired in previous years at a cost of CZK 726 million. The Bank did not acquire its own shares during 2018. The acquisition of its own shares had been authorised by the General Meeting, particularly for purposes of managing KB's capital adequacy.

As of 31 December 2018, Komerční banka held a Tier 2 subordinated loan in the amount of EUR 100 million, with 10 year maturity from the issuance in October 2017 and a call option for the benefit of the Bank after 5 years from issuance, at an interest rate of EURIBOR 3 months plus 1.26%. The loan is denominated in EUR in order to better align currency structure of KB's capital with the currency structure of assets. The loan has been accepted from Société Générale after the Bank assessed other opportunities available on the market and concluded that the loan from SG provides the most effective option for the Bank. The Bank may in the following years continue to gradually increase the volume of Tier 2 instruments which according to the regulation may cover up to 2 percentage points of Komerční banka's risk-weighted assets, in order to optimise the structure of its regulatory capital. The actual decisions on potential further Tier 2 reinforcement will reflect the required level of regulatory capital as well as the prevailing market conditions.

Consolidated regulatory capital for the capital adequacy calculation stood at CZK 83.4 billion as of 31 December 2018. KB Group's regulatory capital was comprised mainly of Core Tier 1 equity but included also a minor Tier 2 component (subordinated debt, taken on by the Bank in 2017). The total capital adequacy under Basel III standards stood at 18.5% and the Tier 1 ratio at 17.9%. The regulatory capital base includes a contribution from a part of the revaluation reserve recognised within the equity account. This item, which pertains to disposable securities in the AFS portfolio and since 1 January 2015 has been included under the valid rules into the regulatory capital, amounted to CZK 0.6 billion. It added 14 basis points to the capital adequacy ratio.

KB uses the following approaches for calculating capital requirements related to individual types of risk:

<table>
<tr><th></th><th colspan="3">Capital requirement calculation approach</th></tr>
<tr><th>KB Group entity</th><th>Credit risk</th><th>Market risk</th><th>Operational risk</th></tr>
<tr><td>KB*</td><td rowspan="5">AIRB</td><td rowspan="8">STA</td><td>AMA</td></tr>
<tr><td>BASTION</td><td rowspan="3">TSA</td></tr>
<tr><td>PROTOS</td></tr>
<tr><td>KB Penzijní společnost</td></tr>
<tr><td>Modrá pyramida</td><td rowspan="3">AMA</td></tr>
<tr><td>SGEF</td><td rowspan="3">STA</td></tr>
<tr><td>ESSOX</td></tr>
<tr><td>other entities**</td><td>TSA</td></tr>
</table>

AIRB: Advanced Internal Rating-Based Approach
AMA: Advanced Measurement Approach
STA/TSA: Standardised Approach
* excluding KB Slovakia
** including KB Slovakia

The volume of the Group's risk-weighted assets (RWA) stood at CZK 451.1 billion as of 31 December 2018, compared to CZK 424.6 billion as of 31 December 2017. RWA for credit risk (including credit valuation adjustments) constituted 84%, operational risk 10%, and market risk 6% of the total RWA. The rise in RWA was caused by growing exposure across the entire portfolio and increasing market RWA, partially offset by improvement in the risk profile occurring mainly in Retail segments. The average risk weight for credit risk stood at 32.1% as of 31 December 2018, thus close to the 32.2% of the year earlier. The residential mortgages portfolio risk weight decreased to 22.0% as of 31 December 2018 from 24.3% a year earlier. This change was significantly influenced by the effect of CNB's new loan-to-value regulation.

Information on consolidated capital, risk-weighted assets for calculation of capital adequacy and capital requirements (in CZK million)

Reconciliation of accounting and regulatory capital

	31 December 2018	31 December 2017	31 December 2016
Items from Statement of Financial Position – Total shareholders' equity	**103,329**	**100,346**	**105,400**
Share capital	19,005	19,005	19,005
Share premium	149	148	149
Other equity	478	444	405
Accumulated Other comprehensive income	418	2,327	14,673
Retained earnings for the previous periods	61,089	55,751	49,705
Reserve funds	4,671	4,670	4,670
Own shares	(726)	(726)	(726)
Net profit for the period	14,846	14,930	13,688
Minority interests	3,398	3,797	3,831
Total adjustments to CET1	**(22,541)**	**(23,821)**	**(33,741)**
Gains/(losses) on hedging instruments (cash flow hedging)	87	(118)	(11,379)
Additional value adjustment	(288)	(159)	(186)
Goodwill	(3,752)	(3,752)	(3,752)
Other intangible assets, net of tax	(4,959)	(4,438)	(3,648)
Insufficient coverage of expected credit losses (lack of provisions)	(581)	(1,239)	(1,522)
Unusable profit	(9,650)	(8,958)	(7,529)
Minority interests	(3,398)	(3,797)	(3,831)
Other transitional adjustments to CET 1	0	(1,360)	(1,894)
Tier 2 capital	**2,578**	**2,560**	**0**
Subordinate debt	2,578	**2,560**	0
Total capital	**83,366**	**79,084**	**71,659**
Tier 1 capital	**80,788**	**76,525**	**71,659**
Core Tier 1 (CET1) capital	**80,788**	**76,525**	**71,659**

Consolidated risk-weighted assets

	31 December 2018	31 December 2017	31 December 2016
Total risk-weighted assets	**451,052**	**424,566**	**442,865**
for credit risk	**375,390**	**352,930**	**376,885**
for credit risk pursuant to the Standardised Approach in IRB	71,551	64,057	83,919
for credit risk pursuant to the IRB Approach	303,839	288,873	292,965
for settlement risk	**0**	**0**	**0**
for position, foreign exchange and commodity risks	**28,797**	**24,861**	**20,321**
for operational risk	**44,066**	**43,300**	**42,327**
for credit valuation adjustment	**2,799**	**3,474**	**3,333**

Capital requirements

	31 December 2018	31 December 2017	31 December 2016
Total capital requirements	**36,084**	**33,965**	**35,429**
for credit risk pursuant to the Standardised Approach in IRB	**5,724**	**5,124**	**6,713**
Exposures to central governments or central banks	0	0	0
Exposures to regional governments or local authorities	0	0	0
Exposures to public sector entities	18	20	5
Exposures to international development banks	0	0	0
Exposure to international organisations	0	0	0
Exposures to institutions	43	29	38
Exposures to corporates	4,397	3,914	4,070
Retail exposures	858	774	1,538
Exposures secured by real estate	0	0	560
Exposures in default	91	78	164
Exposure associated with particularly high risks	0	0	0
Exposure to covered bonds	0	0	0
Items representing securitisation positions	0	0	0
Exposures to institutions and businesses with short-term credit rating	0	0	0
Exposures in the form of units of shares or shares in collective investment undertakings	0	0	0
Equity exposure	226	236	255
Other items	90	73	83
for credit risk pursuant to the IRB Approach	**24,531**	**23,388**	**23,704**
Exposures to central governments or central banks	970	1,003	873
Exposures to institutions	1,371	1,498	2,099
Exposures to corporates	13,994	12,622	12,410
Retail exposures	7,039	7,152	7,309
Equity exposure	82	57	43
Items representing securitisation positions	0	0	0
Other assets that are non credit-obligation	1,075	1,056	970
for position risk	**2,103**	**1,896**	**1,505**
for large exposures exceeding the limits	**0**	**0**	**0**
to currency risk	**0**	**0**	**0**
to settlement risk	**0**	**0**	**0**
to commodity risk	**201**	**93**	**121**
to operation risk	**3,525**	**3,464**	**3,386**

Information in accordance with Decree 163/2014 on an individual basis (in CZK million)

Reconciliation of accounting and regulatory capital

	31 December 2018	31 December 2017	31 December 2016
Items from Statement of Financial Position – Total shareholders' equity	**92,721**	**88,604**	**93,031**
Share capital	19,005	19,005	19,005
Share premium	134	134	134
Other equity	430	400	371
Accumulated Other comprehensive income	526	2,296	14,136
Reserve funds	4,189	4,189	4,188
Retained earnings for the previous periods	53,924	48,392	41,804
Own shares	(726)	(726)	(726)
Net profit for the period	15,238	14,914	14,119
Total adjustments to CET1	**(14,952)**	**(15,982)**	**(25,768)**
Gains/(losses) on hedging instruments (cash flow hedging)	22	(488)	(11,538)
Additional value adjustment	(288)	(159)	(186)
Other intangible assets, net of tax	(4,480)	(3,963)	(3,214)
Insufficient coverage of expected credit losses (lack of provisions)	(557)	(1,173)	(1,548)
Unusable profit	(9,650)	(8,958)	(7,529)
Other transitional adjustments to CET 1	0	(1,241)	(1,753)
Tier 2 capital	**2,578**	**2,560**	**0**
Subordinate debt	2,578	**2,560**	0
Total capital	**80,347**	**75,181**	**67,263**
Tier 1 capital	**77,769**	**72,622**	**67,263**
Core Tier 1 (CET1) capital	**77,769**	**72,622**	**67,263**

Risk-weighted assets

	31 December 2018	31 December 2017	31 December 2016
Total risk-weighted assets	**409,958**	**387,330**	**397,796**
for credit risk	**340,108**	**321,672**	**337,569**
for credit risk pursuant to the Standardised Approach in IRB	38,698	37,435	38,091
for credit risk pursuant to the IRB Approach	301,410	284,236	299,478
for settlement risk	**0**	**0**	**0**
for position, foreign exchange and commodity risks	**28,797**	**24,861**	**20,321**
for operational risk	**38,253**	**37,323**	**36,573**
for credit valuation adjustment	**2,799**	**3,475**	**3,333**

Capital requirements

	31 December 2018	31 December 2017	31 December 2016
Total capital requirements	**32,797**	**30,986**	**31,824**
for credit risk pursuant to the Standardised Approach in IRB	**3,096**	**2,995**	**3,047**
Exposures to central governments or central banks	0	0	0
Exposures to regional governments or local authorities	0	0	0
Exposures to public sector entities	18	20	5
Exposures to international development banks	0	0	0
Exposure to international organisations	0	0	0
Exposures to institutions	27	10	16
Exposures to corporates	1,924	1,670	1,693
Retail exposures	0	0	0
Exposures secured by real estate	0	0	0
Exposures in default	5	1	15
Exposure associated with particularly high risks	0	0	0
Exposure to covered bonds	0	0	0
Items representing securitisation positions	0	0	0
Exposures to institutions and businesses with short-term credit rating	0	0	0
Exposures in the form of units of shares or shares in collective investment undertakings	0	0	0
Equity exposure	1,122	1,294	1,318
Other items	0	0	0
for credit risk pursuant to the IRB Approach	**24,337**	**23,016**	**24,225**
Exposures to central governments or central banks	954	974	823
Exposures to institutions	1,656	1,651	2,207
Exposures to corporates	14,665	13,187	13,171
Retail exposures	6,259	6,432	7,309
Equity exposure	82	56	42
Items representing securitisation positions	0	0	0
Other assets that are non credit-obligation	721	716	673
for position risk	**2,103**	**1,896**	**1,505**
for large exposures exceeding the limits	**0**	0	0
to currency risk	**0**	0	0
to settlement risk	**0**	0	0
to commodity risk	**201**	**93**	**121**
to operation risk	**3,060**	**2,986**	**2,926**

Capital ratios and ratios in %

	31 December 2018	31 December 2017	31 December 2016
Capital ratio for common equity tier 1	18.97	18.75	16.91
Capital ratio of Tier 1 capital	18.97	18.75	16.91
Capital ratio for total capital	19.60	19.41	16.91
Return on average assets (ROAA)	1.49	1.56	1.59
Return on average equity Tier 1 (ROAE)	20.18	21.25	22.38
Assets per employee in CZK thousand	133,873	122,516	113,280
Administrative costs per employee in CZK thousand	1,499	1,465	1,456
Profit or loss after tax per employee in CZK thousand	2,037	1,931	1,843

Capital management

The Bank manages its capital adequacy to ensure its sufficient level while allowing for organic business growth and for potentially adverse macroeconomic developments. Under the applicable Basel III regulation of capital adequacy, in addition to the usual reporting of the capital adequacy ratio (so-called Pillar I), regulatory demands comprise also fulfilling conditions for evaluating required economic capital, stress testing and capital planning (so-called Pillar II, or the internal capital adequacy assessment process). To determine the required economic capital, the Group has selected a method close to the regulatory procedures applied for Pillar I. That has resulted in there being very similar levels of necessary economic and regulatory capital.

Given the fact that Basel III capital requirements (and particularly the required capital buffers) are still being developed, the Bank is continuously assessing the impact of their changes in the process of capital planning. As the national regulatory authority, the CNB oversees KB's compliance with capital adequacy requirements on standalone and consolidated bases. During 2018, the Bank met all regulatory requirements. On a regular basis, KB also compiles and reports to the CNB mandatory information regarding its internal system for assessing capital adequacy.

Stress testing

As an essential part of its risk management under Pillar II, KB regularly simulates hypothetical macroeconomic scenarios involving potential adverse external macroeconomic conditions. On this basis, it estimates impacts upon its financial result and the risk profile of the Bank's business in a medium-term horizon. It subsequently generates expectations for the development of RWA (i.e. capital requirements) and financial results. The results of stress testing are among the inputs considered in determining the Bank's dividend policy. In the liquidity risk area, client behaviour and its effect on the deposit base are modelled on the basis of stress scenarios such that any possible outflow of liquidity would be very securely covered.

The results of stress testing in 2018 confirmed that KB is resistant to impacts from potential unexpected adverse developments in the Czech economy.

Liquidity and funding

KB Group's strong liquidity position is founded upon the various types of customer deposits that it holds and the fact that the Group does not substantially use secondary financing. Thanks to the stability of its large deposit base, the Group had no need to modify the structure of its balance sheet in response to external economic developments by reducing certain types of exposures or seeking to obtain other types of funding. KB Group's strong creditworthiness is supported by its stable financial results, as well as the level of capital adequacy it has achieved. As a result, as of 31 December 2018, it had an excellent loan-to-deposit ratio of 78%. KB also would meet by a large margin the currently anticipated 3% required leverage ratio. This indicator confirms Komerční banka's solid position and its adequate room for further business growth.

Funding of KB Group

Client deposits in the volume of CZK 806 billion (not including Other payables to clients) comprise a crucial part (approximately 76%) of the Group's total liabilities and shareholders' equity. Current accounts made up the largest proportion of client deposits within the Group (70%). In addition to its broad and stable base of client deposits, KB Group has other possible funding sources, including debt securities issues and loans taken. Due to its long-term liquidity surplus, Komerční banka did not increase in 2018 the volume of issued debt securities. As of the end of 2018, the total nominal amount of mortgage bonds and other debt securities placed outside KB Group reached CZK 1.0 billion.

Liquidity management

Liquidity risk management focuses primarily on the ability of the Bank and entire Group to meet their payment obligations at all times. This includes maintaining adequate cash volumes as well as balances on nostro accounts and the mandatory minimum reserves account while not unnecessarily adding to the Bank's costs or restraining its business activities. Liquidity is maintained by rigorous cash flow management. A liquidity snapshot broken down by currency (CZK and foreign) is monitored based on indicators measuring the incoming and outgoing cash flows within particular time horizons.

Behaviour of the client deposit base and clients' use of financing are modelled (including under stress scenarios) in order to maintain a very high certainty of covering possible outflows of funds. Sufficient liquidity is managed using a system of limits. To achieve these, KB uses on- and off-balance sheet transactions on the interbank market. The Group is prudent in its strategy and uses medium- and long-term instruments which allow it to stabilise both volumes and associated costs while at the same time reflecting changes in costs when setting prices.

The Group maintains high liquidity at all times. It covered all its liabilities during 2018 from its internal sources without any problems, and the use of additional secondary funding remained limited. As of 31 December 2018, the Group was not drawing liquidity from central banks. The Group's liquidity cushion is a combination of investments in government bonds and reverse repo operations with the CNB.

Two new measures were implemented as part of Basel III regulation: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Both these regulatory indicators are simplified versions similar to those used by KB Group to measure its liquidity. Since the beginning of 2012, KB Group's LCR ratio has been consolidated into SG Group reporting and simultaneously it is reported to the CNB, the local regulator. The estimated levels of LCR and NSFR indicators have long been well above the required 100%.

Comments on the IFRS consolidated financial results

Komerční banka Group recorded a consolidated and audited net profit attributable to the Group's equity holders of CZK 14,846 million for 2018 under International Financial Reporting Standards (IFRS). This represents a 0.6% decrease in comparison with 2017.

Income statement

As part of updating its reporting methodology, and mainly in the context of implementing the new IFRS 9 reporting standard, Komerční banka reclassified with effect from 1 January 2018 certain items of the income statement and statement of financial position. The comments below are based on values from the restated 2017 income statement.

Komerční banka's revenues (net operating income) for the 12 months of 2018 improved by 3.7% year on year to CZK 32,203 million. Within this total, net interest income increased and net fees and commissions declined slightly. Net profit from financial operations was excellent but still lower than in the previous year, when the clients' activity in hedging financial risks had been elevated in connection with release of the CNB's currency commitment.

Net interest income[1] was up by 7.3% to CZK 22,509 million. The result was underpinned by growing volumes of loans and deposits. Higher market interest rates also supported yields from reinvestment of deposits and capital. On the other hand, intense competition on the banking market pushed down spreads on loans. The net interest margin, computed as the ratio of net interest income to interest-earning assets reported on the balance sheet, reached 2.3% in the full year 2018.[2]

Net fee and commission income[3] moved lower by 1.0% to CZK 6,220 million. The maintenance fee income improved due to a higher number of the Bank's clients and their increasing preference for better account packages that include a wider range of services. Fees from cross-selling were also up, supported mainly by volume growth in mutual funds. On the other hand, transaction fees dropped, even though there was a rise in the overall number of transactions. That is because more of clients' transactions are included in the prices of their account packages. Income from loan services declined due to smaller fees related to housing loans from KB and Modrá pyramida. Fees from specialised financial services were also down, due to lower issuance of bank guarantees and a relatively high 2017 base of fees from credit structuring deals, but income from trade finance and custody services improved.

Net profit on financial operations decreased by 10.3% to CZK 3,209 million. That was still an excellent result, and it was boosted by some extraordinarily large hedging deals developed for clients. A level lower than that in 2017 had been expected, because the comparison base from that year had been boosted by clients' exceptionally strong currency hedging activity linked to the end of currency interventions by the CNB. The decline in long-term interest rates at the end of 2018 influenced the valuation of certain positions, but also demand of clients for interest rate hedging. Net gains on FX payment transactions were higher year on year, reflecting a slight increase in the volume of these transactions and wider spreads.

Dividend and other income rose by 23.3% to CZK 265 million. This line primarily comprises revenues from property rental and ancillary services.

Recurring operating expenses were up by 1.9% to CZK 14,534 million. Recurring personnel expenses rose by 3.9% to CZK 7,604 million, reflecting mainly an increase in remuneration as the average number of employees was down by 0.9% to 8,413.[4] Recurring general and administrative expenses (excluding contributions to the regulatory funds) were lower by 3.8%, at CZK 4,235 million. Savings were achieved in expenditures for marketing and telecommunications services, while real estate costs rose in connection with changing office and branch locations. The cost of Resolution and similar funds declined by 2.7% to CZK 839 million. Recurring depreciation, amortisation and impairment of operating assets grew by 10.2% to CZK 1,856 million, driven mainly by new and upgraded software and IT equipment, as well as technical improvements to buildings.

[1] As from 1 January 2018, Komerční banka reclassified fees for early repayment of loans, which compensate the Bank for a loss from necessary adjustments of the hedging position, from 'Net fee and commission income' to 'Net interest income'. Year-on-year commentaries are made in comparison with the restated base.

[2] Net interest margin stood at 2.3% in the full year 2017. These ratios are not fully comparable, however, due to impacts from application of the new IFRS 9 standard on certain balance sheet values.

[3] As from 1 January 2018, Komerční banka reclassified fees for early repayment of loans, which compensate the Bank for a loss from necessary adjustments in the hedging position, from 'Net fee and commission income' to 'Net interest income'. Year-on-year commentaries are made in comparison with the restated base.

[4] Recalculated to a full-time equivalent number.

For both comparison periods, KB Group has reported several non-recurring items in operating expenses. In 2017, this concerned the impairment of a head office building by CZK 242 million. In 2018, it was the restructuring reserve for anticipated costs arising from the KB Change programme, comprising CZK 223 million in expected costs of severance payments recognised in personnel expenses and CZK 71 million in estimated costs of reducing branch facilities recognised in general and administrative expenses. Also in 2018, KB released CZK 193 million over-accrued in previous years within general and administrative expenses for various services from entities of Société Générale Group. Including these non-recurring items, reported operating expenses were up by a slight 0.9%, at CZK 14,635 million.

Recurring operating profit excluding one-off impairment of a building booked in 2017, as well as one-off creation of the restructuring reserve and one-off release of the over-accrued amounts for corporate services in 2018, was up by 5.2% to CZK 17,670 million. Reported operating income for the full year 2018 increased by 6.2% to CZK 17,568 million.

Cost of risk reached a negative CZK 643 million (net release of provisions). This exceptional result was driven by continued low client default rates and good performance from recovery activities. The economic environment in the Czech Republic was supportive throughout 2018, as the economy moved into a late-recovery phase of the economic cycle. Cost of risk in relative terms and as measured against the average volume of the lending portfolio during this period came to –10 basis points.

Income from shares in associated undertakings (i.e. Komerční pojišťovna) was higher by 10.2%, at CZK 238 million. Profit attributable to exclusion of companies from consolidation reached CZK 82 million (compared to a loss of CZK 7 million in 2017). That was related to finalising the selling price for KB's stake in Cataps in connection with the sale of an additional 19% of that company in February 2018.

Net profit from other assets totalled CZK -14 million and was linked to sales of buildings in the held-for-sale portfolio. This had been CZK 1,140 million in 2017, when it had included also a gain from the sale of a headquarters building.

Income tax was higher by 11.2%, at CZK 3,348 million. If the tax effect of the one-off items were to be excluded, income taxes would be up by 9.0%.

KB Group's consolidated net profit for the full year 2018, at CZK 15,171 million, was lower by 0.7% in comparison with the prior year. Of this amount, CZK 325 million was profit attributable to the Non-controlling owners of minority stakes in KB's subsidiaries (-5.5% year on year).

Reported net profit attributable to the Group's equity holders totalled CZK 14,846 million, which is 0.6% less than in 2017. Recurring attributable net profit (i.e. excluding one-off effects from revaluation and sale of headquarters buildings in 2017 and from final determination of the sale price for Cataps, creation of the restructuring reserve, and release of over-accrual for corporate services in 2018) was up 5.8% year on year to CZK 14,845 million (as one-off items from 2018 generally offset one another).

Other comprehensive income for the period, net of tax, which derives mainly from revaluations and remeasurements of some hedging, foreign exchange, and securities positions, reached CZK -546 million. The consolidated comprehensive income for the period, net of tax amounted to CZK 14,625 million, of which CZK 328 million was attributable to owners of non-controlling stakes.

Statement of financial position

Unless indicated otherwise, the following text provides a comparison of the balance sheet values as of 31 December 2018 with the values from the statement of financial position as of 1 January 2018 and reflect newly introduced IFRS 9. Since the start of 2018, the IFRS 9 reporting standard has brought a new approach to the classification and measurement of financial assets, a new credit risk impairment methodology, and new hedge accounting rules.[1] Financial assets must be classified based on the entity's business model for managing the financial assets and on the financial assets' contractual cash flow characteristics. Depending upon the business model that is determined, financial assets are measured at amortised cost, at fair value through profit or loss, or at fair value through other comprehensive income. Due to this change in accounting methodology, comparison with the audited statement of financial position as of 31 December 2017 would be less meaningful.

Assets

As of 31 December 2018, KB Group's total assets had risen by 5.8% year to date to CZK 1,059.9 billion.

Cash and current balances with central banks were down by 23.9%, at CZK 24.9 billion. Financial and other assets at fair value through profit or loss (trading securities and derivatives and financial assets whose cash flows do not comprise solely payments of principal and interest) increased by 20% to CZK 22.6 billion. The positive fair value of hedging financial derivatives declined by 6.3% to CZK 12.6 billion.

Year to date, there was a 5.1% increase in financial assets at fair value through other comprehensive income amounting to CZK 25.3 billion. This consisted mainly of public debt securities.

[1] In accordance with the transitional provisions of IFRS 9, the Group has elected to apply IAS 39 hedge accounting methods.

Financial assets at amortised cost grew by 7.3% to CZK 951.1 billion. The largest portion of this consisted of (net) loans and advances to customers, which went up by 5.3% to CZK 625.0 billion. A 97.3% share in the gross amount of client loans was classified in Stage 1 or Stage 2, while 2.7% of the loans were classified in Stage 3 (non-performing loans). The volume of loss allowances created for amounts due from customers came to CZK 12.2 billion. Loans and advances to banks rose by 15.0% to CZK 256.3 billion. The majority of this item consists in reverse repos with the central bank. The value held in debt securities was down by a slight 0.7% and reached CZK 69.9 billion at the end of the fourth quarter.

Revaluation differences on portfolio hedge items were CZK -0.4 billion. Current and deferred tax assets stood at CZK 0.2 billion. Prepayments, accrued income and other assets, which include receivables from securities trading and settlement balances, declined overall by 1.2% to CZK 5.8 billion. Assets held for sale diminished by 38.6% to CZK 0.2 billion.

Investments in associates decreased by 4.0% to CZK 1.1 billion.

The net book value of tangible assets rose by 3.7% to CZK 7.7 billion, and intangible assets grew by 12.0% to reach CZK 5.2 billion. Goodwill, which primarily derives from the acquisitions of Modrá pyramida, SGEF, and ESSOX, remained unchanged at CZK 3.8 billion.

Liabilities

Total liabilities were 5.9% higher in comparison to the beginning of 2018 and stood at CZK 956.6 billion.

Financial liabilities at amortised costs went up by 6.6% to CZK 907.3 billion. Amounts due to customers comprise the largest proportion of this total, and these grew by 6.6% to CZK 812.5 billion. This total included CZK 16.9 billion of liabilities from repo operations with clients and CZK 6.3 billion of other payables to customers. Amounts due to banks increased in 2018 by 9.8% to CZK 92.3 billion.

The volume of outstanding securities issued was down by 47.4% to CZK 2.5 billion.

Revaluation differences on portfolios hedge items expanded to CZK -0.7 billion. Current and deferred tax liabilities decreased by 8.6% to CZK 0.9 billion. Accruals and other liabilities, which include payables from securities trading and settlement balances, declined by 28.9% to CZK 13.4 billion.

Provisions declined by 5.4% to CZK 1.9 billion. The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise those for ongoing contracted contingent commitments, legal disputes, self-insurance, and the retirement benefits plan.

Subordinated debt, at CZK 2.6 billion, was up by 0.7% year to date. Because that debt is issued in euro, the change reflects the weakening of the Czech crown over the same period.

Equity

Total equity grew year to date by 5.3% to CZK 103.3 billion. The value of non-controlling interests reached CZK 3.4 billion. As of 31 December 2018, KB held in treasury 1,193,360 of its own shares constituting 0.63% of the registered capital.

Expenses on research and development

In 2018, Komerční banka had outlays through operating expenses of CZK 152 million for research and development. Most of these outlays were related to development studies and implementation of individual projects, particularly in the area of information technologies and systems, including development of internet applications.

Financial and non-financial investments

Financial investments made by the Group (balance as of the end of the year)

CZK million, IFRS	31 December 18	31 December 17
Bonds and treasury bills	98,038	95,771
Shares	356	241
Emissions allowances	245	996
Equity investments in subsidiary and associated undertakings*	1,134	1,181
Total	**99,773**	**98,189**

* Including investment in Held for sale portfolio.

Main investments made by the Group – excluding financial investments* (balance as of the end of the year)

CZK million, IFRS	31 December 18	31 December 17
Tangible fixed assets	7,676	7,404
Intangible fixed assets	5,249	4,684
Total tangible and intangible fixed assets	**12,925**	**12,088**
Tangible fixed assets held under financial leases	0	0

* Net book value of investments. See also Notes to the Consolidated Financial Statements according to IFRS, notes 25 – Intangible fixed assets and 26 – Tangible fixed assets.

Main ongoing investments – excluding financial investments

In 2018, the Bank made non-financial investments in a total CZK 2.2 billion. Most of this amount was invested in the area of information technologies (almost CZK 1.7 billion) for acquisition and development of software and hardware. A significant part of the total amount was invested into development and reconstruction of branch network, real estate owned by the Bank and ATMs. All of the non-financial investments were made in the Czech Republic and Slovakia and were financed from internal resources.

Main investments planned by the Bank – excluding financial investments
The investments planned by Komerční banka for 2019 should not exceed CZK 2.5 billion. The Bank will continue to invest mainly into maintenance and development of the distribution network, into quality of provided services and operational efficiency, including investments into information technologies. The Bank's investment plans may be adjusted in accordance with developments in the economic environment.

Description of real estate owned by KB Group

Komerční banka Group uses the real estate for conduct of its business activities. The operation of owned or leased buildings by the KB Group does not generate an excessive burden for the environment.

Summary of the real estate managed by the Group:

As of 31 December 2018	Number	Of which owned by KB	Of which subleased by KB
Buildings in Czechia	592	91	501
Buildings in Slovakia	2	0	2
Total	**594**	**91**	**503**

The Komerční banka Group uses the following significant properties with a useful floor area in excess of 5,000 sq. metres.

Overview of important real estates managed by KB Group:

City	Street	Land Registry Number	Useful floor area
Brno	Náměstí Svobody	92	13,869
Kladno	Náměstí starosty Pavla	14	5,072
Ostrava	Nádražní	1698	7,637
Plzeň	Goethova	2704	11,391
Prague 1	Na Příkopě	969	18,957
Prague 1	Václavské náměstí	796	50,270
Prague 2	Bělehradská	128	7,924
Prague 5	Štefánikova	267	7,568
Prague 5	Náměstí Junkových	2772	27,584
Prague 5	Náměstí Junkových	2921	19,969
Prague 8	Zenklova - Palmovka	351	6,236
Prague 9	Náměstí Organizace spojených národů	844	12,199
Ústí nad Labem	Bílinská	175	6,910

Note: See also the Notes to the Consolidated Financial Statements prepared in accordance with IFRS, Note 26 – Tangible assets. and Note 28 – Assets held for sale.

Trademarks, licences and sublicenses

In 2018, Komerční banka used trademarks for labelling its products and services both in the Czech Republic and the Slovak Republic. The new trademarks used were registered with the Industrial Property Office in the Czech Republic.

Komerční banka registered with the Czech Industrial Property Office a total number of 186 trademarks. In the case of a further 2 trademarks, a registration process has been initiated but the process has not yet been completed. In the Slovak Republic, 7 trademarks are registered with the Industrial Property Office of the Slovak Republic.

Within the KB Group, Komerční banka provides some of its subsidiaries with licenses for its trademarks. In some cases, Komerční banka, is also a licensee and sub-licensee, typically from providers of IT services.

Definitions of the mentioned Alternative Performance Measures

Earnings per share: 'Net profit attributable to the Group's equity holders' divided by the quantity average number of shares issued without own shares in treasury;

Return on average equity (ROAE, in consolidated statements): 'Net profit attributable to the Group's equity holders' divided by the quantity average 'Total equity' less 'Non-controlling interest';

Average 'Total equity' less 'Non-controlling interest' for the year 2018: (('Total equity' less 'Non-controlling interest' as of 2018 end) plus ('Total equity' less 'Non-controlling interest' as of the 2018 beginning)) divided by 2;

Average 'Total equity' less 'Non-controlling interest' for the previous years: (('Total equity' less 'Non-controlling interest' as of the year end X) plus ('Total equity' less 'Non-controlling interest' as of the year end X-1)) divided by 2;

Return on average equity (ROAE, in separate statements): 'Net profit for the period' divided by the quantity average 'Total equity';

Average 'Total equity' for the year 2018: ('Total equity' as of 2018 end plus 'Total equity' as of 2018 beginning) divided by 2;

Average 'Total equity' for the previous years: ('Total equity' as of the year end X plus 'Total equity' as of the year end X-1) divided by 2;

Return on average assets (ROAA, in consolidated statements): 'Net profit attributable to the Group's equity holders' divided by average 'Total assets';

Average total assets for the year 2018: ('Total assets' as of 2018 end plus 'Total assets' as of 2018 beginning) divided by 2;

Average total assets for previous years: ('Total assets' as of the year end X plus 'Total assets' as of the year end X-1) divided by 2;

Return on average assets (ROAA, in separate statements): 'Net profit for the period' divided by average 'Total assets';

Net interest margin (NIM): 'Net interest income income' divided by average interest-earning assets (IEA);

Average interest-earning assets for the year 2018: ('Total interest-earning assets' as of 2018 end plus 'Total interest-earning assets' as of 2018 beginning) divided by 2;

Average interest-earning assets for previous years: ('Total interest-earning assets' as of the year end X plus 'Total interest-earning assets' as of the year end X-1) divided by 2;

Interest-earning assets (IEA) for 2018 comprise 'Cash and current balances with central banks' ('Current balances with central banks' only), 'Loans and advances to banks, 'Loans and advances to customers', 'Financial assets at fair value through profit or loss'(debt securities only), 'Financial asset at fair value through other comprehensive income' (debt securities only), 'Debt securities);

Interest-earning assets (IEA) for previous years comprise 'Amounts due from banks', 'Cash and current balances with central banks' ('Current balances with central banks' only), 'Loans and advances to customers', 'Financial assets at fair value through profit or loss' ('Total debt securities' only), 'Available-for-sale financial assets' ('Total debt securities available-for-sale' only), 'Held to maturity investments');

Reconciliation of 'Net interest margin' calculation, (CZK million, consolidated):

(source: Profit and Loss Statement)	FY 2018
Net interest income income, year-to-date	**22,509**
Of which:	
Loans and advances at amortised cost	19,890
Debt securities at amortised cost	1,904
Debt securities other	463
Financial liabilities at amortised cost	-2,361
Hedging financial derivatives – income	11,191
Hedging financial derivatives – expense	-8,578

(source: Balance Sheet)	31 Dec 2018	1 Jan 2018
Cash and current balances with central banks/ Current balances with central banks	16,347	22,593
Loans and advances to banks	256,268	222,821
Loans and advances to customers	624,954	593,639
Financial assets at fair value through profit of loss/ Debt securities	3,248	1,633
Financial assets at fair value through profit of loss - non SPPI/ Debt securities	0	2,694
Financial asset at fair value through other comprehensive income (FV OCI)/ Debt securities	24,909	23,798
Debt securities	69,881	70,340
Interest-bearing assets (end of period)	**995,607**	**937,518**
Average interest-bearing assets, year-to-date	**966,563**	
NIM year-to-date, annualised	**2.33%**	

Cost to income ratio: 'Total operating expenses' divided by 'Net operating income';

Cost of risk in relative terms: 'Cost of risk' divided by the average of 'Gross amount of client loans and advances';

Average of Gross amount of client loans and advances for 2018: ('Gross amount of client loans and advances' as of 2018 end plus 'Gross amount of client loans and advances' of 2018 beginning) divided by 2;

Average of Gross amount of client loans and advances for previous years: ('Gross amount of client loans and advances' as of the year end X plus 'Gross amount of client loans and advances' of the year end X-1) divided by 2;

Gross amount of client loans and advances: 'Total loans and advances to customers, gross' minus 'Other amounts due from customers';

Net loans to deposits: ('Loans and advances to customers' (net) less 'reverse repo operations with clients') divided by the quantity (total 'Amounts due to customers' less 'repo operations with clients').

Consolidated Financial Statements

prepared in accordance with International Financial Reporting Standards as adopted by the European Union as of 31 December 2018

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income for the year ended 31 December 2018

Consolidated Statement of Income for the year ended 31 December 2018

			Restated
(CZKm)	Note	2018	2017
Interest income	5	33,448	26,827
Interest expense	5	(10,939)	(5,842)
Net interest income		**22,509**	**20,985**
Net fee and commission income	6	6,220	6,284
Net profit/(loss) on financial operations	7	3,209	3,576
Dividend income	8	5	4
Other income	9	260	211
Net operating income		**32,203**	**31,060**
Personnel expenses	10	(7,827)	(7,321)
General and administrative expenses	11	(4,952)	(5,264)
Depreciation, amortisation and impairment of operating assets	12	(1,856)	(1,925)
Total operating expenses		**(14,635)**	**(14,510)**
Operating profit		**17,568**	**16,550**
Impairment losses	13	484	45
Net gain from loans and advances transferred and written off	13	159	342
Cost of risk		**643**	**387**
Income from share of associated undertakings		238	216
Profit/(loss) attributable to exclusion of companies from consolidation		82	(7)
Gain on a bargain purchase		2	0
Net profits on other assets	14	(14)	1,140
Profit before income tax		**18,519**	**18,286**
Income tax	15	(3,348)	(3,012)
Net profit for the period	**16**	**15,171**	**15,274**
Profit attributable to the Non-controlling owners		325	344
Profit attributable to the Group's equity holders		14,846	14,930
Earnings per share/diluted earnings per share (in CZK)	**17**	**78.61**	**79.05**

The accompanying Notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income for the year ended 31 December 2018

(CZKm)	Note	2018	2017
Net profit for the period	**16**	**15,171**	**15,274**
Items that will not be reclassified to the Statement of Income			
Remeasurement of retirement benefits plan, net of tax	39	22	(23)
Revaluation of equity securities at FVOCI option*, net of tax	40	83	71
Items that may be reclassified subsequently to the Statement of Income			
Cash flow hedging			
– Net fair value gain/(loss), net of tax	41	(55)	(8,586)
– Transfer to net profit/(loss), net of tax	41	(151)	(2,674)
Hedge of a foreign net investment		(241)	142
Foreign exchange difference on translation of a foreign net investment		241	(154)
Revaluation of debt securities at FVOCI**, net of tax	42	(376)	(1,127)
Revaluation of debt securities at FVOCI** (associated undertakings), net of tax	24	(69)	(111)
Other income from associated undertakings		0	0
Other comprehensive income for the period, net of tax		**(546)**	**(12,462)**
Total comprehensive income for the period, net of tax		**14,625**	**2,812**
Comprehensive income attributable to the Non-controlling owners		328	340
Comprehensive income attributable to the Group's equity holders		14,297	2,472

* Revaluation of equity securities at fair value through other comprehensive income option
** Revaluation of debt securities at fair value through other comprehensive income

The accompanying Notes form an integral part of these Consolidated Financial Statements.

Consolidated Statement of Financial Position as of 31 December 2018

(CZKm)	Note	31 Dec 2018	1 Jan 2018*	31 Dec 2017**
ASSETS				
Cash and current balances with central banks	18	24,851	32,663	32,663
Financial assets at fair value through profit or loss	19	22,369	17,845	18,841
Other assets at fair value through profit or loss	19	245	996	
Financial assets at fair value through profit or loss – non-SPPI***	20	0	2,694	
Positive fair value of hedging financial derivatives	43	12,559	13,408	13,408
Available-for-sale financial assets	46.2			29,712
Financial assets at fair value through other comprehensive income	21	25,265	24,039	
Amounts due from banks	46.3			228,374
Loans and advances to customers	46.4			598,102
Held-to-maturity investments	46.5			59,915
Financial assets at amortised cost	22	951,103	886,800	
Revaluation differences on portfolios hedge items		(372)	(251)	(251)
Current tax assets		59	42	42
Deferred tax assets	33	93	254	70
Prepayments, accrued income and other assets	23	5,753	5,822	5,823
Investments in associates	24	1,134	1,181	1,181
Intangible assets	25	5,249	4,684	4,684
Tangible assets	26	7,676	7,404	7,404
Goodwill	27	3,752	3,752	3,752
Assets held for sale	28	196	319	319
Total assets		**1,059,932**	**1,001,652**	**1,004,039**

* The balances as of 1 January 2018 were prepared in accordance with new accounting policy in compliance with IFRS 9, more details are described in Note 3.6.1.
** The balances as of 31 December 2017 were not re-presented.
*** Non-SPPI - not solely payments of principal and interest

Consolidated Statement of Financial Position as of 31 December 2018

(CZKm)	Note	31 Dec 2018	1 Jan 2018*	31 Dec 2017**
LIABILITIES AND EQUITY				
Amounts due to central banks		1	1	1
Financial liabilities at fair value through profit or loss	29	21,572	19,304	19,304
Negative fair value of hedging financial derivatives	43	9,669	10,329	10,329
Amounts due to banks				84,050
Amounts due to customers				762,043
Securities issued				4,832
Financial liabilities at amortised cost	30	907,261	850,925	
Revaluation differences on portfolios hedge items		(676)	(1,468)	(1,468)
Current tax liabilities		160	263	263
Deferred tax liabilities	33	765	749	999
Accruals and other liabilities	31	13,420	18,869	18,869
Provisions	32	1,853	1,958	1,911
Subordinated debt	34	2,578	2,560	2,560
Total liabilities		**956,603**	**903,490**	**903,693**
Share capital	35	19,005	19,005	19,005
Share premium, funds, retained earnings, revaluation and net profit for the period		80,926	75,445	77,544
Non-controlling interest		3,398	3,712	3,797
Total equity		**103,329**	**98,162**	**100,346**
Total liabilities and equity		**1,059,932**	**1,001,652**	**1,004,039**

* The balances as of 1 January 2018 were prepared in accordance with new accounting policy in compliance with IFRS 9, more details are described in Note 3.6.1.
** The balances as of 31 December 2017 were not re-presented.

The accompanying Notes form an integral part of these Consolidated Financial Statements.

These Consolidated Financial Statements were approved by the Board of Directors on 4 March 2019.

Signed on behalf of the Board of Directors:

Jan Juchelka
Chairman of the Board of Directors and Chief Executive Officer

Vladimír Jeřábek
Member of the Board of Directors

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

(CZKm)	Share capital	Own shares	Capital funds and retained earnings*	Share based payment	Revaluation of equity securities at FVOCI option	Remeasurement of retirement benefits plan	Cash flow hedging	Hedge of a foreign net investment	Revaluation of debt securities at FVOCI	Total equity	Non-controlling interest	Total equity, including non-controlling interest
Balance as of 31 Dec 2016	**19,005**	**(577)**	**68,063**	**406**	**6**	**(131)**	**11,379**	**1**	**3,418**	**101,570**	**3,831**	**105,401**
Treasury shares, other	0	0	72	37	0	0	0	0	0	109	1	110
Payment of dividends	0	0	(7,602)	0	0	0	0	0	0	(7,602)	(375)	(7,977)
Transactions with owners	**0**	**0**	**(7,530)**	**37**	**0**	**0**	**0**	**0**	**0**	**(7,493)**	**(374)**	**(7,867)**
Profit for the period	0	0	14,930	0	0	0	0	0	0	14,930	344	15,274
Other comprehensive income for the period, net of tax	0	0	(111)**	0	71	(23)	(11,260)	(8)	(1,127)	(12,458)	(4)	(12,462)
Comprehensive income for the period	**0**	**0**	**14,819**	**0**	**71**	**(23)**	**(11,260)**	**(8)**	**(1,127)**	**2,472**	**340**	**2,812**
Balance as of 31 Dec 2017	**19,005**	**(577)**	**75,352**	**443**	**77**	**(154)**	**119**	**(7)**	**2,291**	**96,549**	**3,797**	**100,346**
Changes in accounting policies	0	0	(672)	0	0	0	0	0	(1,427)	(2,099)	(85)	(2,184)
Balance as of 1 Jan 2018	**19,005**	**(577)**	**74,680**	**443**	**77**	**(154)**	**119**	**(7)**	**864**	**94,450**	**3,712**	**98,162**
Treasury shares, other	0	0	81	35	0	0	0	0	0	116	2	118
Payment of dividends	0	0	(8,932)	0	0	0	0	0	0	(8,932)	(644)	(9,576)
Transactions with owners	**0**	**0**	**(8,851)**	**35**	**0**	**0**	**0**	**0**	**0**	**(8,816)**	**(642)**	**(9,458)**
Profit for the period	0	0	14,846	0	0	0	0	0	0	14,846	325	15,171
Other comprehensive income for the period, net of tax	0	0	(69)**	0	80	22	(206)	0	(376)	(549)	3	(546)
Comprehensive income for the period	**0**	**0**	**14,777**	**0**	**80**	**22**	**(206)**	**0**	**(376)**	**14,297**	**328**	**14,625**
Balance as of 31 Dec 2018	**19,005**	**(577)**	**80,606**	**478**	**157**	**(132)**	**(87)**	**(7)**	**488**	**99,931**	**3,398**	**103,329**

* Capital funds and retained earnings consist of other funds created from profit in the amount of CZK 4,670 million (1 Jan 2018: CZK 4,671 million; 31 Dec 2017: CZK 4,671 million), net profit from the period in the amount of CZK 14,846 million (1 Jan 2018: CZK 14,930 million; 31 Dec 2017: CZK 14,930 million) and retained earnings in the amount of CZK 61,090 million (1 Jan 2018: CZK 55,079 million; 31 Dec 2017: CZK 55,751 million).

** This amount represents gain from revaluation of debt securities due to the consolidation of an associated company using the equity method.

The accompanying Notes form an integral part of these Consolidated Financial Statements.

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

(CZKm)	2018	Restated 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	18,519	18,286
Non-cash and other adjustments:		
Movement of allowances/provisions (including impact of loans and advances transferred and written off)	(439)	305
Depreciation and amortisation expense on tangible and intangible fixed assets	1,877	1,667
Gains/(losses) from the sale of assets	14	(1,140)
Revaluation of derivatives	(664)	(2,730)
Accrued interest, amortisation of discount and premium	653	193
Profit/(loss) on subsidiaries and associates	(327)	(213)
Foreign exchange differences	202	1,497
Other changes	(32)	170
Operating profit before change in operating assets and liabilities	**19,803**	**18,035**
Changes in assets and liabilities from operating activities after non-cash adjustments:		
Amounts due from banks (received/paid)	(30,901)	(177,396)
Loans and advances to customers	(30,745)	(19,193)
Debt securities at amortised cost	231	3,639
Financial assets at fair value through other comprehensive income	(1,395)	7,525
Financial assets at fair value through profit and loss	(860)	8,521
Financial assets at fair value through profit and loss – non-SPPI	2,694	0
Other assets	(621)	(688)
Amounts due to banks (received/paid)	12,477	25,371
Amounts due to customers	50,566	62,643
Financial liabilities at fair value through profit and loss	571	1,756
Other liabilities	(5,727)	2,751
Net cash flow from operating assets and liabilities	**(3,710)**	**(85,071)**
Net cash flow from operating activities before tax	**16,093**	**(67,036)**
Income tax paid	(3,144)	(3,093)
Net cash flow from operating activities	**12,949**	**(70,129)**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Dividends received (including associated undertakings)	220	208
Purchase of tangible and intangible assets	(2,825)	(3,098)
Sale of tangible and intangible assets	114	363
Purchase of investments in subsidiaries and associates	0	0
Sale/decrease of investments in subsidiaries and associates	221	1,486
Net cash flow from investment activities	**(2,270)**	**(1,041)**

		Restated
(CZKm)	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(8,851)	(7,537)
Dividends paid to non-controlling interest	(644)	(375)
Purchase of own shares	0	0
Securities issued	(2,309)	2,068
Securities redeemed	0	(10,696)
Subordinated debt	14	2,560
Increase in minority equity	0	0
Net cash flow from financing activities	**(11,790)**	**(13,980)**
Net increase/(decrease) in cash and cash equivalents	**(1,111)**	**(85,150)**
Cash and cash equivalents at the beginning of the year	24,308	110,063
Net increase/(decrease) in cash and cash equivalents	(1,111)	(85,150)
Foreign exchange differences on cash and cash equivalents at the beginning of the year	50	(245)
Adjustment of cash and cash equivalents at the beginning of the year due to acquisition	0	(360)
Cash and cash equivalents at the end of the year (refer to Note 36)	**23,247**	**24,308**
Interest received	33,960	27,442
Interest paid	(10,798)	(6,264)

The accompanying Notes form an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements as of 31 December 2018

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1 Principal activities

The Financial Group of Komerční banka, a.s. (henceforth the "Group") consists of Komerční banka, a.s. (the "Bank") along with 11 subsidiaries and three associated undertakings. The parent company of the Group is the Bank, which is incorporated in the Czech Republic as a joint-stock company. The principal activities of the Bank are as follow:

I. Providing loans, advances and guarantees in Czech crowns and foreign currencies;
II. Acceptance and placement of deposits in Czech crowns and foreign currencies;
III. Providing current and term deposit accounts in Czech crowns and foreign currencies;
IV. Providing banking services through an extensive branch network in the Czech Republic;
V. Treasury operations in the interbank market;
VI. Servicing foreign trade transactions; and
VII. Investment banking.

The Bank generates the preponderant proportion of the Group's income and represents substantially all of the assets and liabilities of the Group.

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1.

In addition to its operations in the Czech Republic, the Group has operations in Slovakia through its foreign branch (Komerční banka, a.s., pobočka zahraničnej banky) and its subsidiary (ESSOX FINANCE, s.r.o.) and in Belgium through its subsidiary (Bastion European Investments S.A.).

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale S.A. is the Bank's majority shareholder, holding 60.35% (2017: 60.35%) of the Bank's issued share capital.

The main activities of the Bank's subsidiary companies as of 31 December 2018:

Company's name	Direct holding %	Group holding %	Principal activity	Registered office
KB penzijní společnost, a.s.	100.0	100.0	Financial services	Prague
Modrá pyramida stavební spořitelna, a.s.	100.0	100.0	Building society	Prague
Protos uzavřený investiční fond, a.s.	83.65	100.0	Investments	Prague
Factoring KB, a.s.	100.0	100.0	Factoring	Prague
Bastion European Investments S.A.	99.98	99.98	Financial services	Brussels
KB Real Estate s.r.o.	100.0	100.0	Support services	Prague
STD2, s.r.o.	100.0	100.0	Support services	Prague
VN 42, s.r.o.	100.0	100.0	Support services	Prague
SG Equipment Finance Czech Republic s.r.o.	50.1	50.1	Industry financing	Prague
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice
ESSOX FINANCE, s.r.o.	0.0	50.93	Consumer loans, leasing	Bratislava

The main activities of the Bank's associated undertakings as of 31 December 2018:

Company's name	Direct holding %	Group holding %	Principal activity	Registered office
Komerční pojišťovna, a.s.	49.0	49.0	Insurance	Prague
Czech Banking Credit Bureau, a.s.	20.0	20.0	Data collection for credit risk assessments	Prague
Cataps, s.r.o.*	1.0	1.0	Financial services	Prague

* This is a share in the company's equity. The Group has 40% of the voting rights and a share in profit of 0.1%.

2 Events for the year ended 31 December 2018

Dividends declared in respect of the year ended 31 December 2017
At the General Meeting held on 25 April 2018, the shareholders approved a dividend for the year ended 31 December 2017 of CZK 47 per share before tax. The dividend was declared in the aggregate amount of CZK 8,932 million and the remaining balance of the net profit was allocated to retained earnings. The dividends were paid out in Czech crowns. Moreover, the Group paid out CZK 189 million in dividends to non-controlling owners of ESSOX s.r.o. and CZK 455 million to non-controlling owners of SG Equipment Finance Czech Republic.

KB Change
In order to address the key challenges existing in the Czech banking market, the Bank has decided to update its strategic direction. The changes and steps are formulated in the transformational programme KB Change, announced in May 2018. Its ultimate vision is to be a lifetime partner with a human touch for active individual, small business, and corporate customers, to provide employees a sense of purpose and room for growth, and to deliver long-term sustainable profitability to shareholders while acting responsibly towards society.

Changes in the Bank's financial group
As of the effective date 1 January 2018, ESSOX s.r.o. and PSA FINANCE CZECH REPUBLIC, s.r.o. were merged into ESSOX s.r.o. ESSOX s.r.o. is a subsidiary of the Bank and PSA FINANCE CZECH REPUBLIC, s.r.o. had been a subsidiary of ESSOX s.r.o.

As of 1 January 2018, PSA FINANCE SLOVAKIA, s.r.o. changed its business name to ESSOX FINANCE, s.r.o. ESSOX FINANCE, s.r.o. is a subsidiary of ESSOX s.r.o.

Starting from the accounting period beginning on 1 January 2018, Modrá pyramida stavební spořitelna, a.s. changed its accounting and reporting policies from Czech GAAP (Act No. 563/1991 Coll., on Accounting; Decree of the Ministry of Finance of the Czech Republic No. 501/2002 Coll., implementing certain provisions of Act No. 563/1991 for banks and financial institutions; and relevant accounting standards prepared and promulgated by the Ministry of Finance of the Czech Republic) to International Financial Reporting Standards as adopted by the European Union.

In February 2018, the Bank sold a 19% stake in the company Cataps, s.r.o., thereby reducing its ownership from 20% to 1%. As of the end of 2017, the ownership stake had been classified as 'Assets held for sale'.

With effect from 1 June 2018, the company STD2 (the Bank's wholly owned subsidiary) changed its legal form from that of public-limited company to that of limited-liability company. The change in legal form has no impact on the consolidation method. In September 2018, the Bank increased the equity of this company by CZK 175 million in the form of a cash contribution of other funds not part of the registered capital.

In December 2018, the equity in Bastion European Investments S.A. was decreased by EUR 81 million (equivalent to CZK 2,305 million). The decrease was initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A. The foreign exchange rate risk arising from the net investment in the subsidiary Bastion European Investments S.A. is hedged by foreign currency deposits. The hedging relationship was partially terminated in the context of reducing the company's equity.

3 Principal accounting policies

The principal accounting policies followed in the preparation of these Consolidated Financial Statements are set out below.

3.1 Statement of compliance with IFRS

The Consolidated Financial Statements are prepared pursuant to and comply with International Financial Reporting Standards (hereafter only "IFRS") as adopted by the European Union, on the basis of Regulation (EC) No. 1606/2002 on the application of international accounting standards, and effective for the annual period beginning on 1 January 2018.

The Consolidated Financial Statements presented for the year ended 31 December 2018 are prepared on the basis of current best estimates. The management of the Group believes that these present a true and fair view of the Group's financial results and financial position using all relevant and available information as of the financial statements date.

3.2 Underlying assumptions of the Consolidated Financial Statements

3.2.1 Accrual basis
The Consolidated Financial Statements are prepared on an accrual accounting basis (i.e. the effects of transactions and other events are recognised when they occur and are reported in the Consolidated Financial Statements for the period to which they relate).

An exception is the Consolidated Statement of Cash Flows, which is prepared on a cash basis (i.e. it presents cash inflows and outflows during the reporting period without regard to the period to which each transaction relates).

3.2.2 Going concern
The Consolidated Financial Statements are prepared on the assumption that the Group is a going concern and will continue in operation for the foreseeable future. The Group has neither the intention nor the need to liquidate or materially curtail the scale of its operations.

3.2.3 Reporting period
The Group reports for a 12-month period which is identical to the calendar year.

3.3 Basis of preparation

3.3.1 Presentation currency
The Consolidated Financial Statements are presented in Czech crowns (hereafter only "CZK"), which constitute the Group's presentation currency. The balances shown are stated in CZK million unless indicated otherwise.

3.3.2 Historical cost
The Consolidated Financial Statements are prepared under the historical cost convention, except for items measured at fair value comprising financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, hedging derivatives and hedge items in fair value hedge accounting.

Assets held for sale are measured at the lower of their (i) fair value less cost to sell, or (ii) carrying amount just prior to reclassification into *'Assets held for sale'*.

3.3.3 Significant accounting judgements and estimates
In applying the accounting policies for the purpose of preparing the Consolidated Financial Statements in accordance with IFRS, it is necessary for the Group's management to use professional judgement and make estimates and assumptions. These impact upon reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the financial statements date and the reported amounts of revenues and expenses during the reporting period. These estimates and judgements are based on the information available as of the financial statements date and they relate especially to the determination of:
- Fair values in the Statement of Financial Position of financial instruments not quoted in an active market which are classified as financial assets or liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income or hedging derivatives (refer to Note 3.5.5);
- The value of intangible assets, except goodwill (refer to Note 3.5.9);
- The amount of impairment of assets (refer to Notes 3.5.9 and 3.5.10);
- Provisions recognised under liabilities (refer to Note 3.5.11);
- The initial value of goodwill for each business combination (refer to Note 3.5.10);
- The amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (refer to Note 3.5.7);
- Assessment of the substance of participation interest in Group entities (refer to Note 3.3.4); and
- The amount of impairment and provisions for credit risk related to financial assets measured at amortised cost or at fair value through other comprehensive income, loan commitments and financial guarantees granted as measured using models or internal assumptions based on historical, current and prospective data (refer to Note 3.5.5).

Information about the key judgements and assumptions concerning the future and other key sources of estimation uncertainty as of the financial statements date that have a significant risk of causing material adjustment to the carrying values of assets and liabilities are disclosed in individual notes as appropriate.

3.3.4 Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Bank and of its subsidiaries. A subsidiary is an entity over which the Bank has control, i.e. the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When assessing control, the Group considers all relevant facts and circumstances while taking into account particularly voting rights, potential voting rights and contractual arrangements. This assessment may require the use of accounting judgements. Subsidiaries are consolidated using the full method of consolidation from the date when the Bank obtains control to the date when the Bank ceases to exercise control over such entity.

The financial statements of the consolidated subsidiaries used to prepare the Consolidated Financial Statements were prepared as of the Bank's financial statements date and using consistent accounting policies. The assets and liabilities of foreign subsidiaries and branches are translated into the Bank's presentation currency at the rate of exchange as of the Bank's financial statements date, and their items of income and expense are translated at the monthly average exchange rates for the respective month of a given transaction. Exchange differences arising on translation are taken directly to a separate component of equity. The consolidation principles are unchanged as against the previous year. All intragroup transactions, balances, income and expenses were eliminated in full.

Investments in associates are presented in the Consolidated Financial Statements using the equity method. An associate is an entity in which the Bank has significant influence, i.e. it directly or indirectly owns 20% to 50% of voting rights but it does not exercise control. Equity accounting involves recognising in the Consolidated Statement of Income and in the Consolidated Statement of Comprehensive Income the Group's share of the associates' profit or loss for the period and comprehensive income for the period. The Group's interest in the associates in the Statement of Financial Position is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee.

3.4 Application of new and revised IFRS

3.4.1 Standards and interpretations newly applied by the Group in the current period

The following standards, interpretations and amendments were newly applied by the Group as from 1 January 2018. Unless otherwise described below, their application have no significant impact in the current period (and/or prior period).

Standard	Impact/Comments
IFRS 15 Revenue from Contracts with Customers – new standard, issued in May 2014	The new standard supersedes preceding revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.
Clarifications to IFRS 15, issued in April 2016	It outlines a single comprehensive model for accounting and disclosure of revenue arising from contracts with customers to provide goods or services, regardless of the industry or the type of transaction. For the banking sector, the following areas in particular may be affected: credit card loyalty schemes, pricing mechanisms including variable amounts, distinct goods or services in multi-element arrangements, up-front fees at or near contract inception. The Group's main business lies outside the scope of IFRS 15 and the application of this standard has no material impact. Based on an analysis carried out in areas most affected by IFRS 15, the accounting treatment for recognition of revenues generated by contracts with customers generally complies with the treatments stipulated by IFRS 15. Those areas requiring changes, however, had only minor effect upon the financial statements and included fees from insurance as a supplementary service where the Group is acting as an agent (newly a netting approach for reporting in the line *'Net fee and commission income'*) and performance fees in the light of constraints on variable consideration.

Standard	Impact/Comments
IFRS 9 Financial Instruments – new standard	IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces a new approach to the classification and measurement of financial assets, a new impairment methodology and new hedge accounting rules for micro hedges. The classification and measurement of financial assets depends on assessment of both (i) a financial asset's contractual cash flow characteristics, and (ii) the entity's business model for managing the financial asset. The resulting measurement categories are: • Amortised cost; • Fair value through other comprehensive income; and • Fair value through profit or loss. In comparison to IAS 39, the embedded derivatives in financial assets are no longer bifurcated. In respect to financial liabilities, IFRS 9 retains almost all of the existing requirements from IAS 39 except changes in the entity's own credit risk for financial liabilities designated at fair value through profit or loss using the fair value option, which are newly presented in other comprehensive income. The impairment requirements in the new standard are based on an expected credit loss model and are applied to both financial assets and off-balance sheet credit risk-bearing exposures (loan commitments and financial guarantee contracts) not accounted for at fair value through profit or loss and excluding also equity instruments. Entities are required to recognise from initial recognition throughout the life of an asset a loss allowance to the extent of 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk after initial recognition. The measurement of expected credit losses should reflect a probability-weighted outcome, the time value of money, and reasonable and supportable information. IFRS 9 provides guidance on estimating expected credit losses for financial assets whose contractual conditions have been modified, distinguishing between modifications that result in derecognition and modifications that do not result in derecognition. The new hedge accounting requirements align hedge accounting more closely with risk management, which means that more of an entity's risk management activities may qualify for hedge accounting and more designations of groups of items as hedged items are possible. The new model does not fundamentally change the types of hedging relationships or the requirement to measure and recognise ineffectiveness under IAS 39. However, there is only a prospective effectiveness test remaining that is newly based on objective (focus on the economic relationship between the hedged item and the hedging instrument) and replaces the range of 80–125%. The Group has implemented IFRS 9 Financial Instruments and related amendments of IFRS 7 Financial instruments: Disclosures with an initial application date of of 1 January 2018. As a result, the Group has changed its accounting policies and disclosures for financial instruments. The notes below reflect the new requirements. The impacts of the first-time application of IFRS 9 are presented in Note 3.6.1.
Annual Improvements to IFRS 2014–2016 Cycle	Annual Improvements amend three standards (IFRS 1 First-time adoption of International Financial Reporting Standards, IAS 28 Investments in Associates and Joint Ventures and IFRS 12 Disclosures of Interests in Other Entities), predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology. Amendments to IFRS 12 were effective already from 1 January 2017; amendments to IFRS 1 and IAS 28 are effective from 1 January 2018.
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	The amendments relate to three areas: the accounting for the effects of vesting conditions on cash-settled share-based payment transactions; the classification of share-based payment transactions with net settlement features for withholding tax obligations; and the accounting for modification of a share-based payment transaction that changes the classification from cash-settled to equity-settled.
IFRIC 22 Foreign Currency Transactions and Advance Consideration	Following IAS 21 The Effects of Changes in Foreign Exchange Rates, the interpretation addresses the accounting for foreign currency transactions or parts of transactions where: • There is consideration that is denominated or priced in a foreign currency; • The entity recognises a prepayment asset or a deferred income liability in respect of that consideration in advance of the recognition of the related asset, expense or income; and • The prepayment asset or deferred income liability is non-monetary. For the purposes of determining the exchange rate, IFRIC 22 specifies the date of the transaction as the date of initial recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

3.4.2 Issued standards and interpretations not applied for the current period

Although the following standards, interpretations and amendments had been issued by IASB, they are not yet effective for the reporting period beginning on 1 January 2018 and/or they have not yet been approved by the European Commission (highlighted in the table below). The Group has decided not to apply them earlier.

Currently, the Group does not anticipate that their application will significantly impact the Group's financial position and financial performance for the reporting period, unless otherwise described below.

IFRS 16 Leases

IFRS 16 Leases will replace the current standard IAS 17. The new standard will fundamentally change the accounting from the lessee's point of view when ceasing to distinguish between finance leases and operating leases, and instead introducing a single on-balance sheet accounting model. This will be applicable for almost all leases with the optional exceptions for short-term leases and leases for which the underlying asset is of low value. The accounting by lessors under the new standard is substantially unchanged from today's accounting in IAS 17. Lessors continue to classify leases as operating or finance. For a finance lease, the net investment in the lease (lease receivable) is subject to the derecognition and impairment requirements in IFRS 9 Financial Instruments.

Based on assessments, the Group has identified areas to be impacted by application of the new IFRS 16 requirements. The Group as a lessee under operating lease of office buildings and branches, in particular, will need to recognise those leases on the balance sheet, thereby causing an increase of assets (right-of-use assets) and liabilities (lease liabilities). In addition, the nature of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expenses with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Group is not considering the implementation of IFRS 16 for intangible assets

Throughout 2018, the Group has continued with the project to implement IFRS 16, effective from 1 January 2019. Within this project, all lease contracts were analysed for collecting lease specifications and parameters, reviews were performed of internal processes and IT systems, and an in-house calculation tool was developed to be used in generating the data required by IFRS 16 for recognition, measurement and disclosures.

For transitional purposes, the Group will follow the modified retrospective approach, i.e. without restatement of comparative information and with the recognition of differences from the initial application of the standard, if any, in equity. At transition, for leases previously classified as operating leases under IAS 17, lease liabilities will be measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as of 1 January 2019, and right-of-use assets at an amount equal to the lease liability. When initially applying IFRS 16, the Group will use, in particular, the following practical expedients to leases previously classified as operating leases under IAS 17: application of a single discount rate to a portfolio of leases with reasonably similar characteristics, application of the exemption not to recognise lease liabilities and right-of-use assets to leases for which the underlying asset is of low value, and use of hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

As a consequence of IFRS 16 application, the Group as a lessee expects for leases previously classified as operating leases under IAS 17 to recognise on 1 January 2019 right-of-use assets within *'Tangible assets'* (i.e. the line item in which the Group presents underlying assets of the same nature that it owns) and by analogy lease liabilities in the line *'Financial liabilities at amortised cost'*, both by approximately CZK 2.6 billion, the vast majority being related to property leases. Due to the adoption of IFRS 16, the Group's net interest income will decrease, while its net profit for the period will remain almost unchanged (due to a shifting of part of expenses between categories). The Group's activities as a lessor are not material and hence it does not expect any significant impact on the financial statements. However, some additional disclosures will need to be applied.

The Group is assessing the effects of IFRS 16 on its capital adequacy requirements and resolution fund contribution. Based on the European Banking Authority's view on IFRS 16 adoption, the right-of-use asset should be included in the calculation of the capital adequacy ratios and leverage ratios. The right-of-use asset should be treated according to the underlying asset, i.e. applying the 100% risk weight for tangible underlying assets. From a capital adequacy perspective, a negligible decrease in regulatory capital is expected.

Standard	Summarised content	Effective for reporting period beginning on or after
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures)	The amendments clarify the accounting treatment for sale or contribution of assets between an investor and its associates or joint ventures. It resolves a current inconsistency between the existing requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures on how to calculate any gain or loss arising from this transaction. The accounting treatment depends on whether the non-monetary assets subject of the transaction constitute a "business", as defined in IFRS 3 Business Combinations. In such case, the gain or loss is recognised in full.	The effective date of 1 January 2016 was withdrawn and deferred indefinitely (early adoption continues to be permitted) EU endorsement postponed

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 16 Leases – new standard	The new standard, superseding IAS 17 Leases and related interpretations, establishes principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. From the lessee's point of view, the standard newly provides a single on-balance sheet accounting model. Lessees are required to recognise assets (right-of-use assets) and liabilities (lease liabilities) for all leases unless the lease term is 12 months or less or the underlying asset is of low value, in which case the lessees have an accounting policy choice to apply a method similar to operating leases under IAS 17. A right-of-use asset is treated similarly as are other non-financial assets; it is depreciated in accordance with the requirements in IAS 16 Property, Plant and Equipment and tested for impairment under IAS 36 Impairment of Assets. A lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use its incremental borrowing rate. Lessors continue to classify leases as operating or finance, with an accounting approach substantially unchanged from IAS 17. For a finance lease, the net investment in the lease (lease receivable) is subject to the derecognition and impairment requirements in IFRS 9 Financial Instruments.	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular: (i) whether uncertain tax treatments should be considered separately; (ii) assumptions for taxation authorities' examinations; (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates; and (iv) effect of changes in facts and circumstances.	1 January 2019
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	The amendments supplement the existing requirements in IFRS 9 for financial assets regarding early termination rights in order to enable measurement at amortised cost or at fair value through other comprehensive income, subject to an assessment of the business model, even in the case of negative compensation. The amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in derecognition. The entity shall recognise any adjustment to the amortised cost of the financial liability in profit or loss at the date of the modification or exchange.	1 January 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	The amendments clarify that IFRS 9 Financial Instruments (including impairment requirements) shall be applied to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture to which the equity method is not applied.	1 January 2019
Annual Improvements to IFRS 2015–2017 Cycle	Annual Improvements amend four standards (IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs) in three subject areas, predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 January 2019 EU not yet endorsed
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. Companies are newly required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.	1 January 2019 EU not yet endorsed
Definition of a Business (Amendments to IFRS 3)	The amendments revise the definition of a business to assist entities in providing assessments whether a transaction should be accounted for as a business combination or as an asset acquisition.	1 January 2020 EU not yet endorsed
Definition of Materiality (Amendments to IAS 1 and IAS 8)	The amendments clarify the definition of material and its application to help entities make better materiality judgements and align the wording of the definition of material across IFRS Standards and other publications.	1 January 2020 EU not yet endorsed
Conceptual Framework for Financial Reporting Amendments to References to the Conceptual Framework in IFRS Standards	The IASB issued a revised Conceptual Framework for Financial Reporting that should be used immediately by the Board and IFRS Interpretations Committee in developing new pronouncements. Entities developing an accounting policy based on the Conceptual Framework will have to apply the changes from 1 January 2020. Alongside the revised Conceptual Framework, the IASB published Amendments to References to the Conceptual Framework effective for reporting periods beginning on or after 1 January 2020, updating in most cases references to previous versions with references to the 2018 versions.	1 January 2020 EU not yet endorsed*

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 17 Insurance Contracts – new standard	IFRS 17 replaces the current standard for insurance contracts, IFRS 4, and provides uniform recognition, measurement, presentation and disclosure principles for all issued insurance contracts (including reinsurance contracts). It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued, provided the entity also issues insurance contracts. To make differences in profitability among insurance contracts visible, IFRS 17 requires entities to divide each portfolio of insurance contracts into a minimum of three groups: (i) loss-making (onerous) contracts at initial recognition, (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently and (iii) remaining contracts. The groups of insurance contracts will be measured at current values using updated estimates and assumptions about cash flows, discount rates and risks relating to insurance contracts. Requirements in IFRS 17 align the recognition of revenue with that in other industries. Entities will recognise profit allocated to periods when the insurance services are provided rather than when the premiums are received. For a loss-making group of contracts, the loss will be recognised immediately. As for the presentation in the statement of income, insurance service result (comprising insurance revenue and insurance service expenses) will be presented separately from insurance finance income or expenses.	1 January 2021 EU not yet endorsed

* Only Amendments to References to the Conceptual Framework in IFRS Standards are subject to the EU endorsement process.

3.5 Principal accounting policies

3.5.1 Transactions in foreign currencies

3.5.1.1 Functional and presentation currency

The functional currency of the Group's entities operating in the Czech Republic (i.e. the currency of the primary economic environment within which the Group operates) is the Czech crown.

The Group has a branch and a subsidiary, ESSOX FINANCE, s.r.o., in the Slovak Republic and a subsidiary, Bastion European Investments S.A., in Belgium. These both have the euro as their functional currency and are considered as foreign operations from a financial reporting point of view.

3.5.1.2 Transactions and balances translation

Transactions realised in foreign currency (i.e. in a currency other than the functional currency) are translated into the functional currency at the date of initial recognition using the spot foreign exchange rate announced by the bank authority (hereafter only the "BA") for the respective foreign currency. Depending on the functional currency, the BA means the Czech National Bank (hereafter only the "CNB") for the Czech crown and the European Central Bank (hereafter only the "ECB") for the euro.

At the end of the reporting period, all statement of financial position line items denominated in foreign currency are translated into the functional currency, depending on their nature, as follows:

I. Foreign currency monetary items are translated using the closing rate (foreign exchange rate announced by the BA at the end of the reporting period);
II. Non-monetary items that are measured at historical cost are translated using the BA's foreign exchange rate at the date of the transaction; and
III. Non-monetary items that are measured at fair value in a foreign currency are translated using the BA's foreign exchange rate at the date when the fair value was determined.

Gains and losses arising from the translation of foreign currency items at the end of the reporting period as well as those related to their settlement are recognised as gains or losses for the period in which they occur and are presented in the line *'Net profit/(loss) on financial operations'*.

Where a gain or loss from a fair value change in a non-monetary item denominated in foreign currency is recognised directly in Other Comprehensive Income, however, related foreign exchange rate differences are recognised in the same way. These non-monetary items include equity instruments, for which the Group has decided, at initial recognition, to use the irrevocable election to measure these at fair value with changes recognised in Other Comprehensive Income without subsequent recycling into profit or loss on realisation. Also recognised in Other Comprehensive Income are foreign exchange rate differences related to the fair value revaluation of debt instruments held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (excluding the effective portion of their fair value hedges and excluding foreign exchange rate differences related to changes in their amortised cost) and non-derivative financial liabilities (current accounts, deposits) used as hedging items for the cash flow hedge of foreign currency risk and the hedge of a net investment in a foreign operation.

For consolidation purposes, the results and financial position of entities whose functional currency is different from the Group's presentation currency are translated into this currency using the following procedures:

I. Assets and liabilities are translated using the closing rate (exchange rate announced by the CNB at the end of the reporting period);
II. Income and expenses recognised in profit or loss are translated using the average rate for the period (monthly average of exchange rates announced by the CNB during the period);
III. All resulting exchange differences are recognised in other comprehensive income and presented in *'Equity'* in the line *'Hedge of a foreign net investment'*.

3.5.2 Recognition of income and expenses

3.5.2.1 Net interest income

Interest income and expense related to interest-bearing instruments, except for instruments classified as financial assets or financial liabilities at fair value through profit or loss and interest hedging derivatives, are recognised on an accrual basis in the Statement of Income in the lines *'Interest income'* and *'Interest expense'* using the effective interest rate (refer to 3.5.5.7 Effective interest rate method). For credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the amortised cost of the asset, i.e. an amount adjusted for expected credit losses over the life of the asset. Interest income and expense related to interest rate hedging derivatives are recognised in the lines described on an accrual basis using the contractual interest rate of the corresponding derivative. Late-fee income is recognised at the date of its payment and presented in the line *'Interest income'*.

3.5.2.2 Net fee and commission income

The recognition of income from fees and commissions depends on the purpose for which a fee was assessed and the basis of accounting for any associated financial instrument. In accordance with the substance of fees and nature of services for which they are assessed, the Group distinguishes the following three categories of fees:

- Fees and commissions that comprise an integral component of the effective interest rate of a financial instrument are recognised in the line *'Interest income'*;
- Fees and commissions for services provided – income from these is recognised as revenue when services are provided and it is presented in the line *'Net fee and commission income'*;
- Fees and commissions for the execution of an act – income from these is recognised as revenue when the act has been completed and is also presented in the line *'Net fee and commission income'*.

3.5.2.3 Net profit/(loss) on financial operations

This line includes net profit/loss on financial operations, which means realised and unrealised gains/losses on securities held for trading; security derivatives; currency, interest rate and trading commodity derivatives; foreign exchange transactions; foreign assets and liabilities retranslation to the functional currency; and realised gains/losses on financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

This line also includes interest income and expense related to interest-bearing instruments classified as financial assets or financial liabilities at fair value through profit or loss.

3.5.3 Cash and cash equivalents

Cash comprises cash on hand and cash in transit.

Cash equivalents are short-term (with maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes. This item also includes obligatory minimum reserves. The Group can freely transact with the amount of these reserves under the assumption that average obligatory minimum reserves are maintained within the given maintenance period established by the CNB.

3.5.4 Fair value and hierarchy of fair value

Fair value is the price that would be received in selling 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 most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of assets or liabilities measured at fair value. The hierarchy of fair values has the following three levels:

- *Level 1:* inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- *Level 2:* inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3:* inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The fair value is included in the hierarchy according to the lowest classified significant input used in its determination. Significant input information consists of information that has a significant impact on the total fair value of the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis (i.e. those for which measurement at fair value is required or permitted in the Statement of Financial Position at the end of each reporting period), the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the date of the event or change in circumstances that caused the transfer.

3.5.5 Financial instruments

3.5.5.1 Dates of recognition and derecognition

All regular way purchases or sales of financial assets are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment).

When settlement date accounting is applied, the financial asset is recognised in the Statement of Financial Position on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its delivery (collection of cash).

For financial assets measured at fair value, however, the acquired financial asset is measured to reflect changes in its fair value from the purchase trade date to the purchase settlement date. Gains and losses from changes in fair value are recognised depending on the type of financial instrument and taking into account the classification based on both the business model and contractual cash flow characteristics (i.e. either in profit or loss or in other comprehensive income).

All purchases and sales of financial instruments that do not meet the “regular way” settlement criterion in the marketplace concerned are treated as financial derivatives. The Group recognises financial derivatives in the Statement of Financial Position at the trade date. Financial derivatives are derecognised at their maturity.

The Group recognises a financial liability in the Statement of Financial Position when it becomes a party to the contractual provisions of the instrument and it is removed from the Statement of Financial Position when it is extinguished (i.e. in circumstances where a contractually defined obligation is fulfilled, cancelled or expires).

3.5.5.2 Initial measurement of financial assets and financial liabilities

When a financial asset or financial liability is initially recognised, the Group measures it at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of that instrument.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received).

The transaction costs mainly include fees and commissions paid to brokers, dealers and agents.

Also, financial guarantee contracts issued are initially recognised at fair value, being the premium received, in the Statement of Financial Position in the line *'Accruals and other liabilities'*. The guarantees are subsequently measured as of the financial statements date at the higher of the amount initially recognised less, when appropriate, cumulative amortisation of revenues recognised in the Statement of Income in accordance with IFRS 15 (in the Statement of Financial Position in the line *'Accruals and other liabilities'*), or the impairment for expected credit losses from any financial obligation arising as a result of the guarantee (in the Statement of Financial Position in the line *'Provisions'*). The premium received is recognised in the Statement of Income in the line *'Net fee and commission income'* on a straight-line basis over the life of the guarantee. The creation of provisions is recognised in the Statement of Income in the line *'Impairment losses'*.

3.5.5.3 "Day 1" profit or loss

In determining whether fair value at initial recognition equals the transaction price, the Group takes into account factors specific to the transaction and to the asset or liability.

The Group trades no financial instruments on an inactive market. On active markets, the Group trades financial instruments only for the quoted price in the active market. For this reason, there is no difference between the transaction price and the fair value of the financial asset or financial liability that is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique whose variables include only data from observable markets (a "Day 1" profit or loss).

3.5.5.4 Financial assets and liabilities classification and subsequent measurement

The classification of the Group's financial instruments is determined at the date of initial recognition and is unchanged throughout the period of holding the financial instrument, except for rare situations listed in 3.5.5.5 Reclassification of financial assets and liabilities.

Depending on the nature of the financial instrument and the evaluation of both the business model for managing the financial asset and the asset's contractual cash flow characteristics, financial instruments held by the Group are after initial recognition subsequently measured at:

I. Amortised costs;
II. Fair value through other comprehensive income; or
III. Fair value through profit or loss.

The Group does not make use of an option to designate a financial asset or liability upon initial recognition as a financial instrument at fair value through profit or loss (the "Fair Value Option"). For some investments in equity instruments not held for trading purposes the Group uses the irrevocable election to measure these at fair value with changes being recognised in other comprehensive income.

3.5.5.4.1 Loans and debt instruments

Loans and debt instruments are non-derivative financial assets with legally enforceable fixed or determinable payments and fixed maturities.

Classification and subsequent measurement of loans and debt instruments are determined based on the evaluation of:

- The Group's business model for managing financial assets; and
- The financial asset's contractual cash flow characteristics.

<u>Description of business models</u>

The business model is determined at a level at which the financial assets are jointly managed to achieve a particular business objective. The business model does not depend on management's intentions for an individual instrument, but reflects the way a portfolio of financial assets is managed in order to generate cash flows under standard economic conditions. The Group distinguishes the following business models:

(i) "Hold to collect contractual cash flows";
(ii) "Hold to collect contractual cash flows and sell"; or
(iii) "Held for trading".

(i) "Hold to collect contractual cash flows" business model

Loans and debt instruments that fall into the business model "Hold to collect contractual cash flows" are held in order to collect contractual cash flows over the life of the instrument. In determining whether cash flows are going to be realised by collecting the financial assets' contractual cash flows, the Group considers the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity for a given portfolio.

The Group admits the following sales that are consistent with the business model “Hold to collect contractual cash flows”:

- Sales due to an increase in the assets’ credit risk irrespective of their frequency and value;
- Sales made to manage credit risk concentration if those sales are infrequent (even if significant in value) or insignificant in value (even if frequent);
- Sales made close to the maturity of the asset when the proceeds from the sales approximate the collection of the remaining contractual cash flows; and
- Sales made based on a requirement imposed by a third party, such as regulatory bodies.

The financial assets that fall into the business model “Hold to collect contractual cash flows” include: (i) all loans and advances; and (ii) all debt instruments that are not part of the liquidity buffer and are not determined for trading; and (iii) from 1 January 2018 onwards, all new investments into CZK-denominated bonds forming part of the liquidity buffer with maturity up to 12 years.

(ii) “Hold to collect contractual cash flows and sell” business model

Loans and debt instruments that fall into the business model “Hold to collect contractual cash flows and sell” are held in order to collect contractual cash flows and sell financial assets. In this type of business model, both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model. The objective of this business model is to manage the Group’s everyday liquidity needs. The Group expects that in case of a structural deficit of assets and liabilities, sales of these loans and debt instruments will be realised to cover the lack of liquid assets.

As compared to the business model whose objective is to hold financial assets to collect contractual cash flows, the Group expects greater frequency and value of sales. Selling financial assets is not an incidental activity, but an integral part of achieving the business model’s objective. However, there is no threshold for the frequency or value of sales that must occur in this business model as both collecting contractual cash flows and selling financial assets are integral to achieving its objective.

The financial assets that fall into the business model “Hold to collect contractual cash flows and sell” include: (i) all EUR-denominated government bonds (or quasi-government bonds) forming part of the liquidity buffer; and (ii) from 1 January 2018 onwards, all new investments into CZK-denominated government bonds forming part of the liquidity buffer and with maturity greater than 12 years or greater than 10 years according to the Group’s internal rules.

(iii) “Held for trading” business model

Loans and debt instruments that fall into the business model “Held for trading” are held with the objective of realising cash flows through the sale of those assets. The Group makes decisions based on the assets’ fair values and manages the assets to realise those fair values.

The financial assets that fall into the business model “Held for trading” include all other loans and debt instruments that are not part of the business model “Hold to collect contractual cash flows” or “Hold to collect contractual cash flows and sell”.

Contractual cash flows characteristics test

Based on the assessment of the contractual cash flow characteristics, the Group ascertains whether the contractual cash flows on loans and debt instruments are solely payments of principal and interest on the principal amount outstanding (SPPI test). Principal is the fair value of the financial asset at initial recognition. Interest particularly consists of consideration for the time value of money and credit risk, or it can also include consideration for liquidity risk, administrative costs or profit margin that is consistent with the basic lending arrangement.

Measurement at amortised costs

After initial recognition, loans and debt instruments are subsequently measured at amortised costs if both the following conditions are met: the financial asset is held within the business model “Hold to collect contractual cash flows” and the contractual cash flows meet the characteristics of payments of principal and interest on the principal amount outstanding.

Amortised cost is the amount at which the financial instruments are measured at initial recognition minus the principal repayments and using the effective interest method plus or minus the fees that are an integral part of the financial asset, and amortisation of the premium or discount (i.e. any difference between the initial amount and the maturity amount) and further reduced by any loss allowance for expected credit losses. Interest income is recognised in the line *‘Interest income’* in the Statement of Income. Impairment losses are recognised in the Statement of Income in the line *‘Impairment losses’*.

Measurement at fair value through other comprehensive income

After initial recognition, loans and debt instruments are subsequently measured at fair value with changes being recognised in Other Comprehensive Income, if both the following conditions are met: the financial asset is held within the business model “Hold to collect contractual cash flows and sell” and the contractual cash flows meet the characteristics of payments of principal and interest on the principal amount outstanding.

Unrealised gains or losses from fair value changes as well as gains or losses from changes in fair value resulting from changes in foreign exchange rates are, until their derecognition or reclassification, recognised within Other Comprehensive Income in the line *'Revaluation of debt securities, net of tax'*.

When holding the financial asset, loss allowances are recognised. However, unlike with financial assets measured at amortised costs, the loss allowances are not presented separately in the Statement of Financial Position and do not reduce the carrying amount of the financial asset. The loss allowances are recognised directly in Other Comprehensive Income and in the Statement of Income in the line *'Impairment losses'*.

Gains or losses from changes in foreign exchange rates on loans and debt instruments are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*, except for exchange rate gains or losses related to fair value revaluation that are recognised within Other Comprehensive Income. Accrued interest income is recognised in the Statement of Income in the line *'Interest income'*.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in Other Comprehensive Income is recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

<u>Measurement at fair value through profit or loss</u>
After initial recognition, loans and debt instruments are subsequently measured at fair value with changes being recognised in profit or loss if the financial asset falls within the business model "Held for trading" or the contractual cash flows do not meet the characteristics of payments of principal and interest on the principal amount outstanding.

The category of fair value through profit or loss is a residual category. The Group classifies loans and debt instruments into this category if they do not meet the criteria for measurement at amortised cost or at fair value through other comprehensive income.

Unrealised gains and losses as well as realised gains or losses arising from the revaluation of these financial assets, interest and foreign exchange rate differences are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*. These financial assets are outside the scope of the IFRS 9 impairment requirements and, therefore, impairment losses are not recognised.

3.5.5.4.2 Equity instruments
Equity instruments are non-derivative financial assets with entitlement to participate in the exercise of ownership rights without a defined maturity and without legally enforceable fixed or determinable payments.

Equity instruments are outside the scope of the IFRS 9 impairment requirements, and therefore impairment losses are not recognised. Equity instruments are measured at fair value with changes being recognised in profit or loss, except for using the election at initial recognition to measure the equity instrument at fair value with changes being recognised in other comprehensive income, without subsequent recycling into profit or loss on disposal. This election is irrevocable and is made on an instrument-by-instrument basis.

The Group may use the option only for instruments that are not held for trading. When using the option, the disposal will not result in the realisation and recognition of the disposal's result in the Statement of Income, but instead it will remain in the Group's Other Comprehensive Income and, following the approval by the General Meeting, will eventually be transferred to retained earnings. Dividend income arising from equity instruments is recognised when the right to dividends is established and presented in the Statement of Income in the line *'Dividend income'*.

The Group applies the option (measurement of equity instruments at fair value through other comprehensive income) for investments of a strategic nature and with an equity interest of less than 20%. This approach is based on the Group's intention to continue holding these investments in the long term or on the existence of a long-term restriction against selling these investments.

3.5.5.4.3 Emission allowances
The Group is not considered a primary producer of greenhouse gas emissions. Trades with emission allowances are carried out in the role of intermediary in order to generate profit based on market price fluctuations. The emission allowances are recognised in the Statement of Financial Position in the line *'Other assets at fair value through profit or loss'*.

3.5.5.4.4 Derivatives and hedge accounting
A derivative is a financial instrument or other contract having all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, market prices of securities, or another market variable;
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- It is settled at a future date.

At the inception of a financial derivative contract, the Group designates the derivative instrument as either held for trading or hedging.

Held for trading derivatives are classified into a portfolio of *'Financial assets or financial liabilities at fair value through profit or loss'* based on whether the fair value is positive or negative.

Hedging derivatives are derivatives that the Group uses to hedge interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. In accordance with the transitional provisions of IFRS 9, the Group has elected to apply IAS 39 hedge accounting methods. The Group designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:

- It is compliant with the Group's risk management objective and strategy;
- At inception of the hedge, the hedging relationship is formally documented, which includes identification of the hedging instrument and hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness;
- The hedge is expected to be highly effective at inception and throughout the period;
- The effectiveness of the hedge can be reliably measured; and
- Changes in the fair value or cash flows of the hedging instrument and hedged item or transaction are almost fully offset (within a range of 80% to 125%).

Hedging derivatives are accounted for according to the type of hedging relationship, which can be one of the following:

I. Hedging of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or
II. Hedging of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge); or
III. Hedging of a net investment in a foreign operation.

Changes in the fair value of a derivative that is designated and qualified as a fair value hedge are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*. Changes in the fair value of a hedged item are recognised in the Statement of Financial Position as a component of the carrying amount of the hedged item and in the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

It is on this basis that the Group hedges the interest rate risk and foreign currency risk of financial assets (loans and debt instruments with fixed interest rates) and interest rate risk of deposits, repos, mortgage bonds issued, as well as selected portfolios of building savings. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If a hedge no longer meets the criteria for hedge accounting or the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation, and an adjustment to the carrying amount of the hedged interest-bearing financial instrument is amortised to profit or loss over the period until the maturity of the hedged item.

The Group also accounts for portfolio fair value hedges (hedging transactions concerning portfolios of financial assets or liabilities), for which interest rate swaps are used. When accounting for these transactions, the Group applies the IAS 39 "carve-out", as adopted by the European Union. The accounting treatment of financial derivatives designated as portfolio fair value hedges is similar to that of other fair value hedging derivatives.

Changes in the fair values of hedging derivatives classified as cash flow hedges that prove to be highly effective in relation to the hedged risks are recognised in the line *'Cash flow hedging'* in Other Comprehensive Income and are transferred to the Statement of Income and classified as income or expense in the periods during which the hedged items affect the Statement of Income. The ineffective portion of a hedge is charged directly to the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

It is on this basis that the Group hedges the interest rate risk and currency risk associated with the cash flows of selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If a hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation, and the cumulative gain or loss on the hedging instrument that has been recognised in Other Comprehensive Income for the period when the hedge was effective remains in equity until the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, the gain or loss accumulated as other comprehensive income is reclassified to profit or loss.

Using foreign currency deposits as the hedging instrument, the Group additionally hedges the foreign exchange rate risk arising from the net investment in the subsidiaries Bastion European Investments S.A. and ESSOX FINANCE, s.r.o. Foreign exchange rate differences arising from its retranslation are included in Other Comprehensive Income.

Financial derivatives constituting economic hedges under the Group's risk management positions but not qualifying for hedge accounting under the specific rules of IAS 39 are treated as derivatives held for trading.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 43(C).

3.5.5.4.5 Financial liabilities

The Group classifies financial liabilities into the categories "Financial liabilities at amortised costs" and "Financial liabilities at fair value through profit or loss" depending on the methods of managing the performance of the financial liability.

When the performance of the financial liability is managed based on trading that mostly reflects active and frequent purchases and sales (i.e. financial instruments held for trading are mostly used to generate profit from short-term fluctuations in the price or margin), the Group classifies these financial liabilities after initial recognition as subsequently measured at fair value through profit or loss. Such financial liabilities are only liabilities from disposed securities and trading derivatives with a negative value. They are recognised in the Statement of Financial Position in the line *'Financial liabilities at fair value through profit or loss'*.

Unrealised as well as realised gains or losses arising from revaluation of these financial liabilities, interests and foreign exchange rate differences are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

All other financial liabilities are after initial recognition subsequently measured at amortised cost using the effective interest rate method. The Group classifies non-derivative financial liabilities with fixed or determinable payments as subsequently measured at amortised costs. These financial liabilities are recognised according to the type of counterparty in the lines *'Amounts due to central banks'*, *'Financial liabilities at amortised cost'* and *'Subordinated debt'*.

Interest expense is recognised in the Statement of Income in the line *'Interest expense'*.

In the event of repurchasing its own debt securities, the Group derecognises these securities (i.e. the item *'Securities issued'* is decreased). Gains and losses arising as a result of repurchasing the Group's own debt securities are recognised as of the date of their repurchase in the Statement of Income in the line *'Net interest income'* as an adjustment to the interest paid from its own bonds.

3.5.5.4.6 Embedded derivatives

In some cases, a derivative, such as an option for an earlier redemption of a bond, is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract.

Derivatives embedded in financial assets, loans and debt instruments within the scope of IFRS 9 are not separated from the host contract. Instead, the entire hybrid instrument is assessed for classification and measurement based on the Group's business model for managing the hybrid instrument and its contractual cash flow characteristics as disclosed in Note 3.5.5.4 Financial assets and liabilities classification and subsequent measurement.

The embedded derivative is separated from the host contract and accounted for separately if, and only if, all of the following conditions are met:

- The host contract is not a financial asset within the scope of IFRS 9;
- The embedded derivative as a separate instrument meets the definition of a derivative;
- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; and
- The host contract is not measured at fair value with fair value changes recognised in the Statement of Income.

If the embedded derivative cannot be measured separately, the entire hybrid contract is designated as at fair value through profit or loss.

3.5.5.5 Reclassification of financial assets and liabilities

Reclassification of loans and debt instruments shall arise when, and only when, the objective of the business model changes for the entire portfolio of financial instruments that are jointly managed with the objective "Hold to collect contractual cash flows", "Hold to collect contractual cash flows and sell" and "Held for trading".

Reclassification is not possible:

- If the Group uses the option to designate a financial asset at initial recognition as an instrument measured at fair value through profit or loss (the "Fair Value Option");
- For equity instruments (measured at fair value through profit or loss or through other comprehensive income); or
- For financial liabilities.

If the Group reclassifies loans and debt instruments, the change in classification is applied prospectively from the first day of the next reporting period following the change in the business model.

Measurement of reclassified financial assets at the reclassification date and subsequently:
- When reclassifying a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value and at the reclassification date, a new effective interest rate is determined. Subsequent changes in fair value are recognised in other comprehensive income. For the purpose of calculating expected credit losses from the reclassification date, the date of reclassification is treated as the date of initial recognition of the asset;
- When reclassifying a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount and a new effective interest rate is determined. For the purpose of calculating expected credit losses from the reclassification date, the date of reclassification is treated as the date of initial recognition of the asset;
- When reclassifying a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date;
- When reclassifying a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. The cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification;
- When reclassifying a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value is recognised in profit or loss;
- When reclassifying a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

The Group did not reclassify any loans and debt instruments.

3.5.5.6 Determination of a financial instrument's fair value and its hierarchy

For the determination and categorisation of a financial instrument's fair value, the Group treats a security as quoted if quoted market prices are readily and regularly available from a stock exchange, dealers, securities traders, industrial groups, valuation services or regulatory authorities and if these prices represent current and regular market transactions under ordinary conditions.

If there are no quoted prices in an active market for the financial asset, the Group uses other values that are observable, directly or indirectly, from the markets for its measurement, such as:

I. Quoted prices for similar assets or liabilities in active markets;
II. Quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. there are few recent transactions, prices quotations are not based on current information, etc.);
III. Inputs other than quoted prices (e.g. inputs based on interest rates, yield curves, implied volatilities, credit spreads, etc.); or
IV. Inputs derived principally from, or corroborated by, observable market data.

Where the inputs for the determination of a financial instrument's fair value are not observable in a market due to the fact that there is no or only minimal activity for that asset or liability, the Group uses for fair value measurement inputs that are available but not directly observable within a market and which, in the Group's view, reflect assumptions that market participants take into account when pricing the financial instrument.

The fair value of debt securities for which an observable market price is not available is estimated using an income approach (the present value technique taking into account the future cash flows that a market participant would expect to receive from holding the instrument as an asset) and the fair value of unquoted equity instruments is estimated using an income approach or market approach (using prices and other relevant information generated by a market). The fair values of financial derivatives are obtained from quoted market prices, discounted cash flow models or option pricing models and are adjusted for the credit risk of the counterparty (CVA) or the Group's own credit risk (DVA), as appropriate.

The existence of published price quotations in an active market is normally the best evidence of fair value. The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and for an asset to be acquired or liability held, the ask price.

The Group manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk. It uses mid-market prices as the basis for establishing the fair values of offsetting risk positions and applies the bid or asking price to the net open position as appropriate.

3.5.5.7 Effective interest rate method
The effective interest rate is the rate which exactly discounts the estimated future cash payments or receipts throughout the expected life of a financial instrument.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument and includes any fees and incremental costs that are directly attributable to the instrument and constitute an integral component of the effective interest rate, but it does not take into consideration future credit losses.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or interest expense over the relevant period.

3.5.5.8 Forborne loans
Forborne exposures are debt contracts in respect of which forbearance measures have been granted to the debtor and for which the discontinuation conditions are not met. Forbearance measures consist of concessions to a debtor facing or about to face difficulties in meeting its financial commitments. The concession refers to either modification of terms and conditions (e.g. changes in the payment schedule, interest rate reductions, penalty interest waivers) or refinancing. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Renegotiated loans are continuously reviewed by the Group to ensure that all criteria are met and that future payments are likely to occur. The renegotiated loans continue to be subject to impairment assessment, calculated based on their future cash flows as discounted by the loans' original effective interest rates.

3.5.5.9 Modification of financial assets
A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. When the modification occurs, the Group assesses whether or not the new terms are substantially different from the original terms.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a new asset at fair value and recalculates a new effective interest rate for the asset. Differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition. The date of renegotiation is considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. If the terms are not substantially different, the renegotiation or modification does not result in derecognition.

3.5.5.10 Derecognition of financial assets other than on modification
The Group derecognises all or part of a financial asset (or group of similar assets) when the contractual rights to the cash flows from the asset expire or when the Group has transferred the contractual rights to receive the cash flows and substantially all of the risks and rewards linked to the ownership of the asset.

The Group also derecognises financial assets in respect of which it has retained the contractual rights to the associated cash flows but is contractually obligated to pass these same cash flows through to a third party and for which it has transferred substantially all risks and rewards.

Where the Group has transferred the cash flows of a financial asset but has neither transferred nor retained substantially all the risks and rewards of its ownership and has effectively not retained control of the financial asset, the Group derecognises it and, where necessary, recognises a separate asset or liability to cover any rights and obligations created or retained as a result of the asset's transfer. If the Group has retained control of the asset, it continues to recognise it in the balance sheet to the extent of its continuing involvement in that asset.

When a financial asset is derecognised in its entirety, a gain or loss on disposal is recorded in the Statement of Income for an amount equal to the difference between the carrying amount of the asset and the consideration received. In respect of financial assets at fair value through other comprehensive income, with the exception of equity instruments, the cumulative gain or loss previously reported in Other Comprehensive Income is recorded in the Statement of Income.

The Group only derecognises all or part of a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired. A financial liability is also derecognised and recognised again in the event of a substantial amendment to its contractual conditions or where an exchange is made with the lender for an instrument whose contractual conditions are substantially different.

3.5.5.11 *Impairment of financial assets*

The impairment of financial assets is based on the expected credit loss model.

All of the following assets are subject to the Group's impairment requirements:
- Financial assets measured at amortised cost;
- Debt instruments assets duly measured at fair value through other comprehensive income (FVOCI) mentioned in 3.5.5.4.1 Loans and debt instruments held in the business model "Hold to collect contractual cash flows and sell";
- Loan commitments if a present commitment to provide credit exists (except for loan commitments measured at fair value through profit or loss);
- Financial guarantee contracts (to which IFRS 9 applies except for those measured at fair value through profit or loss); and
- Finance lease receivables in the scope of IAS 17 Leases.

The Group does not assess impairment on non-client financial assets constituting insignificant credit risk, such as, in particular, receivables from the CNB arising from obligatory minimum reserves, nostro accounts, contract assets within the scope of IFRS 15 Revenue from contracts with customers (i.e. rights to consideration after the transfer of goods or services), intragroup receivables and others.

In order to determine impairment, financial assets are classified into three stages depending on the extent of credit deterioration since initial recognition:
- Stage 1 – financial assets are initially recognised in Stage 1, unless they are purchased or originated credit-impaired (subject to a specific treatment). Subsequently, this stage remains unchanged for financial assets for which the credit risk has not increased significantly since initial recognition or that have low credit risk at the reporting date;
- Stage 2 – financial assets with a significant increase in credit risk since initial recognition but in respect of which no objective evidence of impairment exists; or
- Stage 3 – financial assets with objective evidence of impairment at the reporting date.

Transition between the risk stages is assessed on an individual basis by evaluating the risk characteristics specific for the given asset. To this end, the Group uses in particular the relative criteria for an increase of the probability of default, supplemented by the absolute criteria, such as days past due and the client's rating.

<u>Significant increase in credit risk</u>

At each reporting date, the Group assesses whether credit risk has increased significantly. This assessment is based on increase in the probability of default since initial recognition. The Group uses in particular relative criteria supplemented by such absolute criteria as delay of contractual payments by more than 30 days past due, worsening financial situation of the issuer or borrower (rating) and the 24-month trial period after restructuring a loan.

<u>Credit-impaired financial assets</u>

The Group recognises financial assets as credit-impaired when one or more events occurred that have a detrimental impact on the estimated future cash flows. Evidence of credit-impairment may include observable data about the following events:
- Significant financial difficulty of the issuer or borrower;
- A breach of contract, such as a default or past due event more than 90 days past due;
- Concession granted by the lender for reasons of the borrower's financial difficulty that the lender would not otherwise consider;
- Increased probability that the borrower will enter bankruptcy;
- Disappearance of an active market for that financial asset because of financial difficulties; or
- Purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

<u>Measurement of expected credit losses</u>

With the exception of purchased or originated credit-impaired financial assets, the Group recognises expected credit losses (hereafter only "expected losses") to the extent of:
- 12-month expected losses (expected losses resulting from default events on a financial instrument that may occur within 12 months after the reporting date) – Stage 1; or
- Lifetime expected losses (expected losses resulting from all possible default events over the expected life of a financial instrument) – Stages 2 and 3.

The Group recognises a loss allowance in an amount equal to lifetime expected credit losses for credit exposures where there have been significant increases in credit risk since initial recognition.

If in subsequent reporting periods the credit quality of the financial instrument improves so that there is no longer a significant increase in credit risk since initial recognition, the Group reverts to recognising a loss allowance based on 12-month expected losses. This does not apply to purchased or originated credit-impaired financial assets.

Basis for estimating expected losses

Expected losses are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and takes into account the time value of money. The Group considers reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. When measuring the expected losses and taking into account the time value of money, the expected cash flows are discounted as of the reporting date using the original effective interest rate determined at initial recognition (or an approximation thereof).

The Group assesses expected losses for credit-impaired financial assets of significant exposures based on expected cash flows from the client's economic activity or realisation of collateral.

For estimating expected losses for purchased or originated credit-impaired financial assets, the Group applies the credit-adjusted effective interest rate. Unlike the effective interest rate (calculated using the estimated future cash flows not taking into account expected losses), the credit-adjusted effective interest rate incorporates the impact of expected losses of the financial asset.

Purchased or originated credit-impaired financial assets

Purchased or originated credit-impaired financial assets are accounted for differently as the assets are already impaired at initial recognition. For these assets, lifetime expected losses are incorporated into the expected cash flows used to calculate the credit-adjusted effective interest rate at initial recognition. Subsequently, any changes in expected losses are recognised as a loss allowance and as a gain or loss in the Statement of Income. The interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortised cost.

Write-off of financial assets

The Group applies two approaches in writing off financial assets: individual/batch write-offs without further recovery and batch write-offs with further recovery.

Write-offs without further recovery are preceded by a soft or hard collection process based upon individual assessment of the client situation. Write-offs are handled individually or for multiple clients in a batch based on approval by the relevant authority.

Batch write-offs with further recovery are managed by a regular semi-annual process involving only the hard collection portfolio. Subject of write-offs are accounts fulfilling pre-defined criteria for batch write-off. Recovery continues for those accounts even though they have been written off.

3.5.5.12 Repurchase agreements

The Group accounts for contracts to sell and buy back financial instruments ("repos" or "reverse repos") according to their substance as the taking or granting of a loan with a corresponding transfer of financial instruments as collateral.

In the case of repurchase transactions ("repos"), the Group only provides debt instruments held in the business models "Hold to collect contractual cash flows and sell" or "Held for sale" recognised as 'Financial assets at fair value through other comprehensive income' or *'Financial assets or financial liabilities at fair value through profit or loss'*. The corresponding liability arising from a loan taken is recognised in the line *'Financial liabilities at amortised cost'*.

Securities purchased under reverse repurchase agreements ("reverse repos") are recorded in the off-balance sheet, where they are remeasured at fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the Statement of Financial Position in the line *'Financial assets at amortised cost'*.

The Group is entitled to provide those securities received in reverse repo transactions as collateral or sell them even in the absence of default by their owner. These securities continue to be recorded in the off-balance sheet and measured at fair value. The corresponding liability arising from the loan taken is recognised under *'Financial liabilities at amortised cost'*. The Group is nevertheless obliged to return these securities to its counterparties.

The differences between the sale and repurchase prices in respect of repo and reverse repo transactions are treated by the Group as interest, and it is accrued evenly to expenses and income over the life of the repo agreement using the effective interest rate method.

If the security acquired as collateral under a reverse repo transaction is sold, the Group derecognises the security acquired under the reverse repo transaction from the off-balance sheet records and recognises in the Statement of Financial Position an amount payable from a short sale that is remeasured at its fair value. This payable is included in *'Financial liabilities at fair value through profit or loss'*.

3.5.6 Assets held for sale

The line *'Assets held for sale'* represents assets for which the Group expects that their carrying amounts will be recovered principally through sale transactions rather than through continuing use. These assets are available for immediate sale in their present condition, they are actively marketed for sale at a price that is reasonable in relation to their current fair value, and their sale is highly probable, that is to say that a plan to sell and leading to the location of a buyer has been initiated. The Group expects that the sale of assets will be completed, the market situation permitting, within 1 year from the date of the assets' classification as *'Assets held for sale'*.

Assets held for sale are measured at the lower of:
- The carrying amount of the respective asset at the date of its classification as *'Assets held for sale'*; or
- Fair value less estimated costs to sell (e.g. cost of expert valuation reports, legal or financial advisory services, the estimates of which are based on historical experience, as well as real estate transfer tax for real estate).

Assets designated as *'Assets held for sale'* are no longer depreciated.

The Group recognises an impairment loss on assets held for sale in the line 'Net profits on other assets' if their selling price less estimated costs to sell is lower than their carrying amount. Any subsequent increase in the selling price less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been recognised either during the time when the assets were classified as held for sale or before their reclassification into the line 'Assets held for sale' (i.e. during the period when the asset had been held for supplying the Group's services or for administrative purposes).

3.5.7 Income tax

3.5.7.1 Current income tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those valid as of the Statement of Financial Position date.

Current income tax is recognised in the Statement of Income, or, as the case may be, in the Statement of Other Comprehensive Income if it relates to an item directly taken into other comprehensive income.

The Group does not set off current tax assets and current tax liabilities unless it has a legally enforceable right to set off the recognised amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3.5.7.2 Deferred income tax

Using the balance sheet liability method, deferred income tax is recorded for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts presented in the Statement of Financial Position. Deferred income tax is determined using tax rates valid or substantially enacted for the periods in which the Group expects to realise the deferred tax asset or to settle the deferred tax liability. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the tax asset can be used.

Deferred income tax is recognised in the Statement of Income, or, as the case may be, in the Statement of Other Comprehensive Income if it relates to an item directly taken into other comprehensive income (such as deferred income tax related to changes in the fair value of financial assets measured at fair value through other comprehensive income or in relation to a cash flow hedge).

The Group offsets deferred income tax assets and deferred income tax liabilities only if it has a legally enforceable right to set off current tax assets against current tax liabilities and if deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority and relate to the same taxable entity.

The largest temporary differences relate to tangible and intangible assets, loans and advances, hedging derivatives and financial assets measured at fair value through other comprehensive income.

3.5.8 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Operating leases

The Group presents assets that are the subject of an operating lease in the appropriate lines within the Statement of Financial Position according to the nature of those assets and uses for them the accounting policies applied to the relevant asset class.

Lease payments received from operating leases are recognised as the Group's income on a straight-line basis over the term of the relevant lease under *'Other income'*.

Finance leases
In respect of assets held under finance leases, the net investment in the lease is recognised as *'Financial assets at amortised cost'* while the assets themselves are not recognised. The difference between the gross receivable and the present value of the receivable is recognised as deferred interest income.

Lease income is recognised over the term of the lease, reflecting a constant periodic rate of interest on the remaining balance of the receivable, and it is presented in the line *'Interest income'*.

The Group as lessee
Operating leases
Lease payments under an operating lease are recognised on a straight-line basis over the lease term and are presented in the line *'General and administrative expenses'*. Possible penalty payments due to the early termination of a lease are recognised in the reporting period in which the lease was terminated.

Finance leases
At the commencement of a lease term, an asset held under a finance lease is recognised in the appropriate line within the Statement of Financial Position in accordance with the nature of the asset and simultaneously a liability is recognised in an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Subsequently, the Group uses the same accounting policies for these assets as for its own assets presented in the same line as the leased asset. If the legal ownership of the asset held under a finance lease is not transferred to the lessee by the end of the lease term, however, the asset is depreciated on a straight-line basis over the lease term.

The Group divides lease payments between amortisation recognised as the reduction of the outstanding liability and a finance charge recognised in the Statement of Income as *'Interest expense'*. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability during the entire lease period.

3.5.9 Tangible and intangible assets (except goodwill)
Intangible assets principally include software and internally generated intangible assets (mainly software). Tangible assets include plant, property and equipment that are used by the Group in supplying its services and for administrative purposes and that are used for longer than one reporting period.

Tangible and intangible assets are measured at the historical acquisition cost less accumulated impairment losses (allowances) and, in the case of depreciated assets, less accumulated depreciation and increased by technical improvements, if any. The historical acquisition cost comprises the purchase price and any costs directly attributable to asset acquisition, such as delivery and handling costs, installation and assembly costs, advisory fees, and administrative charges. The acquisition cost of internally generated intangible assets comprises external expenses and internal personnel expenses related to an internal project's development phase. The Group capitalises no expenses related to the research phase.

Tangible and intangible assets are depreciated from their acquisition costs on a straight-line basis over their useful lives. Cars acquired under finance leases are depreciated from acquisition cost less estimated residual value, which is determined on the basis of the purchase price following the expiration of the lease as established in the lease contract. The Group assumes no residual value for other assets. Depreciation and amortisation are reported in the Statement of Income in the line *'Depreciation, amortisation and impairment of operating assets'*.

The Group does not depreciate land and works of art. Tangible and intangible assets under construction and technical improvements are depreciated only once they have been brought into a condition fit for use.

During the reporting period, the Group used the following useful lives in years:

	2018	2017
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – desktop computers	6	6
Fixtures, fittings and equipment	6	6
Vehicles	5/6	5
ATMs	10	10
Selected equipment of the Group	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	20
– Lifts, electrical installations	25	25
– Facades	30	30
– Roofs	20	20
– Other components	15	15
– Residual value of buildings and technical improvements without selected components	50	50
Technical improvements on leasehold assets	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as component of internal projects)	According to the useful life, typically 5	According to the useful life, typically 5
Licences – software	5	5
Other rights of use	According to contract	According to contract

At the end of each reporting period, the Group assesses whether there exists any indication that a tangible or intangible asset can be impaired. Indicators of possible impairment include information about a significant decline in an asset's market value, significant changes within the technological, market, economic or legal environment, obsolescence or physical damage to an asset, or change in the manner in which the asset is used. Where any such indicator exists, the Group estimates the recoverable amount of the asset concerned (i.e. the higher amount of its fair value less costs to sell and value in use in comparison with the asset's carrying value). If the asset's carrying amount is greater than its recoverable amount, the Group reduces its carrying amount to its recoverable amount and presents the recognised impairment loss in the line *'Depreciation, amortisation and impairment of operating assets'*.

Repairs and maintenance are charged directly to the Statement of Income when they occur.

3.5.10 Goodwill

Recognised goodwill arises on the acquisition of a subsidiary. For subsidiaries acquired until 2010, it represents the excess of the acquisition cost (including acquisition-related costs) for the interest acquired by the Group over the net fair value of the acquired assets, liabilities and contingent liabilities at the acquisition date. For subsidiaries acquired from 2010, it represents the difference between the fair value of the transferred consideration and the amount of any non-controlling interest measured at the present proportionate share in the recognised amounts of the subsidiary's identifiable net assets at fair value on one side and the net of the identifiable assets and the liabilities assumed both at fair value on the other side. Acquisition-related costs are recognised in profit or loss.

Goodwill is initially recognised at the cost of acquisition and subsequently at cost net of possible impairment losses. Once recognised, impairment losses on goodwill are not reversed.

The Group tests goodwill for impairment on an annual basis as of 30 September or more frequently if there is indication that the goodwill may be impaired. If the recoverable amount of the tested cash-generating unit (typically the acquired enterprise taken as a whole) is lower than its carrying value, the Group recognises an impairment of the cash-generating unit that is primarily allocated against the goodwill and subsequently against the value of other assets (against other impaired assets and/or on a pro-rata basis).

For the purpose of calculating the recoverable amount, the Group calculates value in use as the present value of the future cash flow to be generated by a cash-generating unit from its continuing use in the business. The Group estimates future cash flow on the basis of a 3-year financial plan for the cash-generating unit that is approved by management. Cash flows represent income after tax of cash-generating units available for distribution to owners. The discount rate used is the cost of capital calculated using the capital asset pricing model. This method is based on a risk-free interest rate grossed up by a risk premium determined according to the underlying activities of the cash-generating unit. Inasmuch as all respective subsidiaries are located in the Czech Republic and their functional currency is the Czech crown, no other premium is added. For the period beyond the 3-year financial plan, the projected cash flows are calculated in perpetuity based on constant cash flows being the net operating income after taxes and including a steady growth rate derived as an average from the 3-year financial plan. Key assumptions used in the preparation of the financial plan are consistent with market estimations (GDP, interest rate, inflation) and with past experience.

Upon the sale of a subsidiary, the appropriate goodwill balance is reflected in the profit or loss on the sale.

Most acquisitions give rise to positive goodwill. However, occasionally the net of the identifiable assets acquired and the liabilities assumed both at fair value may exceed the aggregate of the fair value of the transferred consideration and the amount of any non-controlling interest measured at the present proportionate share in the recognised amounts of the subsidiary identifiable net assets at fair value. The amount is than referred to as gain on bargain purchase (negative goodwill) and the resulting gain is recognised in profit or loss at the acquisition date. Prior to recognising the gain, however, the Group reassess whether it has correctly identified all of the assets acquired and liabilities assumed and reviews the procedures used for their measurement and the measurement of non-controlling interest in the acquiree and the consideration transferred.

3.5.11 Provisions

The Group recognises provisions for contracted commitments (principally comprising the provisions for ongoing contracted potential commitments, legal disputes, self-insurance and the retirement benefits plan) and for restructuring.

Provisions are recognised when and only when:

- The Group has a present obligation (legal or constructive) as a result of a past event;
- It is probable that settlement of the obligation will cause an outflow of resources causing a decrease of economic benefits; and
- A reliable estimate can be made of the amount of the obligation. Provisions for legal disputes are estimated on the basis of the amount sought by the plaintiff, including accrued interest and fees.

Provisions are measured as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate reflecting current market assessments and the risks specific to the liability. Provision increases related to the passage of time are recognised as interest expense.

A provision for restructuring is recognised when the Group has approved a detailed, formal plan for restructuring and the restructuring has either commenced or the main features of the restructuring plan have been announced to those affected before the end of the reporting period. The restructuring provision shall include only the direct expenditures arising from the restructuring which are necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

The Group also recognises provisions for credit-related commitments into which the Group enters in the normal course of business. These credit-related commitments do not meet the criteria for recognition in the Statement of Financial Position and are recorded in the off-balance sheet. These commitments primarily include guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. The provisions represent impairment based on expected losses from any potential financial liabilities arising from these credit-related commitments. Provisions for credit-related commitments are created on the same basis as are loss allowances for financial assets.

3.5.12 Employee benefits

3.5.12.1 General

The Group provides its employees with retirement benefits and disability benefits. The employees are entitled to receive retirement or disability benefits if they are employed by the Group until their retirement age or if they are entitled to receive a disability pension, but only if they were employed within the Group for a minimum defined period.

Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to the methodology used in respect of defined benefit pension plans. In determining the parameters of the model, the Group refers to the most recent employee data (the length of employment with the Group, age, gender, average salary) and estimates made on the basis of monitored historical data about the Group's employees (expected reduction of the current staffing levels) and other estimates (the amounts of bonuses, anticipated increase in salaries, estimated amounts of social security and health insurance contributions, discount rate).

These provisions are presented in the line *'Provisions'*. The changes in provisions are disaggregated into three components that are presented as follows:

I. Service cost (i.e. additional liability that arises from employees providing service during the period) is presented in the line *'Personnel expenses'*;
II. The interest expense on the net benefit liability is presented in the line *'Personnel expenses'*; and
III. Other changes in the value of the defined benefit obligation, such as changes in estimates, are presented within Other Comprehensive Income in the line *'Remeasurement of retirement benefits plan, net of tax'*.

The use of a provision is presented in the line *'Personnel expenses'*.

The Group additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Group recognises the costs of these contributions on an accrual basis in the line *'Personnel expenses'* (refer to Note 10).

The Group has the following share plans and deferred compensation schemes:

3.5.12.2 Deferred bonus payments

In accordance with European regulation (Capital Requirements Directive III; No. 2010/76/EU), the Group implemented a new compensation scheme for employees whose professional activities have a material impact on the Group's risk profile. For employees identified in accordance with the CRD III regulation, performance-linked remuneration is split into two components: (i) a non-deferred component that is paid in the following year; and (ii) a deferred component that is spread over 3 years. The amounts of the two components are further split into bonuses paid in cash and bonuses paid in cash equivalent of the Société Générale S.A. share price or in cash equivalent of the Komerční banka, a.s. share price (indexed bonuses). Both bonuses are subject to presence and performance conditions:

- In the case of bonuses paid in the cash equivalent of the Société Générale S.A. share price, the performance condition is based on the profitability of the Société Générale Group;
- In the case of bonuses paid in cash and bonuses paid in cash equivalent of the Komerční banka, a.s. share price, the performance condition is based on the profitability of the Komerční banka Group. Moreover, for investment banking employees there is the condition that the Group's net investment banking operating income be higher than zero.

Indexed bonuses qualify as cash-settled share-based transactions. The liability is measured at the end of each reporting period until settled at the fair value of the shares of Société Générale S.A. or Komerční banka, a.s multiplied by numbers of shares granted and it is spread over the vesting period.

The amounts of bonuses finally vested is calculated as the number of Société Générale S.A. shares or Komerční banka, a.s shares multiplied by their price fixed as the volume-weighted average of the last 20 closing trading prices prior to the first business day following the end of the applicable retention period.

Deferred cash bonuses (i.e. bonuses paid to employees more than 12 months after the end of the reporting period in which the employees render the related services) are considered as long-term employee benefits and the related expense is recognised over the vesting period in the line *'Personnel expenses'*.

3.5.12.3 Free share plan

To enhance loyalty and motivation to contribute to long-term growth in the value of the Société Générale Group, the Group can award some of its key employees free shares (deferred share plan). These free shares are subject to a vesting condition (i.e. presence in the Group at the end of the vesting period, which is 4 years) and for certain beneficiaries are also subject to the condition that Société Générale Group records positive net income.

Expenses related to the free share and deferred share plans provided by Société Générale to the Group's employees are recognised in the Group's financial statements as equity-settled share-based payment transactions. The fair value of these instruments, measured using the arbitrage model at the granting date, is spread over the vesting period and recorded in the lines *'Personnel expenses'* and *'Share premium, funds, retained earnings, revaluation and net profit for the period'* under equity. At the end of each accounting period, the number of these instruments is adjusted in order to take into account performance and service conditions and adjust the overall cost of the plan as originally determined. Expenses recognised under the *'Personnel expenses'* from the start of the plan are then adjusted accordingly.

3.5.13 Share capital

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity at the time they are approved by the Bank's General Meeting.

Treasury shares

When the Group acquires its own equity instruments, the consideration paid, including any attributable transaction costs, is recognised as a deduction from the line *'Share premium, funds, retained earnings, revaluation and net profit for the period'* under equity. Gains and losses on sales of treasury shares are also recognised in equity and presented in the line *'Share premium, funds, retained earnings, revaluation and net profit for the period'*.

3.5.14 Contingent assets, contingent liabilities and off-balance sheet items

In addition to transactions giving rise to recognition of assets and liabilities in the Statement of Financial Position, the Group enters into transactions through which it generates contingent assets and liabilities. The Group maintains contingent assets and liabilities as off-balance sheet items. The Group monitors these transactions inasmuch as they constitute a substantial proportion of its activities and materially impact the level of risks to which the Group is exposed (they may increase or decrease other risks, for instance, by hedging assets and liabilities reported in the Statement of Financial Position).

A contingent asset or liability is defined as a possible asset or liability that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly under the Group's control.

A contingent liability also exists in the case of a present obligation where an outflow of resources embodying economic benefits probably will not be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities include, for example, irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit and warrants.

In addition to contingent assets and contingent liabilities, the off-balance sheet includes assets arising from valuables and securities custody as well as from fiduciary activities and related obligations to return these to customers (e.g. assets under management).

Off-balance sheet items also include nominal values of interest and foreign currency instruments, such as forwards, swaps, options and futures. More information regarding derivative operations is presented in Note 3.5.5.4.4 Derivatives and hedge accounting.

3.5.15 Operating segments

Operating segments are reported in accordance with internal reports regularly prepared and presented to the Bank's Board of Directors, which is considered the "chief operating decision maker" (i.e. a person or group of persons that allocates resources and assesses the performance of individual operating segments of the Group).

The Group has the following operating segments:
- *Retail Banking:* includes the provision of products and services to individuals (i.e. predominantly current and savings accounts, term deposits, building savings, pension insurance, overdrafts, credit card loans, personal loans and mortgages);
- *Corporate Banking:* includes the provision of products and services to corporate entities (i.e. current accounts, term deposits, revolving loans, business loans, mortgages, leases, foreign currency and derivative products, syndicated and export financing, and guarantee transactions);
- *Investment Banking:* involves trading in financial instruments; and
- *Other:* consists of the head office of the Bank.

The Investment Banking segment does not reach quantitative limits for obligatory reporting. The management of the Group nevertheless believes that the information concerning this segment is useful for users of the Financial Statements and thus reports this segment separately.

As the principal activity of the Group is the provision of financial services, the Board of Directors of the Bank assesses the performance of operating segments predominantly according to net interest income. For this reason, interest income and interest expense of individual operating segments are reported not separately but on a net basis.

In addition, the Group monitors net fee and commission income, net profit/(loss) on financial operations, and other income predominantly including income from the lease of non-residential premises by segments. Other profit and loss items are not monitored by operating segments.

The Group does not monitor total assets or total liabilities by segment.

The information on the items of net operating income is provided to the Board of Directors of the Bank using valuations identical to those stated in the Group's financial accounting records.

The Group has no client or group of related parties for which the income from transactions would account for more than 10% of the Group's total income.

3.5.16 Regulatory requirements

The Group is subject to the regulatory requirements of the CNB and other institutions. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, and creation of allowances and provisions to cover credit risk associated with the Group's clients, as well as with its liquidity, interest rate and foreign currency positions.

3.6 Changes in accounting policies

3.6.1 First-time application of IFRS 9 Financial Instruments

As of 1 January 2018, the Group has implemented the new standard IFRS 9 Financial Instruments superseding the previous standard IAS 39. This resulted in changes in accounting policies for financial instruments and supplementation of disclosures in the Notes as required by amendments of IFRS 7 Financial instruments: Disclosures. The new accounting policies, including the new approach to classification and measurement of financial assets and the new impairment methodology, are reflected in Note 3.5.5.

The first-time application of IFRS 9 is retrospective in terms of classification and measurement and impairment. As permitted by the transitional provisions of IFRS 9, however, the Group elected not to restate comparative information for prior periods. Differences arising from the adoption of IFRS 9 have been recognised directly in the opening balance of equity as of 1 January 2018 and are disclosed below.

The comparative data for balance sheet items and commitments associated with financial instruments presented throughout the Notes below are the balances as of 1 January 2018. These amounts constitute the balances as of 31 December 2017 as adjusted for reclassifications and remeasurements resulting from the first-time application of IFRS 9. The comparative data as of 31 December 2017, as well as the accounting policies under IAS 39 applicable to these comparative data, are available in Note 46.

The Group has also elected, as a policy choice provided by the transitional provisions of IFRS 9, to continue recognising hedging transactions under IAS 39 as adopted by the European Union.

Changes to classification and measurement

Under IFRS 9, financial assets are classified into one of three categories: amortised cost, fair value through other comprehensive income, or fair value through profit or loss. The classification and measurement of financial assets loans and debt instruments are assessed based on those financial assets' contractual cash flow characteristics and the entity's business model for managing these assets.

The principles for classifying and measuring financial instruments are detailed in Note 3.5.5.

Changes to impairment calculation

Application of the new impairment methodology under IFRS 9 that is based on the expected credit loss model and supersedes the incurred loss model provided for in IAS 39 means there will be earlier recognition of expected credit losses from the point at which financial instruments originate or are acquired.

The scope and principles of impairment and provisions for expected credit losses are detailed in Note 3.5.5.

Set out below are disclosures relating to the impact of the initial application of IFRS 9.

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

To determine the classification under IFRS 9 of financial assets recognised on the Statement of Financial Position as of 31 December 2017, the Group performed detailed analysis of:

- The characteristics of contractual cash flows based on facts and circumstances at the date of initial recognition of the instrument; and
- The business models for managing the assets based on facts and circumstances as of 1 January 2018.

The following table reconciles for financial assets and liabilities the original measurement categories and carrying amounts determined in compliance with IAS 39 and the new measurement categories and carrying amounts upon transition to IFRS 9 on 1 January 2018.

(CZKm)	IAS 39 as of 31 December 2017		Reclassification	Remeasurement		IFRS 9 as of 1 January 2018	
Financial assets	**Measurement category**	**Balance**		**ECL**	**Other**	**Measurement category**	**Balance**
Financial assets at amortised cost							
Loans and advances to banks		228,374		4			222,821
– To: Financial assets at FVTPL - non-SPPI			(2,708)				
– To: Financial assets at FVOCI			(2,039)				
– To: Debt securities at amortised costs			(810)				
Loans and advances to customers		598,102		(828)			593,639
– To: Debt securities at amortised costs			(3,635)				
Debt securities at amortised costs		X		(11)			70,340
– From: Loans and advances to banks			810				
– From: Loans and advances to customers			3,635				
– From: Available-for-sale financial assets			20,196		(335)		
– From: Held-to-maturity investments			46,045				
Total	**L&A**	**826,476**	**61,494**	**(835)**	**(335)**	**AC**	**886,800**
Available-for-sale financial assets		29,712					X
– To: Financial assets at FVOCI			(9,076)				
– To: Debt securities at amortised costs			(20,196)		(440)		
Total	**AFS**	**29,712**	**(29,272)**		**(440)**	**N/A**	**X**
Held-to-maturity investments		59,915					X
– To: Financial assets at FVOCI			(12,194)		(193)		
– To: Debt securities at amortised costs			(46,045)		(1,483)		
Total	**HTM**	**59,915**	**(58,239)**		**(1,676)**	**N/A**	**X**
Financial assets at fair value through other comprehensive income		X					24,039
– From: Available-for-sale financial assets			9,076				
– From: Held-to-maturity investments			12,194		733		
– From: Loans and advances to banks			2,039		(3)		
Total	**N/A**	**X**	**23,309**		**730**	**FVOCI**	**24,039**
Financial assets at fair value through profit or loss – non-SPPI		X					2,694
– From: Loans and advances to banks			2,708		(14)		
Total	**N/A**	**X**	**2,708**		**(14)**	**FVTPL**	**2,694**

(CZKm)	IAS 39 as of 31 December 2017		Reclassification	Remeasurement		IFRS 9 as of 1 January 2018	
Financial liabilities	**Measurement category**	**Balance**		**ECL**	**Other**	**Measurement category**	**Balance**
Provisions		1,911		47			1,958
Total	**AC**	**1,911**		**47**		**AC**	**1,958**

Reclassifications of financial assets to amortised costs

For financial assets that have been reclassified to the measurement category amortised cost (from the previous measurement category available-for-sale) as a result of the transition to IFRS 9, the following table shows the fair value of the financial assets as of 31 December 2018 and the fair value of gain or loss that would have been recognised in other comprehensive income during the reporting period if the financial assets had not been reclassified.

(CZKm)	2018
From: Available-for-sale financial assets (IAS 39 classification)	
– Fair value as of 31 December 2018	18,425
– Fair value gain/(loss) that would have been recognised in OCI during the year if the financial asset had not been reclassified	(491)

Reconciliation of impairment allowances and provisions from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with IAS 39 and provisions for off-balance exposures under IAS 37 to the new impairment allowance measured in accordance with the IFRS 9 expected loss model as of 1 January 2018.

(CZKm)	As of 31 Dec 2017			As of 1 Jan 2018
Impairment allowance	Loan loss allowance under IAS 39/Provision under IAS 37	Reclassification	Remeasurement	Loan loss allowance under IFRS 9
Impairment of financial assets				
Loans and advances (IAS 39), Held-to-maturity investments (IAS 39)/Financial assets at amortised costs (IFRS 9)				
– Loans and advances to banks at amortised costs	(10)		4	(6)
– Loans and advances to customers at amortised costs	(12,747)		(828)	(13,575)
– Debt securities at amortised costs	0		(11)	(11)
Total	**(12,757)**		**(835)**	**(13,592)**
Provisions for guarantees and other credit-related commitments				
– Provisions for guarantees and other credit-related commitments	1,394		47	1,441

Reconciliation of reserves and retained earnings

(CZKm)	Reserves and retained earnings
Other comprehensive income / Revaluation reserve	
Closing balance under IAS 39 (31 December 2017)	2,326
– Reclassification of debt securities from AFS to AC	(775)
– Reversal of revaluation relating to HTM created from AFS under IAS39	(1,676)
– Reclassification of debt securities from HTM to FVOCI	733
– Recognition of ECL under IFRS 9 for debt financial assets at FVOCI	(4)
– Deferred tax	295
Opening balance under IFRS 9 (1 January 2018)	899
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	75,352
– Remeasurement impact of reclassifying from AC to FVTPL	(14)
– Recognition of ECL under IFRS 9 including those measured at FVOCI	(882)
– Deferred tax	139
– Non-controlling interest	85
Opening balance under IFRS 9 (1 January 2018)	74,680
– Non-controlling interest	(85)
Total change in equity due to adopting IFRS 9	**(2,184)**

3.6.2 Other changes in accounting policies

As of 1 January 2018, the Group has made the following changes in reporting principles without any impact on total Net profit for the period:

- Fees for early loan repayment – newly recognised in the line *'Interest income'*, previously in the line *'Net fee and commission income'*;
- Dividend income – newly recognised in a separate line part of *'Net operating income'*, previously part of *'Net interest income'*;
- Provisions for other risk expenses – newly recognised in the line *'General and administrative expenses'* (GAE), previously in the line *'Cost of risk'* (CoR);
- Fees from insurance as a supplementary service where the Bank is acting as an agent – newly a netting approach for reporting in the line *'Net fee and commission income'* in accordance with requirements of the new standard IFRS 15 Revenue from contracts with customers that the Group has implemented as of 1 January 2018, previously a gross approach of reporting fee income and fee expenses.

(CZKm)	Reported 2017	Restated 2017
Interest income	26,646	26,827
Net fee and commission income	6,465	6,284
Net operating income	31,060	31,060
General and administrative expenses	(5,269)	(5,264)
Cost of risk	392	387

In 2018, the Group modified the method of compiling the Statement of Cash Flows, which is now compiled by the indirect method. The reason for the change was to unify the approach with that of the parent company and practice in the market. The Group also changed the classification of cash flows from equity instruments and debt securities. These items had previously been reported in cash flows from financial activities and now they are reported in cash flows from operating activities. The new classification is more in line with the nature of those assets and is consistent with the inclusion of these items in the parent's Statement of Cash Flows. In making the restatement, the Group has refined the presentation of some items, but this refinement does not affect the total cash flow.

The comparable period was set up in the new structure without any impact on total cash flows.

4 Segment reporting

	Retail banking		Corporate banking		Investment banking		Other		Total	
(CZKm)	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net interest income	13,735	12,547	6,258	5,889	597	245	1,919	2,304	22,509	20,985
Net fee and commission income	4,287	4,374	2,016	1,982	(199)	(120)	116	48	6,220	6,284
Net profit/(loss) on financial operations	1,175	956	1,702	1,615	105	915	227	90	3,209	3,576
Dividend income	0	0	0	0	0	0	5	4	5	4
Other income	132	72	(24)	39	339	142	(187)	(42)	260	211
Net operating income	**19,329**	**17,949**	**9,952**	**9,525**	**842**	**1,182**	**2,080**	**2,404**	**32,203**	**31,060**

Given the specifics of banking activities, the Board of Directors of the Bank (the chief operating decision maker) is provided with information on income, recognition of allowances, write-offs and income tax only for selected segments, rather than consistently for all segments. For this reason, this information is not reported for segments.

As most of the income of segments arises from interest, and, in assessing the performance of segments and deciding on allocation of resources for segments, the Board of Directors primarily refers to net interest income, the interest for segments is reported on a net basis (i.e. reduced by interest expense).

Transfer prices between operating segments are based on transfer interest rates representing actual market interest rate conditions, including a liquidity component reflecting the existing opportunities to acquire and invest financial resources.

The Group's income is primarily – more than 98% (2017: more than 98%) – generated on the territory of the Czech Republic.

5 Net interest income

Net interest income comprises the following:

(CZKm)	2018	2017
Interest income	33,448	26,827
Interest expense	(10,939)	(5,842)
Net interest income	**22,509**	**20,985**
Of which net interest income from		
– Loans and advances at amortised cost	19,890	16,603
– Debt securities at amortised cost	1,904	
– Available-for-sale financial assets		1,869
– Other debt securities	463	
– Held-to-maturity investments		818
– Financial liabilities at amortised cost	(2,361)	(1,809)
– Hedging financial derivatives – income	11,191	7,537
– Hedging financial derivatives – expense	(8,578)	(4,033)
Total	**22,509**	**20,985**

'Interest income' includes interest on Stage 3 loans due from customers of CZK 344 million (2017: CZK 342 million).

In both 2018 and 2017, the Group recorded as part of *'Net interest income'* also negative interest income and expense from selected clients' deposits in selected currencies, from selected repo transactions, loro and nostro accounts, and margin accounts deposited at banks. The total amount recognised is not material.

6 Net fee and commission income

Net fee and commission income comprises the following:

(CZKm)	2018	2017
Deposit product fee and commission income	882	862
Loan fee and commission income	933	1,037
Transaction fee and commission income	2,975	3,044
Cross-selling fee income	1,497	1,410
Specialised financial services fee and commission income	859	980
Other fee and commission income	200	117
Total fee and commission income	**7,346**	**7,450**
Deposit product fee and commission expense	(111)	(176)
Loan fee and commission expense	(248)	(312)
Transaction fee and commission expense	(400)	(363)
Cross-selling fee expense	(130)	(112)
Specialised financial services fee and commission expense	(147)	(138)
Other fee and commission expense	(90)	(65)
Total fee and commission expenses	**(1,126)**	**(1,166)**
Total net fee and commission income	**6,220**	**6,284**

'Net fee and commission income' comprises fee income arising from trust and other fiduciary activities in the amount of CZK 657 million (2017: CZK 625 million) and fee expense for these services in the amount of CZK 83 million (2017: CZK 73 million).

7 Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises the following:

(CZKm)	2018	2017
Net realised gains/(losses) on securities held for trading	1,974	272
Net unrealised gains/(losses) on securities held for trading	(109)	61
Net realised gains/(losses) on debt securities at fair value through OCI	14	0
Net realised gains/(losses) on disposal of debt securities at amortised cost	6	0
Net realised and unrealised gains/(losses) on security derivatives*	(1,775)	(276)
Net realised and unrealised gains/(losses) on interest rate derivatives	(102)	(288)
Net realised and unrealised gains/(losses) on trading commodity derivatives	30	18
Net realised and unrealised gains/(losses) on foreign exchange operations	2,361	2,594
Net realised gains/(losses) on foreign exchange from payments	810	1,195
Total net profit/(loss) on financial operations	**3,209**	**3,576**

* This line also includes impacts of derivative trades in emission allowances.

A gain of CZK 594 million (2017: loss of CZK 631 million) on the fair value of interest rate swaps for interest rate risk hedging is included in *'Net realised and unrealised gains/(losses) on interest rate derivatives'*. This amount matches the loss arising from revaluation of hedged loan receivables, debt securities, deposits or repos and issued mortgage bonds reported in the same line.

8 Dividend income

'Dividend income' includes dividends received from equity instruments held in the *'Financial assets at fair value through profit or loss – non-SPPI'* portfolio of CZK 2 million (2017: CZK 0 million) and from equity instruments held in the *'Financial assets at fair value through other comprehensive income'* portfolio of CZK 3 million (2017: CZK 4 million).

9 Other income

The Group reports *'Other income'* in the amount of CZK 260 million (2017: CZK 211 million). In both 2018 and 2017, *'Other income'* was predominantly composed of income from services provided to the Société Générale Group entities as well as property rental income.

10 Personnel expenses

Personnel expenses comprise the following:

(CZKm)	2018	2017
Wages, salaries and bonuses	5,655	5,234
Social costs	2,172	2,087
Total personnel expenses	**7,827**	**7,321**
Physical number of employees at the end of the period*	8,454	8,696
Average recalculated number of employees during the period*	8,413	8,492
Average cost per employee (CZK)	**930,346**	**862,106**

* Calculation according to Czech Statistical Office methodology.

'Social costs' include costs of CZK 89 million (2017: CZK 93 million) paid by the Group to the employees' retirement pension insurance scheme and costs of CZK 45 million (2017: CZK 45 million) incurred in contributing to the employees' capital life insurance scheme.

'Personnel expenses' include net expense of CZK 189 million (2017: CZK 0 million) due to provisions for restructuring created in relation to the transformation project "KB Change" in the amount of CZK 223 million (2017: CZK 0 million) and use in the amount of CZK 34 million (2017: CZK 0 million). Further information is presented in Note 32.

Indexed bonuses
In 2018, the total amount relating to bonuses indexed on the Komerční banka share price recognised in *'Personnel expenses'* was CZK 42 million (2017: CZK 39 million) and the total amount of CZK 60 million (2017: CZK 57 million) was recognised as a liability. These amounts do not include the costs of social and health insurance and retirement pension insurance paid by the Group. Net profit from hedging indexed bonuses by fair value hedge and cash flow hedge derivatives was CZK 0 million (2017: net profit of CZK 3 million). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 109,224 shares (2017: 97,167 shares).

The changes in the numbers of Komerční banka shares were as follow:

(in shares)	2018	2017
Balance as of 1 January	**97,167**	**92,850**
Paid out during the period	(42,641)	(38,593)
Presumed number of newly guaranteed shares	54,698	42,910
Balance as of 31 December	**109,224**	**97,167**

Free shares and deferred share plans
For 2018, the total amount relating to the free shares programme and deferred share plans recognised in *'Personnel expenses'* is CZK 38 million (2017: CZK 34 million).

The changes in the numbers of Société Générale shares were as follow:

	2018		2017	
(in shares; EUR)	Number of shares	Average price	Number of shares	Average price
Balance as of 1 January	**122,880**	**35.40**	**144,081**	**31.58**
Granted during the year	27,366	39.18	27,582	41.05
Forfeited during the year	(4,363)	35.40	(2,143)	31.58
Exercised during the year	(27,995)	35.40	(46,640)	31.58
Balance as of 31 December	**117,888**	**35.62**	**122,880**	**35.40**

11 General and administrative expenses

General and administrative expenses comprise the following:

(CZKm)	2018	2017
Insurance	73	75
Marketing and representation	641	657
Sale and banking products expenses	299	307
Other employees expenses and travelling	165	156
Real estate expenses	1,090	1,071
IT support	980	1,025
Equipment and supplies	204	142
Telecommunications, postage and data transfer	233	256
External consultancy and other services	295	582
Resolution and similar funds	839	862
Other expenses	133	131
Total general and administrative expenses	**4,952**	**5,264**

'General administrative expenses' include net expense of CZK 41 million (2017: CZK 0 million) due to provisions for restructuring created in relation to the transformation project "KB Change" in the amount of CZK 71 million (2017: CZK 0 million) and use in the amount of CZK 30 million (2017: CZK 0 million). Further information is presented in Note 32.

12 Depreciation, amortisation and impairment of operating assets

Depreciation, amortisation and impairment of operating assets comprise the following:

(CZKm)	2018	2017
Tangible and intangible assets depreciation and amortisation (refer to Notes 25 and 26)	1,877	1,667
Impairment of operating assets	(21)	258
Total depreciation, amortisation and impairment of operating assets	**1,856**	**1,925**

The net gain from *'Impairment of operating assets'* in the total amount of CZK 21 million (2017: net loss of CZK 258 million) mainly includes a net gain from impairment reversal on internal projects (SW) and hardware.

13 Cost of risk

The net gain in *'Cost of risk'* totalling CZK 643 million (2017: CZK 387 million) includes a net gain from allowances and provisions in the amount of CZK 484 million (2017: CZK 49 million) and a net gain from loans and advances transferred and written off in the amount of CZK 159 million (2017: CZK 338 million).

The balances and movements of allowances and provisions for loans and advances and for debt securities as of 31 December 2018 were as follow:

(CZKm)	As of 1 Jan 2018	Increase due to origin	Decrease due to derecog-nition	Change of credit risk (net)	Change of estimation (net)	Decrease due to write off	Other	As of 31 Dec 2018
Allowances for financial assets (Stage 1)	(1,010)	(484)	366	161	128	0	101	(738)
– Debt securities	(15)	0	0	6	0	0	0	(9)
– Loans and advances	(995)	(484)	366	155	128	0	101	(729)
Allowances for financial assets (Stage 2)	(1,099)	0	47	71	(162)	0	(49)	(1,192)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(1,099)	0	47	71	(162)	0	(49)	(1,192)
Allowances for financial assets (Stage 3)	(11,487)	0	1,015	(253)	145	396	(68)	(10,252)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(11,487)	0	1,015	(253)	145	396	(68)	(10,252)
Total allowances for financial assets (refer to Notes 22 and 42)	**(13,596)**	**(484)**	**1,428**	**(21)**	**111**	**396**	**(16)**	**(12,182)**
Provisions for guarantees and other credit-related commitments (Stage 1)	(154)	(147)	330	(167)	23	0	0	(115)
Provisions for guarantees and other credit-related commitments (Stage 2)	(81)	0	95	(87)	(12)	0	0	(85)
Provisions for guarantees and other credit-related commitments (Stage 3)	(1,206)	0	441	(180)	0	0	(2)	(947)
Total provisions for guarantees and other credit-related commitments (refer to Note 32)	**(1,441)**	**(147)**	**866**	**(434)**	**11**	**0**	**(2)**	**(1,147)**

Due to first-time application of IFRS 9 Financial Instruments, comparative information is not presented.

14 Net profits on other assets

The net loss reported in *'Net profits on other assets'* totalling CZK 14 million (2017: net gain CZK 1,140 million) mainly includes a net gain from sale of buildings in the amount of CZK 11 million (2017: net gain CZK 1,052 million), a net loss from impairment on assets held for sale in the amount of CZK 13 million (2017: net gain CZK 77 million) and a net loss from disposal of assets (internal SW projects) in the amount of CZK 12 million (2017: CZK 0 million).

15 Income tax

The major components of corporate income tax expense are as follow:

(CZKm)	2018	2017
Tax payable – current year, reported in profit or loss	(3,103)	(3,006)
Tax paid – prior year	42	(1)
Deferred tax (refer to Note 33)	(287)	(5)
Total income tax	**(3,348)**	**(3,012)**

The items explaining the difference between the Group's theoretical and effective tax rates are as follow:

(CZKm)	2018	2017
Profit before income tax	**18,519**	**18,286**
Theoretical tax calculated at a tax rate of 19% (2017: 19%)	3,519	3,474
Tax on pre-tax profit adjustments	14	58
Non-taxable income (tax effect)	(1,499)	(2,121)
Expenses not deductible for tax purposes (tax effect)	1,163	1,742
Use of tax losses carried forward	(1)	(49)
Tax allowance	(3)	(3)
Tax credit	0	0
Movement in deferred tax	287	5
Tax losses	0	0
Other	(25)	(26)
Impact of various tax rates of subsidiary undertakings	(20)	(28)
Tax effect of share of profits of associated undertakings	(45)	(41)
Income tax expense	**3,390**	**3,011**
Prior period tax expense	(42)	1
Total income tax	**3,348**	**3,012**
Effective tax rate	18.08%	16.47%

Non-taxable income primarily includes dividends, tax-exempt interest income and release of tax non-deductible allowances and provisions. Expenses not deductible for tax purposes include primarily the recognition of tax non-deductible allowances and provisions and tax non-deductible operating expenses. Tax on pre-tax profit adjustments primarily represents an adjustment of the IFRS result to the Czech Accounting Standards (CAS).

The corporate tax rate for the year ended 31 December 2018 is 19% (2017: 19%). The Group's tax liability is calculated based upon the accounting profit while taking into account tax non-deductible expenses and tax-exempt income or income subject to a final withholding tax rate.

As of 31 December 2018, the Group records unused tax losses in the amount of CZK 12 million (2017: CZK 18 million).

These tax losses can be used in the following time horizon:

(CZKm)	1 year	2 years	3 years	4 years	5 years
In the amount of	4	4	4	0	0

Further information about deferred tax is presented in Note 33.

16 Distribution of net profit

For the year ended 31 December 2018, the Group generated a net profit of CZK 15,171 million (2017: CZK 15,274 million). Distribution of profits for the year ended 31 December 2018 will be approved by the general meetings of the Group companies.

The Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount of CZK 51 per share (2017: CZK 47 per share), which means a total amount of CZK 9,693 million (2017: CZK 8,932 million). The proposal is subject to the Supervisory Board's approval and subsequently to the approval of the General Shareholders' Meeting.

In accordance with a resolution of the General Shareholders' Meeting held on 25 April 2018, the aggregate balance of the net profit of CZK 15,274 million for the year ended 31 December 2017 was allocated as follows: CZK 8,932 million was paid out in dividends and the remaining balance of the net profit was allocated to retained earnings. The dividends were paid out in Czech crowns.

Moreover, the Group paid out dividends to non-controlling owners in the total amount of CZK 644 million (2017: CZK 375 million), of which CZK 189 million (2017: CZK 231 million) was paid to the non-controlling owners of ESSOX s.r.o. and CZK 455 million (2017: CZK 144 million) was paid to the non-controlling owners of SG Equipment Finance Czech Republic.

17 Earnings per share

Earnings per share of CZK 78.61 (2017: CZK 79.05 per share) have been calculated by dividing the net profit attributable to the Group's equity holders of CZK 14,846 million (2017: CZK 14,930 million) by the number of shares in issue, that is, 190,049,260, decreased by the average number of treasury shares held by the Group during the period, which was 1,193,360 (2017: 1,193,360 shares).

18 Cash and current balances with central banks

Cash and current balances with central banks comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Cash and cash values	8,504	10,070
Current balances with central banks	16,347	22,593
Total cash and current balances with central banks (refer to Note 36)	**24,851**	**32,663**

Obligatory minimum reserves in the amount of CZK 11,110 million (2017: CZK 16,546 million) are included in *'Current balances with central banks'* and they bear interest. As of 31 December 2018, the interest rate was 1.75% (2017: 0.50%) in the Czech Republic and 0.00% (2017: 0.00%) in the Slovak Republic.

19 Financial assets and other assets at fair value through profit or loss

There is no impact from the adoption of IFRS 9 in this Note.

Financial assets and other assets at fair value through profit or loss comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Trading equity securities	0	0
Trading debt securities	3,248	1,633
Trading derivatives	19,121	16,212
Total financial assets at fair value through profit or loss	**22,369**	**17,845**
Emission allowances	245	996
Total other assets at fair value through profit or loss	**245**	**996**

As of 31 December 2018 and 2017, the *'Financial assets at fair value through profit or loss'* portfolio included only securities and positive fair values of derivative financial instruments held for trading. Upon initial recognition, the Group has not designated any financial assets as *'Financial assets at fair value through profit or loss'*.

For detailed information on *'Trading debt securities'*, allocated by sector and currency, refer to Note 43(A).

For detailed information on derivative financial instruments included in the held for trading portfolio, refer to Note 43(C).

As of 31 December 2018, the portfolio of trading securities included securities at fair value of CZK 3,085 million (2017: CZK 1,439 million) that are publicly traded on stock exchanges and securities at fair value of CZK 163 million (2017: CZK 194 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

'Trading debt securities' include securities eligible for refinancing with the CNB of CZK 2,995 million (2017: CZK 1,352 million).

20 Financial assets at fair value through profit or loss – non-SPPI

The following table reconciles the prior period's closing from IAS 39 to IFRS 9:

		Reclassifications	Remeasurement	
(CZKm)	IAS 39 as of 31 Dec 2017	Loans and advances to banks	Other	IFRS 9 as of 1 Jan 2018
Debt securities	N/A	2,708	(14)	2,694
Total financial assets at fair through profit or loss – non-SPPI	**N/A**	**2,708**	**(14)**	**2,694**

As of 31 December 2018, the *'Financial assets at fair value through profit or loss – non-SPPI'* portfolio includes debt securities at fair value of CZK 0 million (1 January 2018: CZK 2,694 million) that are issued by foreign financial institutions.

21 Financial assets at fair value through other comprehensive income

The following table reconciles the prior period's closing from IAS 39 to IFRS 9:

		Reclassifications			Remeasurement		
(CZKm)	IAS 39 as of 31 Dec 2017	Available-for-sale financial assets	Held-to-maturity investments	Loans and advances to banks	ECL	Other	IFRS 9 as of 1 Jan 2018
Equity instruments at FVOCI option	N/A	241	0	0	0	0	241
Debt securities at FVOCI	N/A	8,835	12,194	2,039	0	730	23,798
Total financial assets at fair value through other comprehensive income	**N/A**	**9,076**	**12,194**	**2,039**	**0**	**730**	**24,039**

Further information is presented in Note 3.6 Changes in accounting policies and Note 46 Comparative information according to IAS 39.

Financial assets at fair value through other comprehensive income comprise the following:

(CZKm)	31 Dec 2018	1 Jan 2018
Equity instruments at FVOCI option	356	241
Debt securities at FVOCI	24,909	23,798
Total financial assets at fair value through other comprehensive income	**25,265**	**24,039**

For detailed information on *'Debt securities'*, allocated by sector and currency, refer to Note 43(A).

As of 31 December 2018, the *'Financial assets at fair value through other comprehensive income'* portfolio included securities at fair value of CZK 25,265 million (1 Jan 2018: CZK 24,039 million) that are publicly traded on stock exchanges.

'Debt securities at FVOCI' include securities eligible for refinancing with the CNB of CZK 24,909 million (1 Jan 2018: CZK 23,798 million).

As of 31 December 2018, the *'Financial assets at fair value through other comprehensive income'* portfolio included bonds at fair value of CZK 1,224 million (1 Jan 2018: CZK 1,233 million) that are used as collateral for intraday facilities in central banks.

As of 31 December 2018, the *'Financial assets at fair value through other comprehensive income'* portfolio included bonds at fair value of CZK 1,092 million (1 Jan 2018: CZK 976 million) that are used as collateral for derivative deals with a central counterparty. The central counterparty is LCH.Clearnet SA. The Group uses Société Générale Newedge UK Limited as related broker.

Reclassification of certain debt securities held in the portfolio of 'Available-for-sale financial assets'
During the first quarter of 2014, the Group reviewed the accounting recognition of certain debt securities issued by State institutions held in the portfolio of *'Available-for-sale financial assets'* (hereafter only "AFS") on the basis of the Group's changing its intention for their classification. The Group concluded that all regulatory and accounting requirements, as well as internal limits, were satisfied for recognition of the debt securities in the nominal value of CZK 56,596 million in the portfolio of *'Held-to-maturity investments'* (hereafter only "HTM") and decided to reclassify the respective securities from AFS to HTM. The securities were reclassified at fair value. The corresponding unrealised gains and losses in equity of CZK 5,011 million as of the reclassification date are retained in Other Comprehensive Income. Such amounts are amortised over the remaining life of the security (refer to Note 42).

22 Financial assets at amortised cost

The following table reconciles the prior period's closing from IAS 39 to IFRS 9:

(CZKm)	IAS 39 as of 31 Dec 2017	Reclassifications: Available-for-sale financial assets	Reclassifications: Held-to-maturity investments	Reclassifications: Loans and advances to banks	Reclassifications: Loans and advances to customers	Reclassifications: Financial assets at FVOCI	Reclassifications: Financial assets at FVPL – non-SPPI	Remeasurement: ECL	Remeasurement: Other	IFRS 9 as of 1 Jan 2018
Loans and advances to banks	228,374	0	0	(810)	0	(2,039)	(2,708)	4	0	222,821
Loans and advances to customers	598,102	0	0	0	(3,635)	0	0	(828)	0	593,639
Debt securities	N/A	20,196	46,045	810	3,635	0	0	(11)	(335)	70,340
Total financial assets at amortised cost	**826,476**	**20,196**	**46,045**	**0**	**0**	**(2,039)**	**(2,708)**	**(835)**	**(335)**	**886,800**

Further information is presented in Note 3.6 Changes in accounting policies and Note 46 Comparative information according to IAS 39.

Financial assets at amortised cost comprise the following:

(CZKm)	31 Dec 2018	1 Jan 2018
Loans and advances to banks	256,268	222,821
Loans and advances to customers	624,954	593,639
Debt securities	69,881	70,340
Total financial assets at amortised cost	**951,103**	**886,800**

For detailed information on *'Debt securities'*, allocated by sector and currency, refer to Note 43(A).

As of 31 December 2018, the *'Financial assets at amortised cost'* portfolio includes debt securities of CZK 69,406 million (1 Jan 2018: CZK 69,809 million) that are publicly traded on stock exchanges and debt securities of CZK 475 million (1 Jan 2018: CZK 531 million) that are not publicly traded.

'Debt securities' include securities eligible for refinancing with the CNB of CZK 61 million (1 Jan 2018: CZK 66 million).

As of 31 December 2018, 'Financial assets at amortised cost' comprise the following, as broken down by Staging:

(CZKm)	Gross carrying value: Stage 1	Gross carrying value: Stage 2	Gross carrying value: Stage 3	Gross carrying value: Total	Allowances: Stage 1	Allowances: Stage 2	Allowances: Stage 3	Allowances: Total	Carrying value
Central banks	204,776	0	0	204,776	0	0	0	0	204,776
General governments	23,782	519	342	24,643	(14)	(1)	(33)	(48)	24,595
Credit institutions	50,534	889	71	51,494	(1)	(1)	0	(2)	51,492
Other financial corporations	29,687	344	49	30,080	(29)	0	(8)	(37)	30,043
Non-financial corporations	232,031	15,700	9,810	257,541	(416)	(428)	(5,931)	(6,775)	250,766
Households*	300,860	16,942	7,059	324,861	(269)	(762)	(4,280)	(5,311)	319,550
Total loans	**841,670**	**34,394**	**17,331**	**893,395**	**(729)**	**(1,192)**	**(10,252)**	**(12,173)**	**881,222**
Central banks	0	0	0	0	0	0	0	0	0
General governments	65,520	0	0	65,520	(7)	0	0	(7)	65,513
Credit institutions	1,129	0	0	1,129	0	0	0	0	1,129
Other financial corporations	350	0	0	350	0	0	0	0	350
Non-financial corporations	2,889	0	0	2,889	0	0	0	0	2,889
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**69,888**	**0**	**0**	**69,888**	**(7)**	**0**	**0**	**(7)**	**69,881**

* This item also includes loans granted to individual entrepreneurs.

As of 1 January 2018, 'Financial assets at amortised cost' comprise the following, as broken down by Staging:

	Gross carrying value				Allowances				Carrying
(CZKm)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	value
Central banks	184,521	0	0	184,521	0	0	0	0	184,521
General governments	26,107	19	508	26,634	(7)	(1)	(54)	(62)	26,572
Credit institutions	36,888	1,301	117	38,306	(3)	(3)	0	(6)	38,300
Other financial corporations	27,973	5	64	28,042	(62)	0	(10)	(72)	27,970
Non-financial corporations	222,398	10,194	9,851	242,443	(687)	(403)	(6,223)	(7,313)	235,130
Households*	290,516	11,394	8,185	310,095	(236)	(692)	(5,200)	(6,128)	303,967
Total loans	**788,403**	**22,913**	**18,725**	**830,041**	**(995)**	**(1,099)**	**(11,487)**	**(13,581)**	**816,460**
Central banks	0	0	0	0	0	0	0	0	0
General governments	65,651	0	0	65,651	(11)	0	0	(11)	65,640
Credit institutions	1,839	0	0	1,839	0	0	0	0	1,839
Other financial corporations	70	0	0	70	0	0	0	0	70
Non-financial corporations	2,791	0	0	2,791	0	0	0	0	2,791
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**70,351**	**0**	**0**	**70,351**	**(11)**	**0**	**0**	**(11)**	**70,340**

* This item also includes loans granted to individual entrepreneurs.

For the year ended 31 December 2018, the transfers between Stages were as follow:

						Gross carrying value
(CZKm)	From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
Central banks	0	0	0	0	0	0
General governments	502	1	0	0	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	343	0	0	0	1	0
Non-financial corporations	7,015	954	422	73	1,350	61
Households*	9,493	2,675	728	538	893	91
Total loans	**17,353**	**3,630**	**1,150**	**611**	**2,244**	**152**
Central banks	0	0	0	0	0	0
General governments	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0
Non-financial corporations	0	0	0	0	0	0
Households*	0	0	0	0	0	0
Total debt securities	**0**	**0**	**0**	**0**	**0**	**0**
Total guarantees and other credit-related commitments	**3,228**	**1,664**	**161**	**51**	**196**	**16**

* This item also includes loans granted to individual entrepreneurs.

Due to first-time application of IFRS 9 Financial Instruments, comparative information is not presented.

Set out below is the breakdown of loans and advances to non-financial corporations by sector:

(CZKm)	31 Dec 2018	1 Jan 2018
Agriculture, forestry and fishing	11,187	11,090
Mining and quarrying	3,959	3,914
Manufacturing	65,405	61,486
Electricity, gas, steam and air conditioning supply	15,223	14,099
Water supply, sewerage, waste management and remediation activities	2,041	2,610
Construction	10,345	9,337
Wholesale and retail trade, repair of motor vehicles and motorcycles	47,776	41,236
Transportation and storage	18,512	17,595
Accommodation and food service activities	1,502	1,126
Information and communication	6,529	5,971
Real estate activities	45,667	41,907
Professional, scientific and technical activities	5,152	8,191
Administrative and support service activities	6,027	6,961
Public administration and defence, compulsory social security	347	382
Education	231	238
Human health and social work activities	2,065	1,934
Arts, entertainment and recreation	3,914	2,720
Other service activities	11,659	11,646
Total loans and advances to non-financial corporations	**257,541**	**242,443**

The majority of loans – more than 96% (1 Jan 2018: more than 91%) – were provided to entities on the territory of the Czech Republic.

As of 31 December 2018, loans and advances to customers included accrued interest of CZK 969 million (1 Jan 2018: CZK 1,051 million), of which CZK 348 million (1 Jan 2018: CZK 438 million) relates to interest from overdue advances.

The total amount of loans due from the CNB and other banks under reverse repurchase transactions was CZK 207,905 million (1 Jan 2018: CZK 180,054 million).

Loans due from the CNB and other banks under reverse repurchase transactions are collateralised by treasury bills issued by the CNB and other debt securities, the fair values of which are as follow:

(CZKm)	31 Dec 2018	1 Jan 2018
Treasury bills	201,516	177,003
Debt securities issued by state institutions	2,496	2,028
Emission allowances	784	0
Investment certificates	0	0
Total	**204,796**	**179,031**

As of 31 December 2018, loans provided to customers under reverse repurchase transactions in the amount of CZK 2,008 million (1 Jan 2018: CZK 1,256 million) are collateralised by securities with a fair value of CZK 4,051 million (1 Jan 2018: CZK 1,567 million).

Broken out below are the types of collateral held in support of loans and advances to customers as stated in the Consolidated Statement of Financial Position as of 31 December 2018:

(CZKm)	Applied loans and advances to customers collateral value*				
	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Loans and advances to customers	**233,103**	**27,264**	**7,837**	**16,436**	**24,889**
of which:					
– Other financial corporations	54	324	256	476	6,988
– Non-financial corporations	2,112	23,392	1,232	14,992	12,389
– Households**	230,848	3,518	6,312	835	599

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

** This item also includes loans granted to individual entrepreneurs.

Broken out below are the types of collateral held in support of loans and advances to customers as stated in the Consolidated Statement of Financial Position as of 1 January 2018:

(CZKm)	Applied loans and advances to customers collateral value*				
	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Loans and advances to customers	217,217	21,013	1,705	35,004	28,901
of which:					
– Other financial corporations	66	114	0	4,184	7,806
– Non-financial corporations	1,810	17,457	1,217	14,697	11,286
– Households**	215,223	3,398	391	15,764	591

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

** This item also includes loans granted to individual entrepreneurs.

Pledges on industrial real estate represent 8% of total pledges on real estate (1 Jan 2018: 8%).

Forborne loans and advances to customers

Forborne loans and advances to customers as of 31 December 2018

(CZKm)	Neither past due nor impaired	Past due not impaired	Impaired	Total forborne	Allowances	Collateral applied
Other financial corporations	0	0	0	0	0	0
Non-financial corporations	70	4	2,374	2,448	1,292	564
Households*	1,111	195	1,322	2,628	652	1,892
Total	**1,181**	**199**	**3,696**	**5,076**	**1,944**	**2,456**

* This item also includes loans granted to individual entrepreneurs.

Forborne loans and advances to customers as of 1 January 2018

(CZKm)	Neither past due nor impaired	Past due not impaired	Impaired	Total forborne	Allowances	Collateral applied
Other financial corporations	0	0	0	0	0	0
Non-financial corporations	269	26	2,521	2,816	1,485	794
Households*	1,438	233	1,462	3,133	666	2,153
Total	**1,707**	**259**	**3,983**	**5,949**	**2,151**	**2,947**

* This item also includes loans granted to individual entrepreneurs.

The carrying value of forborne assets in comparison with the loan portfolio of the Group (excluding Debt securities and Other amounts due from customers):

	31 Dec 2018			1 Jan 2018		
(CZKm)	Gross receivable	Forborne assets	Share in gross receivable	Gross receivable	Forborne assets	Share in gross receivable
Other financial corporations	30,080	0	0.00%	28,042	0	0.00%
Non-financial corporations	257,541	2,448	0.95%	242,443	2,816	1.16%
Households*	324,861	2,628	0.81%	310,095	3,133	1.01%
Total	**612,482**	**5,076**	**0.83%**	**580,580**	**5,949**	**1.02%**

* This item also includes loans granted to individual entrepreneurs.

Finance lease

Within the Group, ESSOX s.r.o., ESSOX FINANCE, s.r.o. and SG Equipment Finance Czech Republic s.r.o. provide lease services. Assets leased under lease arrangements at ESSOX s.r.o. primarily include new passenger and utility vehicles with an average lease instalment period of 60 months (2017: 60 months). At ESSOX FINANCE, s.r.o., leased assets primarily include passenger and utility vehicles with an average lease instalment period of 46 months (2017: 46 months). At SG Equipment Finance Czech Republic s.r.o. leased assets primarily include trucks, tractors and buses with an average lease instalment period of 64 months (2017: 64 months), agricultural vehicles and machines with an average lease instalment period of 58 months (2017: 60 months), machine technology with an average lease instalment period of 63 months (2017: 66 months), hardware and software technology with an average lease instalment period of 46 months (2017: 44 months) and real estate with an average lease instalment period of 9 years (2017: 9 years).

Loans and advances to customers – leasing

(CZKm)	31 Dec 2018	1 Jan 2018
Due less than 1 year	5,281	5,127
Due from 1 to 5 years	9,761	9,099
Due over 5 years	553	491
Total	**15,595**	**14,717**

Future interest (the difference between gross and net investment in the lease) on lease contracts is:

(CZKm)	31 Dec 2018	1 Jan 2018
Due less than 1 year	328	313
Due from 1 to 5 years	404	394
Due over 5 years	19	19
Total	**751**	**726**

As of 31 December 2018, the provisions recognised against uncollectible lease receivables amount to CZK 419 million (2017: CZK 344 million).

23 Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Prepayments and accrued income	746	675
Settlement balances	681	624
Receivables from securities trading	148	342
Other assets	4,178	4,181
Total prepayments, accrued income and other assets	**5,752**	**5,822**

'Other assets' include allowances for operating receivables for other debtors in the amount of CZK 223 million (2017: CZK 243 million), and in particular also advances provided and receivables for other debtors.

24 Investments in associates and non-controlling interests in subsidiaries

Investments in associates comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Investments in associated undertakings	1,134	1,181
Total investments in associates	**1,134**	**1,181**

In March 2016, the Bank concluded an agreement on sale of its interest in Cataps, s.r.o. with Worldline SA/NV based upon which the Bank transferred its merchant acquiring into Cataps, s.r.o. and subsequently sold its 80% stake in Cataps, s.r.o. Both steps were performed in September 2016. The remaining 20% stake in Cataps, s.r.o. at CZK 181 million was reclassified as *'Assets held for sale'* due to expected sale of this company. In February 2018 the Bank sold a 19% stake in the company Cataps, s.r.o. thereby reducing its ownership from 20% to 1%.

The following companies were associated undertakings of the Group as of 31 December 2018:

(CZKm)		31 Dec 2018		31 Dec 2017	
Associates	%	Cost of investment	Share of net assets	Cost of investment	Share of net assets
Komerční pojišťovna, a.s.	49.00	837	1,132	837	1,179
Czech Banking Credit Bureau, a.s.*	20.00	0	2	0	2
Total investments in associates		**837**	**1,134**	**837**	**1,181**
Associates classified in held for sale portfolio	%	Cost of investment	Share of net assets	Cost of investment	Share of net assets
Cataps, s.r.o.	1.00	0***	9	8	180
Total investments in associates**		**837**	**1,143**	**845**	**1,361**

* The cost of investment for CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.
** Including associates classified in held for sale portfolio.
*** The cost of investment for Cataps, s.r.o. is CZK 418 thousand.

(CZKm)				31 Dec 2018
Associates	Assets	Liabilities	Operating income	Profit
Komerční pojišťovna, a.s.	51,219	48,908	1,010	482
Czech Banking Credit Bureau, a.s.	39	19	124	9
Cataps, s.r.o.	1,071	359	(51)	(67)

(CZKm)				31 Dec 2017
Associates	Assets	Liabilities	Operating income	Profit
Komerční pojišťovna, a.s.	53,167	50,761	884	437
Czech Banking Credit Bureau, a.s.	47	26	127	10
Cataps, s.r.o.	992	149	205	74

Movements in share of associated undertakings:

(CZKm)	Komerční pojišťovna, a.s	Czech Banking Credit Bureau, a.s	Cataps, s.r.o.	Total
As of 1 January 2017	1,278	2	181	1,461
Dividend payment	(202)	(2)	0	(204)
Share of profit	214	2	0	216
Revaluation of investment	0	0	(1)	(1)
Share of revaluation on debt securities at FVOCI	(111)	0	0	(111)
As of 31 December 2017	1,179	2	180	1 361
Dividend payment	(214)	(2)	0	(216)
Share of profit	236	2	0	238
Sale of shares	0	0	(171)	(171)
Revaluation of investment	0	0	0	(0)
Share of revaluation on debt securities at FVOCI	(69)	0	0	(69)
As of 31 December 2018	**1,132**	**2**	**9**	**1,143**

Main financial information about subsidiaries within which the Group holds non-controlling interests:

	31 Dec 2018			31 Dec 2017		
(CZKm)	Assets	Liabilities	Profit	Assets	Liabilities	Profit
SG Equipment Finance Czech Republic s.r.o.*	30,290	26,942	277	28,951	24,879	312
ESSOX s.r.o.**	16,713	13,169	375	13,164	9,587	412
PSA FINANCE ČESKÁ REPUBLIKA, s.r.o.**	-	-	-	2,574	1,819	(2)
ESSOX FINANCE, s.r.o.**	2,361	2,125	4	2,166	2,017	(25)

* Non-controlling interest in SG Equipment Finance Czech Republic s.r.o. is 49.9%.
** Non-controlling interest in each ESSOX s.r.o. and ESSOX FINANCE, s.r.o. is 49.1%.

Movements in non-controlling interests:

(CZKm)	SG Equipment Finance Czech Republic s.r.o.	ESSOX s.r.o.	PSA FINANCE ČESKÁ REPUBLIKA, s.r.o.	ESSOX FINANCE, s.r.o.	Total
As of 1 January 2017	2,020	1,783	21	7	3,831
Dividend payment	(144)	(231)	0	0	(375)
Profit / loss	156	202	(1)	(13)	344
Share-based payment	0	1	0	0	1
Increasing of shareholders' equity	0	0	0	0	0
Cash flow hedging	0	0	0	(4)	(4)
As of 31 December 2017	2,032	1,755	20	(10)	3,797
Changes in accounting policies	(44)	(36)	0	(5)	(85)
Merger	0	20	(20)	0	0
As of 1 January 2018	1,988	1,739	0	(15)	3,712
Dividend payment	(455)	(188)	-	0	(643)
Profit / loss	138	184	-	3	325
Share-based payment	0	2	-	0	2
Revaluation of equity securities in equity	0	2	-	0	2
Increasing of shareholders' equity	0	0	-	0	0
Cash flow hedging	0	0	-	0	0
As of 31 December 2018	**1,671**	**1,739**	**-**	**(12)**	**3,398**

As of the effective date 1 January 2018, ESSOX s.r.o. and PSA FINANCE CZECH REPUBLIC, s.r.o. were merged into ESSOX s.r.o. ESSOX s.r.o. is a subsidiary of the Bank and PSA FINANCE CZECH REPUBLIC, s.r.o. had been a subsidiary of ESSOX s.r.o.

Additional information about the Group's equity investments is presented in Notes 1 and 2.

25 Intangible assets

The movements in intangible assets were as follow:

(CZKm)	Internally generated assets*	Software	Other intangible assets	Acquisition of assets	Total
Cost					
As of 1 January 2017	11,714	3,028	29	1,107	15,878
Effect of acquisition of companies	0	0	0	0	0
Additions	1,151	184	0	1,860	3,195
Disposals/transfers	(249)	(2)	0	(1,336)	(1,587)
Foreign exchange rate difference	0	(2)	0	0	(2)
As of 31 December 2017	12,616	3,208	29	1,631	17,484
Effect of acquisition of companies	0	0	0	0	0
Additions	1,417	185	0	1,704	3,306
Disposals/transfers	(185)	(30)	0	(1,599)	(1,814)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2018	**13,848**	**3,363**	**29**	**1,736**	**18,976**
Accumulated amortisation and allowances					
As of 1 January 2017	(9,574)	(2,388)	(28)	(2)	(11,992)
Effect of acquisition of companies	0	0	0	0	0
Additions	(836)	(195)	0	0	(1,031)
Disposals	249	2	0	0	251
Impairment	(29)	0	0	0	(29)
Foreign exchange rate difference	0	1	0	0	1
As of 31 December 2017	(10,190)	(2,580)	(28)	(2)	(12,800)
Effect of acquisition of companies	0	0	0	0	0
Additions	(943)	(203)	0	0	(1,146)
Disposals	174	30	0	0	204
Impairment	11	2	0	2	15
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2018	**(10,948)**	**(2,751)**	**(28)**	**0**	**(13,727)**
Net book value					
As of 31 December 2017	2,426	628	1	1,629	4,684
As of 31 December 2018	**2,900**	**612**	**1**	**1,736**	**5,249**

* Internally generated assets comprise mainly software.

During the year ended 31 December 2018, the Group spent CZK 152 million (2017: CZK 141 million) on research and development through a charge to *'Operating expenses'*. As of 31 December 2018, the Group recognised allowances against intangible assets of CZK 21 million (2017: CZK 36 million). These allowances primarily included allowances charged in respect of internally generated assets (software).

26 Tangible assets

The movements in tangible assets were as follow:

(CZKm)	Land	Buildings	Machinery, furniture and fixtures and other	Acquisition of assets	Total
Cost					
As of 1 January 2017	324	10,367	4,963	784	16,438
Effect of acquisition of companies	0	0	0	173	173
Reallocation from/to assets held for sale	0	0	0	0	0
Additions	42	480	517	1,452	2,491
Disposals/transfers	0	(35)	(409)	(1,044)	(1,488)
Foreign exchange rate difference	0	(1)	(1)	0	(2)
As of 31 December 2017	366	10,811	5,070	1,365	17,612
Effect of acquisition of companies	0	0	0	0	0
Reallocation from/to assets held for sale	(16)	(191)	0	0	(207)
Additions	0	1,186	456	1,117	2,759
Disposals/transfers	0	(110)	(331)	(1,644)	(2,085)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2018	**350**	**11,696**	**5,195**	**838**	**18,079**
Accumulated depreciation and allowances					
As of 1 January 2017	0	(5,739)	(4,031)	(2)	(9,772)
Effect of acquisition of companies	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	0	0	0	0
Additions	0	(332)	(300)	0	(632)
Disposals	0	34	365	0	399
Impairment	0	(240)	35	0	(205)
Foreign exchange rate difference	0	1	1	0	2
As of 31 December 2017	0	(6,276)	(3,930)	(2)	(10,208)
Effect of acquisition of companies	0	0	0	0	0
Reallocation of accumulated depreciation of assets held for sale	0	104	0	0	104
Additions	0	(392)	(339)	0	(731)
Disposals	0	109	315	0	424
Impairment	0	(3)	9	2	8
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2018	**0**	**(6,458)**	**(3,945)**	**0**	**(10,403)**
Net book value					
As of 31 December 2017	366	4,535	1,140	1,363	7,404
As of 31 December 2018	**350**	**5,238**	**1,250**	**838**	**7,676**

As of 31 December 2018, the Group recognised allowances against tangible assets of CZK 244 million (2017: CZK 251 million). These allowances primarily included allowances charged in respect of Nonet building in the amount of CZK 244 million (2017: CZK 241 million) represented by the excess of net book value over recoverable amount determined as fair value less costs to sell (based on the Bank's headquarters optimisation strategy).

27 Goodwill

Goodwill by individual companies as of 31 December 2018 was as follows:

(CZKm)	31 Dec 2018	31 Dec 2017
Modrá pyramida stavební spořitelna, a.s.	3,388	3,388
ESSOX s.r.o.	163	163
SG Equipment Finance Czech Republic s.r.o.	201	201
Total goodwill	**3,752**	**3,752**

The management is of the view that reasonable potential changes in the key assumptions for Modrá pyramida stavební spořitelna, a.s. upon which the recoverable amount is based would not cause it to fall below the carrying amount given the fact that the value in use is significantly greater than the carrying amount. Impairment of goodwill is considered unlikely.

28 Assets held for sale

As of 31 December 2018, the Group reported assets held for sale at a carrying amount of CZK 196 million (2017: CZK 319 million) mainly comprising buildings and land owned by the Group which the management of the Group decided to sell as a component of a plan to optimise the distribution network, equipment obtained by taking possession of leasing collateral and also confiscated cars. Depreciation of these assets has been discontinued since their classification as assets held for sale. As of 31 December 2018, the Group recognised allowances against assets held for sale of CZK 142 million (2017: CZK 152 million).

As of 31 December 2018, *'Assets held for sale'* also included investments in associates classified as assets held for sale at a carrying amount of CZK 0 million (2017: CZK 8 million). For detail, refer to Note 24.

29 Financial liabilities at fair value through profit or loss

There is no impact from the adoption of IFRS 9 in this Note.

As of 31 December 2018 and 2017, the *'Financial liabilities at fair value through profit or loss'* portfolio included only liabilities arising from short sales of securities and negative fair values of financial derivative instruments held for trading. Upon initial recognition, the Group has not designated any financial liabilities as *'Financial liabilities at fair value through profit or loss'*.

(CZKm)	31 Dec 2018	31 Dec 2017
Short sales	2,244	1,673
Derivative financial instruments	19,328	17,631
Total financial liabilities at fair value through profit or loss	**21,572**	**19,304**

For detailed information on financial derivative instruments included in the portfolio for trading, refer to Note 43(C).

30 Financial liabilities at amortised cost

There is no impact from the adoption of IFRS 9 in this Note.

Financial liabilities at amortised cost comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Amounts due to banks	92,270	84,050
Amounts due to customers	812,451	762,043
Securities issued	2,540	4,832
Total financial liabilities at amortised cost	**907,261**	**850,925**

Total amount of loans from banks and customers received under repurchase transactions was CZK 23,659 million (2017: CZK 11,105 million).

The fair values of securities and treasury bills used as collateral for repurchase transactions are as follow:

	31 Dec 2018		31 Dec 2017	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets at fair value through profit or loss	0	0	51	51
Other assets at fair value through profit or loss	0	0	0	0
Financial assets at fair value through other comprehensive income	5,377	5,377	5,454	5,454
Financial assets at amortised cost	0	0	0	0
Securities received as collateral	18,362	18,362	6,018	6,018
Total	**23,739**	**23,739**	**11,523**	**11,523**

Amounts due to banks and customers, allocated by sector, comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Central banks	0	0
General governments	92,651	85,846
Credit institutions	92,270	84,050
Other financial corporations	63,805	52,827
Non-financial corporations	263,470	257,632
Households*	392,525	365,738
Total amounts due to banks and customers	**904,721**	**846,093**

* This item also includes amounts due to individual entrepreneurs.

Securities issued

Securities issued comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Mortgage bonds	1,008	2,762
Depository bills of exchange	1,532	2,070
Total securities issued	**2,540**	**4,832**

The Group issues mortgage bonds to fund its mortgage activities.

The following table shows a summary of cash and non-cash changes in the balance of securities issued:

			Non-cash changes		
(CZKm)	1 Jan 2018	Cash flow*	Amortisation and accrued interest	Change of FV hedge of interest rate risk	31 Dec 2018
Mortgage bonds	2,762	(1,785)	31	0	1,008
Depository bills of exchange	2,070	(562)	24	0	1,532
Total securities issued	**4,832**	**(2,347)**	**55**	**0**	**2,540**

* The item includes the cash flow on principal and interest paid.

			Non-cash changes		
(CZKm)	1 Jan 2017	Cash flow*	Amortisation and accrued interest	Change of FV hedge of interest rate risk	31 Dec 2017
Mortgage bonds	11,030	(8,577)	309	0	2,762
Depository bills of exchange	2,393	(334)	11	0	2,070
Total securities issued	**13,423**	**(8,911)**	**320**	**0**	**4,832**

* The item includes the cash flow on principal and interest paid.

Mortgage bonds according to their remaining time to maturity break out as follows:

(CZKm)	31 Dec 2018	31 Dec 2017
In less than one year	0	1,753
In one to five years	1,008	1,009
In five to ten years	0	0
In ten to twenty years	0	0
More than twenty years	0	0
Total mortgage bonds	**1,008**	**2,762**

The securities issued detailed above include the following mortgage bonds issued by the Group:

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 2018 CZKm	31 Dec 2017 CZKm
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	1,008	1,009
HZL Komerční banky, a.s., CZ0002003064	6M PRIBOR plus 50 bps	CZK	14 Mar 2013	14 Mar 2018	0	1,753
Total mortgage bonds					**1,008**	**2,762**

Six-month PRIBOR as of 31 December 2018 was 207 bps (2017: 85 bps).

31 Accruals and other liabilities

Accruals and other liabilities comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Accruals and deferred income	489	320
Settlement balances and outstanding items	85	18
Payables from securities trading and issues of securities	3,810	4,613
Payables from payment transactions	3,420	7,861
Other liabilities	5,616	6,057
Total accruals and other liabilities	**13,420**	**18,869**

Deferred fees from banking guarantees are reported in *'Accruals and deferred income'* in the amount of CZK 20 million (2017: CZK 18 million).

'Other liabilities' mainly include liabilities arising from the delivery of goods and services and relationships with employees (including estimated balances).

32 Provisions

The following table reconciles the prior period's closing from IAS 39 to IFRS 9:

		Remeasurement		
(CZKm)	IAS 39 as of 31 Dec 2017	ECL	Other	IFRS 9 as of 1 Jan 2018
Provisions for contracted commitments	517			517
Provisions for other credit commitments	1,394	47		1,441
Provisions for restructuring	0			0
Total provisions	**1,911**	**47**	**0**	**1,958**

Further information is presented in Note 3.6 Changes in accounting policies and Note 46 Comparative information according to IAS 39.

Provisions comprise the following:

(CZKm)	31 Dec 2018	1 Jan 2018
Provisions for contracted commitments (refer to Note 37)	476	517
Provisions for other credit commitments (refer to Notes 13 and 37)	1,147	1,441
Provisions for restructuring	230	0
Total provisions	**1,853**	**1,958**

The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, self-insurance and the retirement benefits plan.

In 2018, the Group created provisions for restructuring related to the transformation project "KB Change" in the amount of CZK 294 million (2017: CZK 0 million) in accordance with estimated redundancy payments, consultancy costs and other cost necessary in order to implement the detailed restructuring plan of transformation. Provisions are reported in the Income Statement lines *'Personnel expenses'* (refer to Note 10) in the amount of CZK 223 million (2017: CZK 0 million) and *'General administrative expenses'* (refer to Note 11) in the amount of CZK 71 million (2017: CZK 0 million). Use of provisions for restructuring is reported in the Income Statement lines *'Personnel expenses'* (refer to Note 10) in the amount of CZK 34 million (2017: CZK 0 million) and *'General administrative expenses'* (refer to Note 11) in the amount of CZK 30 million (2017: CZK 0 million).

Movements in the provisions for contracted commitments and for restructuring were as follow:

(CZKm)	Retirement benefits plan	Provisions for loyalty and jubilee bonuses	Other provisions for contracted commitments	Provisions for restructuring	Total
Balance as of 1 January 2017	323	2	148	0	473
Charge	24	0	80	0	104
Release	(11)	(1)	(38)	0	(50)
Use	(1)	(1)	(35)	0	(37)
Accrual	5	0	0	0	5
Remeasurement	28	0	0	0	28
Foreign exchange difference	0	0	(6)	0	(6)
Balance as of 1 January 2018	368	0	149	0	517
Charge	27	0	91	294	412
Release	(15)	0	(104)	0	(119)
Use	(12)	0	(8)	(64)	(84)
Accrual	6	0	0	0	6
Remeasurement	(27)	0	0	0	(27)
Foreign exchange difference	0	0	1	0	1
Balance as of 31 December 2018	**347**	**0**	**129**	**230**	**706**

33 Deferred tax

Deferred tax is calculated from temporary differences between the tax bases and carrying values using tax rates effective in the periods in which the temporary tax differences are expected to be utilised.

Net deferred tax assets are as follow:

(CZKm)	31 Dec 2018	1 Jan 2018
Banking provisions and allowances	0	396
Allowances for assets	0	84
Non-banking provisions	57	103
Difference between accounting and tax net book value of assets	(3)	(333)
Leases	0	6
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	0	36
Revaluation of equity securities at FVOCI option – equity impact (refer to Note 40)	0	(18)
Revaluation of hedging derivatives – equity impact (refer to Note 41)	3	(40)
Revaluation of debt securities at FVOCI – equity impact (refer to Note 42)	(1)	(194)
Other temporary differences	37	214
Net deferred tax assets	**93**	**254**

Net deferred tax liabilities are as follow:

(CZKm)	31 Dec 2018	1 Jan 2018
Banking provisions and allowances	144	0
Allowances for assets	78	0
Non-banking provisions	103	45
Difference between accounting and tax net book value of assets	(1,090)	(758)
Leases	(15)	11
Remeasurement of retirement benefits plan – equity impact (refer to Note 39)	31	0
Revaluation of equity securities at FVOCI option – equity impact (refer to Note 40)	(36)	0
Revaluation of hedging derivatives – equity impact (refer to Note 41)	5	0
Revaluation of debt securities at FVOCI – equity impact (refer to Note 42)	(108)	0
Other temporary differences	123	(47)
Net deferred tax liabilities	**(765)**	**(749)**

Movements in the net deferred tax assets/(liabilities) were as follow:

(CZKm)	2018	2017
Changes in accounting policies	434	N/A
Balance as of the beginning of the period	**(495)**	**(3,752)**
Effect of acquisition of companies	0	(2)
Movement in the net deferred tax – profit and loss impact (refer to Note 15)	(287)	(5)
Movement in the net deferred tax – equity impact (refer to Notes 39, 40, 41 and 42)	110	2,830
Balance as of the end of the period	**(672)**	**(929)**

34 Subordinated debt

As of 31 December 2018, the Bank reports subordinated debt of CZK 2,578 million (2017: CZK 2,560 million). The subordinated debt was received by the Bank in October 2017 and is part of Tier 2 regulatory capital. The nominal value of the subordinated debt is EUR 100 million. The subordinated debt is euro-denominated in order to better align the currency structure of the Bank's regulatory capital and risk-weighted assets. The subordinated debt was issued by the parent company of the Bank, Société Générale S.A. The subordinated debt bears an interest rate of 3-month EURIBOR plus 1.26%. It has a 10-year maturity but with the Bank having an option for early repayment after 5 years.

35 Share capital

The Bank's share capital, entered in the Register of Companies on 11 February 2000, amounts to CZK 19,004,926,000 and consists of 190,049,260 ordinary bearer shares issued as uncertificated securities with a nominal value of CZK 100 each (ISIN: CZ0008019106). The number of shares authorised is the same as the number of shares issued. The share capital is fully paid up.

The Bank's shares are publicly traded on stock markets in the Czech Republic managed by the market organisers Burza cenných papírů Praha, a.s. (the Prague Stock Exchange) and RM-SYSTÉM, česká burza cenných papírů a.s. (the Czech Stock Exchange). Their transferability is not restricted.

Rights are attached to the ordinary shares in accordance with Act No. 90/2012 Coll., on Business Corporations and Co-operatives. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. The voting rights can only be eliminated on statutory grounds. The Bank cannot exercise voting rights attached to its own shares.

Shareholders are entitled to share in the Bank's profit (dividend) approved for distribution by the Annual General Meeting based on the Bank's financial results and in accordance with the conditions stipulated by generally binding legal regulations.

The right to payment of the dividend is time-barred from 3 years after its declared payment date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not plead the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment. After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to plead the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

In the event of a shareholder's death, his or her legal heir shall be entitled to exercise all rights attached to the shares. Upon the Bank's liquidation and dissolution, the means of liquidation are governed by the relevant generally binding legal regulations. The proposal for the distribution of the liquidation balance among shareholders is approved by the Annual General Meeting in proportion to the nominal values of the shares held by the Bank's shareholders.

Set out below is a summary of the entities that hold more than 1% of the Bank's issued share capital as of 31 December 2018:

Name of the entity	Ownership percentage
SOCIÉTÉ GÉNÉRALE S.A.	60.35%
Chase Nominees Limited	4.88%
Nortrust Nominees Limited	3.87%
CLEARSTREAM BANKING, s.a.	2.46%
STATE STREET BANK AND TRUST COMPANY	1.98%
GIC PRIVATE LIMITED	1.74%
Brown Brothers Harriman CO.	1.57%

Société Générale S.A., being the only entity with a qualified holding in the Group, and moreover as the parent company, is a French company limited by shares incorporated by a Deed approved through the issuance of a Decree on 4 May 1864 and is licensed as a bank. Under the legislative and regulatory provisions relating to financial institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 et seq of the French Commercial Code, as well as its Articles of Association.

As of 31 December 2018, the Bank held 1,193,360 of its own shares in treasury at a cost of CZK 726 million (2017: 1,193,360 treasury shares at a cost of CZK 726 million).

Capital management

The Basel III rules valid for capital regulation did not change the process for managing the Group's regulatory capital adequacy, but they naturally were taken into account in setting the parameters for this process, in particular with regard to application of the combined capital buffer and additional Pillar 2 buffer above and beyond the minimum required capital ratio of 8.0%. The regulatory methodology was substantially stabilised in 2016 (in particular the stacking order of capital buffers), and consequently an additional Pillar 2 buffer of 1.5% was applied to the Group on top of the minimum required capital ratio of 8.0% in 2018. That means the total SREP (Supervisory Review and Evaluation Process) capital requirement (TSCR) was 9.5% for the year 2018. A combined capital buffer of 6.5% was applied on top of the TSCR capital ratio, thus resulting in the required overall capital ratio (OCR) of 16.0% for the year 2018 (an increase of 0.6% in comparison with the previous year, mainly due to an increase in the countercyclical capital buffer). The combined capital buffer consists of the capital conservation buffer of 2.5%, the systemic risk buffer of 3.0% and the countercyclical buffer which reached 1.0% in 2018 for the exposures in the Czech Republic. As its capital ratio stands well above the minimum required level, the Group meets the required level of the overall capital ratio with an adequate reserve.

The Group manages its capital adequacy to ensure its sufficient level in an environment of changing regulatory requirements while allowing organic business growth and for potentially adverse macroeconomic development. Under the Basel III capital adequacy regulation, in addition to the usual reporting of the capital ratio (Pillar 1), the Group must meet the requirements for evaluating required economic capital, stress testing and capital planning (Pillar 2). To determine the required economic capital, the Group has selected methods close to the regulatory procedures applied for Pillar 1. Consequently, the necessary levels of economic and regulatory capital are very similar.

The Group regularly simulates future developments under Pillar 2 based on the assumption of possible adverse external macroeconomic conditions that may either directly affect the Group's profit or have implications resulting in deterioration in the Group's transaction risk profile.

The Group compiles hypothetical macroeconomic scenarios on the basis of which it estimates medium-term impacts on earnings and on transaction risk profiles. On this basis, the Group acquires views concerning the changing volume of the risk-weighted assets (i.e. capital requirements) and the financial results while also taking into account the outlook for dividend payments and the level of the Group's capital adequacy ratio.

The results of such stress testing are among those factors considered in determining the Group's dividend policy, which is the primary tool for capital adequacy management in such situation that the Group's capital is largely classified as Common Equity Tier 1 capital.

The Group's capital consists principally of the following balances: share capital, reserve funds, retained earnings and Tier 2 subordinated debt (which was taken on by the Bank in 2017).

The Group did not purchase its own shares into treasury during 2018. As of 31 December 2018, the Group held in total 1,193,360 treasury shares at a total cost of CZK 726 million purchased in previous years (2017: 1,193,360 treasury shares at a total cost of CZK 726 million). The acquisition of treasury shares had been approved by the Bank's General Meeting especially for the purpose of managing the Group's capital adequacy.

In view of the facts that the capital requirements under Basel III regulation (the capital buffers in particular, typically the countercyclical buffer) can vary over time and a part of the implementing regulatory rules and the regulation itself are still being developed, the Group is continuously monitoring and evaluating the forthcoming changes in regulatory requirements affecting the capital and capital adequacy. It analyses their potential impacts as part of the Group's capital planning process.

The CNB, as the local regulatory authority, oversees the Group's capital adequacy compliance on both separate and consolidated bases. During the past year, the Group was in compliance with all regulatory requirements. The Group also regularly prepares the regulatory report on Pillar 2 (i.e. internal capital adequacy assessment process) and submits it to the CNB.

36 Composition of cash and cash equivalents as reported in the Statement of Cash Flows

(CZKm)	31 Dec 2018	31 Dec 2017	Change in the year
Cash and current balances with central banks (refer to Note 18)	24,851	32,663	(7,812)
Loans and advances to banks – current accounts with other banks	1,381	484	897
Amounts due to central banks	(1)	(1)	0
Amounts due to banks – current accounts	(2,984)	(8,838)	5,854
Cash and cash equivalents at the end of the year	**23,247**	**24,308**	**(1,061)**

37 Commitments and contingent liabilities

Legal disputes

The Group conducted a review of legal proceedings outstanding against it as of 31 December 2018. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Group has recorded a provision of CZK 12 million (2017: CZK 22 million) for these legal disputes (refer to Note 32). The Group has also recorded a provision of CZK 3 million (2017: CZK 5 million) for costs associated with a potential payment of appurtenances on the pursued claims.

As of 31 December 2018, the Group conducted a review of legal proceedings it had filed against other entities. The Group has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Group will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

Commitments arising from the issuance of guarantees

Commitments from guarantees represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to the third parties. These assurances carry the same credit risk as do loans, and therefore the Group makes provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

Capital commitments

As of 31 December 2018, the Group had capital commitments of CZK 704 million (2017: CZK 888 million), which include capital commitments in respect of current capital investment projects in the amount of CZK 597 million (2017: CZK 624 million).

Commitments arising from the issuance of letters of credit

Documentary letters of credit are written irrevocable commitments by the Group on behalf of a customer (the mandatory) authorising a third party (the beneficiary) to draw drafts on the Group up to a stipulated amount under specific terms and conditions. The Group records provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

Commitments to extend credit, undrawn loan commitments, and overdrafts and approved overdraft loans

Principal off-balance sheet exposures include undrawn limits under framework agreements to provide financial services, approved overdraft loans, undrawn loan commitments, issued commitments to extend credit and unutilised facilities. The primary purpose of commitments to extend credit and framework agreements is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the forms of loans or guarantees. In accordance with the IFRS definition of a conditional commitment, the Group distinguishes between irrevocable and revocable commitments to extend credit and framework agreements. The irrevocability of commitments, framework agreements of undrawn loan commitments, unutilised overdrafts and approved overdraft loans results from contractual terms and conditions of the credit agreements (i.e. their use is not contingent upon customers' maintaining other specific credit standards). For irrevocable commitments or framework agreements, undrawn loan commitments, unutilised overdrafts and approved overdraft loans, the Group recognises a provision when required (according to a customer's creditworthiness) in accordance with the same algorithm as for loans.

As of 31 December 2018, the financial commitments and contingencies of the Group were comprised of the following, as broken down by classification:

	Carrying value				Provisions			
(CZKm)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Central banks	0	0	0	0	0	0	0	0
General governments	13,872	663	0	14,535	5	0	0	5
Credit institutions	2,691	0	0	2,691	1	0	0	1
Other financial corporations	6,047	108	2	6,157	5	0	0	5
Non-financial corporations	98,470	3,319	1,580	103,369	73	62	933	1,068
Households*	40,913	766	34	41,713	31	23	14	68
Total commitments and contingencies	**161,993**	**4,856**	**1,616**	**168,465**	**115**	**85**	**947**	**1,147**

* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

As of 1 January 2018, the financial commitments and contingencies of the Group were comprised of the following, as broken down by classification:

	Carrying value				Provisions			
(CZKm)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Central banks	0	0	0	0	0	0	0	0
General governments	10,522	0	0	10,522	3	0	0	3
Credit institutions	875	29	0	904	28	0	0	28
Other financial corporations	3,280	1	2	3,283	5	0	0	5
Non-financial corporations	94,102	4,238	1,705	100,045	87	63	1,195	1,345
Households*	40,276	540	19	40,835	31	18	11	60
Total commitments and contingencies	**149,055**	**4,808**	**1,726**	**155,589**	**154**	**81**	**1,206**	**1,441**

* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

Financial commitments and contingencies comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Non-payment guarantees including commitments to issued non-payment guarantees	34,921	34,461
Payment guarantees including commitments to issued payment guarantees	16,718	15,974
Committed facilities and unutilised overdrafts	10,866	11,494
Undrawn credit commitments	77,149	69,484
Unutilised overdrafts and approved overdraft loans	15,756	13,673
Unutilised limits under framework agreements to provide financial services	7,930	7,787
Open customer/import letters of credit not covered	426	898
Standby letters of credit not covered	3,616	1,024
Confirmed supplier/export letters of credit	1,083	794
Total commitments and contingencies	**168,465**	**155,589**

The risk associated with off-balance sheet credit commitments and contingent liabilities is assessed on the same basis as is that of loans to customers, taking into account the financial position and activities of the entity to which the Group issued a given guarantee and the collateral obtained. As of 31 December 2018, the Group recorded provisions for these risks in the amount of CZK 1,147 million (1 Jan 2018: CZK 1,441 million). Refer to Note 32.

Set out below is a breakdown of financial commitments and contingencies to non-financial corporations by sector:

(CZKm)	31 Dec 2018	31 Dec 2017
Agriculture, forestry and fishing	2,738	2,585
Mining and quarrying	408	466
Manufacturing	25,417	26,801
Electricity, gas, steam and air conditioning supply	5,319	5,421
Water supply, sewerage, waste management and remediation activities	835	771
Construction	30,067	29,394
Wholesale and retail trade, repair of motor vehicles and motorcycles	10,123	10,957
Transportation and storage	4,980	3,969
Accommodation and food service activities	219	243
Information and communication	3,256	2,697
Real estate activities	8,078	4,704
Professional, scientific and technical activities	8,640	8,796
Administrative and support service activities	754	607
Public administration and defence, compulsory social security	252	252
Education	467	51
Human health and social work activities	312	189
Arts, entertainment and recreation	1,221	2,020
Other service activities	283	122
Total commitments and contingencies to non-financial corporations	**103,369**	**100,045**

The majority of commitments and contingencies originate on the territory of the Czech Republic.

The collateral held in support of financial commitments and contingencies is broken out below by type as of 31 December 2018:

(CZKm)	Applied commitments and contingencies collateral value* Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Commitments and contingencies	**7,243**	**3,281**	**2,144**	**9,694**	**6,958**
of which:					
– Other financial corporations	8	3	5	501	1,283
– Non-financial corporations	738	3,189	2,079	8,820	2,283
– Households**	6,496	89	60	87	35

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

** This item also includes financial commitments and contingencies granted to individual entrepreneurs.

The collateral held in support of financial commitments and contingencies is broken out below by type as of 31 December 2017:

(CZKm)	Applied commitments and contingencies collateral value* Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Commitments and contingencies	**6,064**	**2,819**	**2,003**	**10,782**	**5,950**
of which:					
– Other financial corporations	5	0	0	15	498
– Non-financial corporations	258	2,761	1,941	10,197	2,268
– Households**	5,801	58	61	53	40

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

** This item also includes financial commitments and contingencies granted to individual entrepreneurs.

In accordance with Act No. 427/2011 Coll., on Supplementary Pension Saving, and in accordance with the statutes of Transformovaný fond KB Penzijní společnost, a.s. (hereafter only the “Fund”) created after 1 January 2013, KB Penzijní společnost, a.s. guarantees at least a zero return for clients on an annual basis and must ensure that the value of assets in the Fund is always equal to or greater than the value of liabilities. Otherwise, KB Penzijní společnost, a.s. is required to contribute to the Fund assets necessary to make up the difference at latest within 30 days after the end of the quarter in which such circumstance was identified. These transferred assets constitute a special capital fund of the Fund and are primarily used to cover losses of the current year or accumulated losses from prior periods.

As a result of the development on the capital markets, the value of assets in the Fund became lower than the value of liabilities. Consequently, in 2018, KB Penzijní společnost, a.s. contributed to the Fund assets to offset the excess of the value of liabilities over the value of assets. The excess is caused by negative revaluation differences of bonds classified by the Fund in the Available-for-sale portfolio. The classification of bonds as Available-for-sale financial assets measured at fair value with changes being recognised in other comprehensive income, results from legal requirements (Act No. 427/2011 Coll.) limiting the volume in the Held-to-maturity portfolio to no more than 35% of all investments. Given the fact that the Fund can demonstrate the ability to hold the investments until maturity, the negative revaluation differences are considered as temporary and will be fully offset no later than upon the maturity of the bonds.

38 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. As of 31 December 2018, the Group was controlled by Société Générale S.A., which owns 60.35% of its issued share capital.

A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits, transactions with derivative financial instruments and other types of transactions. These transactions are carried out on an arm's length basis.

Amounts due to and from the Group companies
As of 31 December 2018, the Group had deposits of CZK 1,339 million (2017: CZK 936 million) due to the associate Komerční pojišťovna, a.s. The positive fair value of financial derivatives in relation to the associate Komerční pojišťovna, a.s. amounted to CZK 837 million (2017: CZK 559 million) and the negative fair value to CZK 210 million (2017: CZK 439 million). The book value of mortgage bonds issued by the Bank was CZK 804 million (2017: CZK 805 million) and interest expense from mortgage bonds amounted to CZK 20 million (2017: CZK 20 million).

Interest income from financial derivatives of Komerční pojišťovna, a.s. to the Group amounted to CZK 743 million (2017: CZK 820 million) and interest expense on financial derivatives totalled CZK 517 million (2017: CZK 561 million). Interest expense from deposits amounted to CZK 15 million (2017: CZK 3 million), fee income of the Group arising from intermediation totalled CZK 420 million (2017: CZK 418 million), fee expense amounted to CZK 79 million (2017: CZK 74 million), insurance expenses totalled CZK 10 million (2017: CZK 13 million) and other income totalled CZK 17 million (2017: CZK 18 million).

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include the following:

	31 Dec 2018		31 Dec 2017	
(CZKm)	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o. (Czech Republic)	7,100	0	6,185	0
ALD Automotive s.r.o. (Slovak Republic)	74	0	160	0
BRD – GROUPE Société Générale SA	17	0	22	0
PJSC Rosbank	193	0	205	0
SG Bruxelles	3	0	26	0
SG Express Bank	48	0	56	0
SG Marocaine de Banques	6	0	0	0
SG Paris	14,348	5,733	8,771	4,633
SG S.A. Oddzial w Polsce	0	0	1	0
SG Zurich	228	0	175	0
SGA Société Générale Acceptance	0	0	2,708	0
Société Générale China Limited	41	0	1	0
Société Générale International Limited	2,210	0	2,572	0
SKB Banka D.D. Ljubljana	1	0	1	0
Société Générale Banka Srbija	0	0	1	0
Total	**24,269**	**5,733**	**20,884**	**4,633**

Principal balances owed to the Société Générale Group entities include the following:

	31 Dec 2018		31 Dec 2017	
(CZKm)	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o. (Czech Republic)	389	0	368	0
ALD Automotive s.r.o. (Slovak Republic)	0	0	27	0
BRD – GROUPE Société Générale SA	8	0	79	0
Crédit du Nord	5	0	12	0
PEMA Praha, spol. s r.o.	26	0	70	0
PJSC Rosbank	0	0	1	0
SG Amsterdam	68	0	23	0
SG Banques au Liban	2	0	2	0
SG Bruxelles	9	0	0	0
SG ISSUER	1	0	1	0
SG Frankfurt	45	0	41	0
SG London	88	0	78	0
SG Milan	2	0	0	0
SG New York	8	0	16	0
SG Paris	50,161	8,486	38,863	6,988
SG Private Banking /Suisse/ S.A.	143	0	67	0
SG S.A. Oddzial w Polsce	2	0	98	0
SG Zurich	53	0	1	0
SGSS Nantes	2	0	11	0
Société Générale Bank & Trust	650	0	123	0
Société Générale Factoring	21	0	0	0
SG Express Bank	54	0	2	0
SG Option Europe	0	0	1	0
SOGEPROM Česká republika, s.r.o.	5	0	5	0
Total	**51,742**	**8,486**	**39,889**	**6,988**

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, subordinated debt, issued loans, interbank market loans and placements, deposited margins in favour of the counterparty and fair values of derivatives.

As of 31 December 2018, the Group also carried off-balance sheet exposures to the Société Générale Group entities, of which off-balance sheet nominal assets and liabilities amounted to CZK 515,728 million (2017: CZK 464,341 million) and CZK 461,281 million (2017: CZK 427,482 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.

As of 31 December 2018 and 2017, the Group also recorded other accounts receivable and payable from and to Société Générale Group entities the amounts of which are not significant.

During the year ended 31 December 2018, the Group had total income of CZK 39,157 million (2017: CZK 32,527 million) and total expenses of CZK 37,661 million (2017: CZK 32,733 million) in relation to Société Générale Group entities. That income includes income from interbank deposits, fees from transactions with securities, profit from financial operations and interest income on hedging derivatives. Expenses comprise those of interbank deposits and subordinated debt, a loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management, consultancy and software services.

Remuneration and amounts due from members of the Board of Directors and Supervisory Board

Remuneration paid to the members of the Board of Directors and Supervisory Board during the years was as follows:

(CZKm)	2018	2017
Remuneration to members of the Board of Directors*	64	56
Remuneration to members of the Supervisory Board**	5	5
Total	**69**	**61**

* **Remuneration to members of the Board of Directors** includes wages paid and other compensation and benefits provided during the year ended 31 December 2018 to current and former directors for the duration of their membership. It also includes a part of bonuses awarded in 2018. The remuneration includes as well benefits arising to the Bank's employees under the collective agreement. Development of remuneration to members of the Board of Directors was influenced by exceptional items related to the transformation of the Bank, in particular by payments related to application of non competition clauses to departing members of the Board of Directors.

** **Remuneration to members of the Supervisory Board** includes amounts paid during the year ended 31 December 2018 to current and former members of the Supervisory Board for the duration of their membership. Amounts for members of the Supervisory Board elected by employees additionally include income paid to them under their employment arrangements with the Bank for the duration of their membership. The remuneration also includes benefits arising to the Bank's employees under the collective agreement.

	31 Dec 2018	31 Dec 2017
Number of the Board of Directors members at the end of the period	5*	6
Number of the Supervisory Board members at the end of the period	8	9

* During 2018, a total 8 members served on the Board of Directors. According to the Articles of Association, the Board of Directors is to have 6 members. One position on the Board of Directors was vacant for a part of 2018.

In respect of loans and guarantees as of 31 December 2018, the Group recorded receivables from loans granted to members of the Board of Directors and Supervisory Board totalling CZK 19 million (2017: CZK 12 million). During 2018, draw-downs of CZK 1 million (2017: CZK 0 million) were made under the loans granted. Loan repayments during 2018 amounted to CZK 1 million (2017: CZK 1 million). The increase of loans in 2018 is affected by new members already having loans in the amount of CZK 12 million. Loans to resigning members amounted to CZK 5 million as of 31 December 2017.

39 Movements in the remeasurement of retirement benefits plan in the equity

(CZKm)	2018	2017
Remeasurement of retirement benefits plan as of 1 January	(190)	(162)
Deferred tax asset/(liability) as of 1 January	36	31
Balance as of 1 January	**(154)**	**(131)**
Movements during the year		
Gains/(losses) from remeasurement of retirement benefits plan	27	(28)
Deferred tax	(5)	5
	22	**(23)**
Remeasurement of retirement benefits plan as of 31 December	(163)	(190)
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	31	36
Balance as of 31 December	**(132)**	**(154)**

40 Movements in the revaluation of equity securities at FVOCI option in the equity

(CZKm)	2018	2017
Revaluation of equity securities at FVOCI option as of 1 January	95	7
Deferred tax asset/(liability) as of 1 January	(18)	(1)
Balance as of 1 January	**77**	**6**
Movements during the year		
Gains/(losses) from changes in fair value	98	88
Deferred tax	(18)	(17)
	80	**71**
Revaluation of equity securities at FVOCI option as of 31 December	193	95
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	(36)	(18)
Balance as of 31 December	**157**	**77**

41 Movements in the revaluation of hedging instruments in the equity

In accordance with IAS 39, certain derivatives were designated as hedges. The changes in fair values of cash flow hedges are recorded in a separate line of equity in the hedging reserve.

Balance of hedging instruments in equity at the beginning of the period

(CZKm)	2018	2017
Cash flow hedge fair value as of 1 January	159	14,047
Deferred tax asset/(liability) as of 1 January	(40)	(2,668)
Balance as of 1 January	**119**	**11,379**
Movements during the year		
Gains/(losses) from changes in fair value (refer to Note 43(C))	(67)	(10,586)
Deferred tax	12	2,000
	(55)	**(8,586)**
Transferred to interest income/expense	(179)	(3,299)
Deferred tax	34	627
	(145)	**(2,672)**
Transferred to net profit/loss on financial operations	(9)	0
Deferred tax	2	0
	(7)	**0**
Transferred to personnel expenses	1	(3)
Deferred tax	0	1
	1	**(2)**
Cash flow hedge fair value as of 31 December	(95)	159
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	8	(40)
Balance as of 31 December	**(87)**	**119**

42 Movements in the revaluation of debt securities at FVOCI in the equity

(CZKm)	2018	2017
Changes in accounting policies	(1,427)	N/A
Reserve from fair value revaluation as of 1 January	1,054	4,118
Deferred tax asset/(liability) as of 1 January	(194)	(700)
Impairment as of 1 January	4	0
Balance as of 1 January	**864**	**3,418**
Movements during the year		
Gains/(losses) from changes in fair value	(459)	(695)
Deferred tax	85	91
	(374)	**(604)**
(Gains)/losses from reclassified financial assets (refer to Note 20)	0	(646)
Deferred tax	0	123
	0	**(523)**
(Gains)/losses from sale	0	0
Deferred tax	0	0
	0	**0**
Impairment	(2)	0
	(2)	**0**
Reserve from fair value revaluation as of 31 December	595	2,777
Deferred tax asset/(liability) as of 31 December (refer to Note 33)	(109)	(486)
Impairment as of 31 December	2	0
Balance as of 31 December	**488**	**2,291**

43 Risk management and financial instruments

(A) Credit risk

Assessment of borrower's credit rating
The assessment of credit risk is based on quantitative and qualitative criteria and leads to a rating assignment. The Group uses several types of rating models, depending on the type and profile of the counterparty and the types of transactions. As a result, individual ratings are assigned to both the Group's clients and to specific client transactions. The same process of rating assignment is applied in relevant cases to respective guarantors and sub-debtors, which enables better assessment of the quality of accepted guarantees and collaterals.

In 2018, the Group focused on updating selected credit risk models in order optimally to reflect the current macroeconomic situation and goals set by the Group as well as on increasing effectiveness in monitoring the risk profiles of individual client portfolios and the quality of tools and models for credit risk management. The Bank also continued in harmonising governance, usage of rating models and the monitoring process within the Group.

As in previous years, the results of regular stress testing played an important role, allowing more precise estimates of the expected intensity of credit risk for the ensuing periods and thus optimisation of the Group's credit risk management tools and more accurate estimation of expected future losses.

(a) Business clients and municipalities
For entrepreneurs, corporate clients and municipalities, the Group uses the obligor rating (expressed on the 22-grade Société Générale rating master scale) with the aim to evaluate the counterparty's Probability of Default (PD) and the Loss Given Default (LGD) rating, and thereby to assess the quality of available guarantees and collaterals and to evaluate the potential loss from counterparty transactions. These models are also used for regular updates of expected loss and unexpected loss for all client exposures reported in accordance with the Basel III requirements.

For large and medium-sized clients, the obligor rating is a combination of the financial rating based primarily on data in the financial statements and an economic rating obtained through the evaluation of non-financial information relating to a particular client.

In the entrepreneurs and small companies segment, the client's obligor rating is a combination of financial, non-financial and personal data, data on client behaviour within the Group and information from external credit bureaus. When clients are funded via simple products, the setting of the rating is alternatively limited to the evaluation of data on clients' behaviour within the Group (behavioural rating).

In the municipalities segment, the obligor rating is a combination of the financial rating based on data in the financial statements and of an economic rating acquired through the assessment of non-financial information relating to a specific municipality.

The Group is also using a dedicated rating model for housing co-operatives and associations of owners. A special model for real estate developers and investors is currently in the validation phase.

(b) Ratings for banks and sovereigns
For banks, other financial corporations (namely insurance companies, brokers and funds) and for sovereigns (central banks and central governments), the Group uses economic rating models developed by Société Générale.

(c) Ratings for individual clients
The Group uses two types of ratings with the aim of evaluating default risk for individuals: (1) the application rating, which results from an evaluation of clients' personal data, data on the behaviour within the Group, and data available from external credit bureaus; and (2) a behavioural rating which is based on evaluating information on the clients' behaviour within the Group. The application rating is primarily used for active applications of clients for funding, while the behavioural rating (which includes the calculation of indicative limits for simple products with low exposure) is used for active offers of funding by the Group. The behavioural rating of clients is concurrently used as an input for regular updates of the probability of default of all client exposures reported in accordance with the Basel III requirements.

(d) Internal register of negative information
The Group maintains an internal register of negative information. The register integrates the maximum quantity of available internal and external negative information on subjects related to the credit process. It includes algorithms for evaluating the negative information and contributes substantially to protecting the Group from risky entities.

(e) Credit bureaus
The evaluation of data from credit bureaus is one of the principal factors influencing the assessment of applications for client funding, and especially so in the retail client segments (individuals and small businesses).

(f) Credit fraud prevention

The Group uses an automated system for the detection of credit frauds and also for co-ordinated reactions to credit fraud attacks. The system is fully integrated with the Group's main applications. The system is regularly updated to reflect current market trends. Controls preventing credit frauds in the small business segment were implemented in 2018. This activity will continue through 2019 and will be further extended to the Corporate segment.

(g) Granting process

Through 2018, the Group focused on simplification of its processes and increasing rapidity in credit granting to corporate clients. This activity will continue through 2019, with implementation of enhanced scoring models and a decision engine for automated risk assessment and credit approval.

In the retail lending area, the Group was working to reflect the latest CNB Mortgage Loans Recommendation in relation to solvency ratios.

Credit concentration risk

Credit concentration risk is actively managed as a part of overall credit risk management utilising standard tools, credit risk assessment, setting of internal limits, use of risk mitigation techniques, regular reporting, producing of sector analyses and stress testing. The Group maintains its objective not to take on any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors and collateral providers. The system of internal limits is established so that the Group complies with the regulatory limits set by legislation in respect of concentration risk. Refer to Notes 22 and 37 for quantitative information about this type of risk.

The Group's maximum credit exposure as of 31 December 2018:

	Total exposure			Collateral applied		
(CZKm)	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
Current balances with central banks	**16,347**	**x**	**16,347**	**0**	**x**	**0**
Financial assets and other assets at fair value through profit or loss	**22,614**	**x**	**22,614**	**0**	**x**	**0**
Financial assets at fair value through profit or loss – non-SPPI	**0**	**x**	**0**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**12,559**	**x**	**12,559**	**0**	**x**	**0**
Financial assets at fair value through other comprehensive income	**25,265**	**x**	**25,265**	**0**	**x**	**0**
Financial assets at amortised cost	**963,283**	**168,465**	**1,131,748**	**309,529**	**29,320**	**338,849**
of which:						
– Other financial corporations	30,430	7,004	37,434	8,099	1,800	9,899
– Non-financial corporations	260,430	103,415	363,845	54,116	17,109	71,225
– Households**	324,861	41,713	366,574	242,112	6,767	248,879
Revaluation differences on portfolios hedge items	**(372)**	**x**	**(372)**	**0**	**x**	**0**
Total	**1,039,696**	**168,465**	**1,208,161**	**309,529**	**29,320**	**338,849**

* Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis (i.e. without the impact of allowances).

The Group's maximum credit exposure as of 1 January 2018:

(CZKm)	Total exposure: Statement of financial position	Total exposure: Off-balance sheet*	Total exposure: Total credit exposure	Collateral applied: Statement of financial position	Collateral applied: Off-balance sheet*	Collateral applied: Total collateral
Current balances with central banks	**22,593**	**x**	**22,593**	**0**	**x**	**0**
Financial assets and other assets at fair value through profit or loss	**18,841**	**x**	**18,841**	**0**	**x**	**0**
Financial assets at fair value through profit or loss – non-SPPI	**2,694**	**x**	**2,694**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**13,408**	**x**	**13,408**	**0**	**x**	**0**
Financial assets at fair value through other comprehensive income	**24,039**	**x**	**24,039**	**0**	**x**	**0**
Financial assets at amortised cost	**900,392**	**155,589**	**1,055,981**	**303,839**	**27,618**	**331,457**
of which:						
– Other financial corporations	28,112	3,984	32,096	12,170	518	12,688
– Non-financial corporations	245,234	100,091	345,325	46,467	17,425	63,892
– Households**	310,095	40,835	350,930	235,367	6,013	241,380
Revaluation differences on portfolios hedge items	**(251)**	**x**	**(251)**	**0**	**x**	**0**
Total	**981,716**	**155,589**	**1,137,305**	**303,839**	**27,618**	**331,457**

* Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis (i.e. without the impact of allowances).

The Group's debt securities, allocated by sector and currency, comprised the following as of 31 December 2018:

(CZKm)	Fair value through profit or loss: CZK	Other	Total	Fair value through other comprehensive income: CZK	Other	Total	Amortised cost: CZK	Other	Total
Central banks	0	0	0	0	0	0	0	0	0
General governments	3,144	14	3,158	5,402	17,466	22,868	65,503	11	65,514
Credit institutions	77	0	77	0	2,041	2,041	1,128	0	1,128
Other financial corporations	0	0	0	0	0	0	350	0	350
Non-financial corporations	13	0	13	0	0	0	2,437	452	2,889
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**3,234**	**14**	**3,248**	**5,402**	**19,507**	**24,909**	**69,418**	**463**	**69,881**

* This item also includes individual entrepreneurs.

The Group's debt securities, allocated by sector and currency, comprised the following as of 1 January 2018:

(CZKm)	Fair value through profit or loss: CZK	Other	Total	Fair value through other comprehensive income: CZK	Other	Total	Amortised cost: CZK	Other	Total
Central banks	0	0	0	0	0	0	0	0	0
General governments	1,346	170	1,516	0	19,206	19,206	65,629	14	65,643
Credit institutions	64	52	116	0	4,592	4,592	1,836	0	1,836
Other financial corporations	0	0	0	0	0	0	69	1	70
Non-financial corporations	1	0	1	0	0	0	2,361	430	2,791
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**1,411**	**222**	**1,633**	**0**	**23,798**	**23,798**	**69,895**	**445**	**70,340**

* This item also includes individual entrepreneurs.

Staging of loans and advances

The Group classifies its loans and advances arising from financial activities into three categories (Stages 1, 2 and 3) in accordance with the IFRS 9 standard. Stages 1 and 2 represent non-default (performing) while Stage 3 represents default (non-performing). The staging reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge). The staging of individuals also reflects the default sharing principle for co-debtors and guarantors of defaulted loans and advances in accordance with the Basel III principles.

The structure of the credit portfolio according to the staging is regularly reported to the CNB and to investors.

When forbearance measures are granted, the forborne exposures are given default status (i.e. are classified as Stage 3). The forbearance classification is discontinued after fulfilment of the following pre-defined conditions:

I. After 12 months, reclassification of the forborne exposures to performing (to Stage 2), and it is possible after an additional 12 months (to Stage 1) based on an analysis of the debtor's financial condition;

II. After exit from default (possible only after 12 months from granting of forbearance measures), there follows a minimum 2-year probation period. Proper payment must be made throughout the probation period (i.e. the material days past due, with materiality being set identically as for defaulted loans and advances, must not exceed 30 days). Otherwise, the exposure is downgraded back to Stage 3 (default status).

Characteristics of financial assets at amortised costs that are not classified

Pursuant to the regulation issued by the CNB, the Group does not classify other amounts due from customers. These amounts consist of non-credit receivables that principally originated from the payment system, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities (on behalf of clients) that have not been settled, and receivables that arise from business arrangements that do not represent financial activities, specifically receivables arising from outstanding rental payments on non-residential premises, sale of real estate and prepayments made.

Allowances for loans and advances

In 2018, the Group started to apply the IFRS 9 standard in the area of allowances for loans and advances. Depending on the client segment, materiality, risk profile and characteristics of the loans and advances, allowances are created either: (i) individually (for non-performing clients, exceptionally for performing clients) while taking into account the present value of expected future cash flows and considering all available information, including the estimated value of collateral foreclosure and the expected duration of the recovery process; or (ii) using expected credit loss statistical models based on observed history of defaults and losses and forward looking adjustments. In 2018, the Group updated models used for allowances of both the performing and non-performing portfolios, taking into account (i) the latest observed history of defaults and losses, (ii) a new macroeconomic forecast, and (iii) expected changes in the legal environment. As a part of this update, the Group also enhanced its methodology used for allowances relating to the performing portfolio that were applied on 1 January 2018 in the context of the transition to IFRS 9. The Group updated its methodology to achieve full alignment with Société Générale and further improved the transfer criteria for identification of significant increase in credit risk, which resulted in the transfer of part of the portfolio exposure from Stage 1 to Stage 2.

The following table breaks out impaired loans and advances to banks and customers (Stage 3) according to manner of loss estimation:

	31 Dec 2018		1 Jan 2018	
(CZKm)	Individually	Statistical model	Individually	Statistical model
Central banks	0	0	0	0
General governments	340	2	505	3
Credit institutions	71	0	117	0
Other financial corporations	48	1	64	0
Non-financial corporations	7,876	1,934	7,772	2,079
Households*	0	7,059	22	8,163
Total	**8,335**	**8,996**	**8,480**	**10,245**

* This item also includes loans granted to individual entrepreneurs.

Loans and advances collateral
The Group uses collateralisation as one of its techniques for mitigating credit risk. The risk management related to collateralisation is performed by departments within the Risk Management Arm independently of the Group's business lines.

The Group has fully implemented within its internal system the rules for assessing collateral's eligibility according to CNB Regulation No. 163/2014. In compliance with the CNB validation, the Group uses the Advanced Internal Ratings-Based (A-IRB) approach. For clients of the Slovak branch, the Group uses the Standardised (STD) approach for assessing collateral eligibility.

The recognised value of collateral is set based on the Group's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral sale, length of sales process, historical experience of the Group, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules and other regulations. Specifically, for all real estate collateral, which is the most common type of collateral, the Group uses independent valuations performed or supervised by the Group's dedicated specialised internal department. Collateral values reflected in the calculation of capital requirements and other processes (regulatory exposure management, granting process, creation of provisions and reserves) involve the fulfilment of collateral eligibility according to CNB Regulation No. 163/2014.

The Group (except for the Slovak branch) uses online connection to the Land Register for reviewing and acquiring data on pledged real estates in granting mortgages or other loans secured by real estate and for regular monitoring of selected events that may put the Group's pledge right to real estate at risk.

Real estate collateral valuation
Activities related to the valuation of real estates obtained as collaterals for corporate and retail loans and advances are independent from the Group's business processes. The valuation process is managed and controlled by a specialised internal department that co-operates with various external valuation experts.

In 2018, together with the principal activity involving real estate valuation, the Group focused mainly upon ongoing monitoring of the real estate market with the aim to promptly identify any adverse development and to take appropriate measures as required. The Group monitors both the residential and commercial real estate markets. An integral component of that monitoring is the revaluation of selected real estates depending on the Basel III requirements. As a result of the statistical monitoring of market prices for residential real estates, adjustment is performed regularly.

Recovery of loans and advances from borrowers
The Group responded progressively to the changing legal environment and its influence on the collection of loans and advances. Given the size of the portfolio in recovery, the Group continued improving the efficiency of the recovery process. These efforts also involved improving efficiency in using external recovery capacities. During 2018, the Group continued in regular sales of uncollateralised and collateralised retail loans and advances to selected qualified investors so that the maximum achievable recovery rate is obtained.

The Group was increasingly attentive to utilising the Insolvency Act in the process of collecting loans and advances from both retail and corporate clients. The Group plays an active role in the insolvency process, from the position of secured creditor, member of the creditors committee or representative of creditors, whether in bankruptcy proceedings or in reorganisations, both of which are used by the Group depending on the given debtor's circumstances and the attitudes of other creditors.

Credit risk hedging instruments
The Group has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

Credit risk of financial derivatives
The daily calculation of counterparty risk associated with financial derivatives is based on the Credit Value at Risk (CVaR) indicator. This indicator projects the potential adverse development of the market value of a derivative and the potential loss that the Group may incur if a counterparty fails to fulfil its obligations. The maximum potential exposure is calculated at the 99% probability level and depends on the current market value and type of derivative product, the time remaining until maturity of the derivative transaction, as well as the nominal value and volatility of the underlying assets.

As of 31 December 2018, the Group was exposed to credit exposure of CZK 198,929 million (2017: CZK 113,370 million) on financial derivative instruments and repo operations, including those with the central banks (expressed in CVaR). This amount represents the gross replacement cost at market rates as of 31 December 2018 for all outstanding agreements. The netting agreement and parameters of collateral agreement are taken into account where applicable.

The Group puts limits on exposures to counterparties from financial derivatives in order to avoid excessive credit exposures to each client that could arise from movements in market prices. On a daily basis, the Group monitors compliance with limits. If these are exceeded, an appropriate alert is triggered and action is taken when relevant. In the event that a limit breach is triggered by the deliberate action of a dealer ("active limit breach"), such behaviour is penalised. The Board of Directors is informed about active limit breaches on a regular basis.

(B) Market risk

Segmentation of the Group's financial operations
For market risk management purposes, the Group's activities are internally separated into two books: the Market Book and the Structural Book. The Market Book consists of transactions initiated by investment banking activities and the treasury desk (interbank and individually priced deposits/loans, repos/reverse repos, securities classified as held for trading, derivatives originated by investment banking). The Structural Book consists principally of business transactions (lending, accepting deposits, amounts due to and from customers), hedging transactions relevant to the Structural Book, and other transactions not included in the Market Book.

Products generating market risk
Products that are traded by the Group and generate market risk include interbank loans and deposits, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, cross currency swaps, forward rate agreements, interest rate futures and futures on debt securities), government and corporate bonds, bills of exchange programmes and cash and carry exposure in emission allowances.

More complex derivatives (options, commodity derivatives, structured derivatives) which are being sold to clients, are immediately offset on the market by doing "back-to-back" trades in the interbank market, mostly with Société Générale. This ensures that the Group is not exposed to market risks associated with these derivatives (e.g. volatility risk, correlation risk).

Market risk in the Market Book
The Group has developed a system of market risk limits with the objective of limiting potential losses due to movements in market prices by limiting the size of the risk exposure.

Since 2016, in addition to measuring and limiting market risk at the level of the Market Book as a whole, the Group has been measuring and limiting the market risks for the trading and treasury activities separately.

The Group monitors compliance with all limits on a daily basis, and if these are exceeded the Group takes corrective action to reduce the risk exposure. The Board of Directors is informed on a monthly basis about developments in the exposure to market risk.

In order to measure the extent of market risk inherent in the activities of the Market Book, the Group uses the one-day historical 99% Value-at-Risk (hereafter only "VaR") concept. VaR is calculated using full revaluation of the position by means of historical market price scenarios. This method reflects correlations between various financial markets and underlying instruments on a non-parametric basis, inasmuch as it uses scenarios simulating one-day variations of relevant market parameters over a period of time limited to the past 260 business days. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the 1% of the most unfavourable occurrences. This estimate is calculated as the average of the second and third largest potential losses out of the 260 considered scenarios.

The VaR for a one-day horizon with a confidence level of 99% was CZK -33 million as of 31 December 2018 (2017: CZK -20 million). The average VaR was CZK -22 million in 2018 (2017: CZK -16 million).

The accuracy of the VaR model is validated through a back-testing calculation, whereby actual trading results and hypothetical results (i.e. results excluding deals closed during the day) are compared with the VaR results. Actual results should not exceed VaR more frequently than on 1% of the days within a given period.

In addition, the Group performs stress tests on a daily basis which capture losses potentially generated by larger shocks. These stress events have a lower probability of occurrence than do VaR scenarios, and they measure potential losses relevant to the risk exposure in the Market Book. Several types of stress tests for foreign exchange, interest rate and CO_2 allowance cash and carry exposures are used. These are developed either based on actual crisis situations in the past (such as the Lehman bankruptcy in 2008) or from a hypothetical crisis that could negatively influence the performance of the Market Book.

Such additional specific metrics as sensitivities to market parameters or size of exposure are used to obtain a detailed picture of risks and strategies.

The Group complies with Société Générale Group's VaR and stress tests methodology and uses the Group's software for market risk management.

Market risk in the Structural Book
The Group manages foreign exchange risk so as to minimise risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged according to established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Group uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of net present value to a parallel shift of the yield curve, and sensitivity of net interest income to a parallel shift of the yield curve.

The indicators are monitored separately for CZK, USD, EUR, and the sum of other foreign currencies.

The indicator of the Group's sensitivity to a change in market interest rates is measured based upon the assumption of an instantaneous, one-off and adverse parallel shift of the market yield curve by 0.1% p.a (in previous years, a parallel shift of the market yield curve by 1% p.a. was assumed). It is determined as the present value of the costs of closing out the Group's open interest rate position after the adverse change of interest rates has occurred. As of 31 December 2018, for the hypothetical assumption of a 0.1% change in market interest rates the CZK interest rate risk sensitivity was CZK 9 million (2017: the sensitivity of a 1% shift was CZK -47 million), the EUR sensitivity was CZK -80 million (2017: the sensitivity of a 1% shift was CZK -175 million), the USD sensitivity was CZK 2 million (2017: the sensitivity of a 1% shift was CZK -14 million), and for other currencies it was CZK -0.2 million (2017: the sensitivity of a 1% shift was CZK 2 million).

In order to hedge against interest rate risk within the Structural Book, the Group uses both standard derivative instruments available in the interbank market (such as forward rate agreements and interest rate swaps) and appropriate investments into securities or a favourable selection of interest rate parameters for other assets and liabilities.

(C) Financial derivatives

The Group operates a system of market risk and counterparty limits designed to restrict disproportionate exposures due to movements in market prices and counterparty concentrations. The Group also monitors adherence to all limits on a daily basis. It follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out nominal and fair values of financial derivative instruments categorised as held for trading and hedging.

Financial derivative instruments designated as held for trading are as follow:

	31 Dec 2018 Nominal value		31 Dec 2017 Nominal value		31 Dec 2018 Fair value		31 Dec 2017 Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps	951,131	951,131	817,281	817,281	7,669	8,201	7,293	8,108
Interest rate forwards and futures*	24,163	24,163	84,251	84,251	2	14	1	9
Interest rate options	40,772	40,772	27,209	27,209	122	122	50	50
Total interest rate instruments	**1,016,066**	**1,016,066**	**928,741**	**928,741**	**7,793**	**8,337**	**7,344**	**8,167**
Foreign currency instruments								
Currency swaps	365,194	365,141	323,477	322,592	1,511	1,471	2,390	1,535
Cross currency swaps	174,577	174,558	150,380	150,573	4,575	4,202	3,894	3,516
Currency forwards	112,795	114,368	91,657	93,673	954	921	511	2,161
Purchased options	66,963	66,780	61,065	61,322	1,418	0	1,283	0
Sold options	66,780	66,963	61,322	61,065	0	1,418	0	1,283
Total currency instruments	**786,309**	**787,810**	**687,901**	**689,225**	**8,458**	**8,012**	**8,078**	**8,495**
Other instruments								
Forwards on emission allowances	11,058	11,184	3,646	3,836	1,842	1,969	217	407
Commodity forwards	4,420	4,420	3,661	3,661	69	65	109	106
Commodity swaps	15,891	15,891	10,784	10,784	933	919	464	456
Purchased commodity options	377	377	36	36	26	0	0	0
Sold commodity options	377	377	36	36	0	26	0	0
Total other instruments	**32,123**	**32,249**	**18,163**	**18,353**	**2,870**	**2,979**	**790**	**969**
Total	**1,834,498**	**1,836,125**	**1,634,805**	**1,636,319**	**19,121**	**19,328**	**16,212**	**17,631**

* Fair values include only forwards. Regarding futures, the Group places funds on a margin account that is used on a daily basis to settle fair value changes. Receivables arising from these margin accounts are reported within other assets.

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as of 31 December 2018:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	164,464	508,639	278,028	951,131
Interest rate forwards and futures*	23,663	500	0	24,163
Interest rate options	663	26,115	13,994	40,772
Total interest rate instruments	**188,790**	**535,254**	**292,022**	**1,016,066**
Foreign currency instruments				
Currency swaps	355,782	9,412	0	365,194
Cross currency swaps	31,536	90,282	52,759	174,577
Currency forwards	73,270	39,548	(23)	112,795
Purchased options	26,235	40,728	0	66,963
Sold options	26,435	40,345	0	66,780
Total currency instruments	**513,258**	**220,315**	**52,736**	**786,309**
Other instruments				
Forwards on emission allowances	8,858	2,200	0	11,058
Commodity forwards	4,420	0	0	4,420
Commodity swaps	12,265	3,626	0	15,891
Purchased commodity options	371	6	0	377
Sold commodity options	371	6	0	377
Total other instruments	**26,285**	**5,838**	**0**	**32,123**
Total	**728,333**	**761,407**	**344,758**	**1,834,498**

* The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as of 31 December 2017:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	103,801	464,094	249,386	817,281
Interest rate forwards and futures*	73,869	10,382	0	84,251
Interest rate options	2,341	23,071	1,797	27,209
Total interest rate instruments	**180,011**	**497,547**	**251,183**	**928,741**
Foreign currency instruments				
Currency swaps	311,991	11,486	0	323,477
Cross currency swaps	26,422	76,943	47,015	150,380
Currency forwards	52,092	37,245	2,320	91,657
Purchased options	36,601	24,464	0	61,065
Sold options	36,673	24,649	0	61,322
Total currency instruments	**463,779**	**174,787**	**49,335**	**687,901**
Other instruments				
Forwards on emission allowances	2,929	717	0	3,646
Commodity forwards	3,661	0	0	3,661
Commodity swaps	9,219	1,565	0	10,784
Purchased commodity options	36	0	0	36
Sold commodity options	36	0	0	36
Total other instruments	**15,881**	**2,282**	**0**	**18,163**
Total	**659,671**	**674,616**	**300,518**	**1,634,805**

* The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as hedging are as follow:

	31 Dec 2018 Nominal value		31 Dec 2017 Nominal value		31 Dec 2018 Fair value		31 Dec 2017 Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Cross currency swaps for cash flows hedging	44,754	43,058	54,079	51,677	1,590	177	2,366	111
Forwards on stocks for cash flow hedging	53	54	52	52	1	0	2	0
Interest rate swaps for fair value hedging	910,922	910,923	697,928	697,928	10,538	9,277	10,697	10,078
Interest rate swaps for portfolio fair value hedging	37,100	37,100	29,300	29,300	430	215	343	140
Total	**992,829**	**991,135**	**781,359**	**778,957**	**12,559**	**9,669**	**13,408**	**10,329**

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2018:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	11,559	29,396	3,799	44,754
Forwards on stocks for cash flow hedging	21	32	0	53
Interest rate swaps for fair value hedging	103,329	422,717	384,876	910,922
Interest rate swaps for portfolio fair value hedging	3,150	29,200	4,750	37,100
Total	**118,059**	**481,345**	**393,425**	**992,829**

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2017:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Cross currency swaps for cash flow hedging	9,348	31,392	13,339	54,079
Forwards on stocks for cash flow hedging	20	32	0	52
Interest rate swaps for fair value hedging	112,224	325,255	260,449	697,928
Interest rate swaps for portfolio fair value hedging	900	21,850	6,550	29,300
Total	**122,492**	**378,529**	**280,338**	**781,359**

Shown below are the undiscounted cash flows from derivatives designated for cash flow hedging according to the periods within which they are expected to affect profit or loss:

	31 Dec 2018			31 Dec 2017		
(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
Floating cash flows from cash flow hedging derivatives	442	988	18	35	68	17

The Group treats as hedges only those contracts for which it is able to demonstrate that all criteria set out in IAS 39 for recognising the transactions as hedges have been met. The Group's strategy remains unchanged in line with IAS 39.

In November 2017, the Group decided to change the hedging relationships of the interest rate swaps from the cash flow hedges (CFH) portfolio to the fair value hedges (FVH) portfolio for interest rate risk in order to unify and harmonise hedging strategy within Société Générale Group. At the date of reclassification, the associated gains that were recognised for the CFH portfolio in other comprehensive income as effective hedge were insignificant.

During 2018, the Group recorded the following hedges:

1. Interest rate risk hedging:
   a. The fair values of long-term loans provided and of investments into long-term government securities classified into the "Hold to collect contractual cash flows and sell" business model and investments into long-term securities classified into the "Hold to collect contractual cash flows" business model are hedged by interest rate swaps and cross currency swaps, respectively;
   b. The fair values of issued long-term mortgage bonds classified into the *'Securities issued'* portfolio are hedged by interest rate swaps;
   c. The fair values of fixed rate deposits, loans taken or repos are hedged by interest rate swaps;
   d. Future cash flows from a portfolio of current assets traded on the interbank market and from loans to clients are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Group's Statement of Income on an ongoing basis);
   e. Future cash flows from a portfolio of short-term liabilities traded on the interbank market and liabilities to clients are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Group's Statement of Income on an ongoing basis);
   f. The fair values of a portfolio of current and savings accounts from clients are hedged by a portfolio of interest rate swaps.

2. Foreign exchange risk hedging:
   a. In selected material cases, the Group hedges the future cash flows of firm commitments arising from the Group's contractual obligations (e.g. contractual payments to third parties in a foreign currency) or receivables of the Group (e.g. dividends). The hedging instrument consists of foreign currency assets (e.g. short-term loans on the interbank market) or foreign currency liabilities (e.g. short-term client liabilities), respectively;
   b. The Group hedges the fair value of Visa Inc. preferred shares. Hedging instruments are foreign currency liabilities (short-term client liabilities).

3. Share price risk hedging:
   a. A portion of the bonus of selected Group employees is paid in cash equivalents of the Komerční banka, a.s. share price. The Group hedges the risk of change in the Komerční banka, a.s. share price. Hedging instruments are forwards on stocks.

4. Hedging of an investment in foreign subsidiaries:
   a. The foreign exchange risk associated with investments in subsidiaries is hedged by selected foreign currency liabilities (e.g. short-term client liabilities);

The Group does not report any instance of hedge accounting being applied to a highly probable forecasted transaction that is no longer anticipated to be effected.

In 2018, the loss from ineffectiveness of hedging relationships was in the amount of CZK 0 million (2017: CZK 5 million).

Further information on hedges is provided in Notes 3, 5 and 7 to these Consolidated Financial Statements.

(D) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent that instrument is exposed to interest rate risk. Market developments have led to a situation where interest rates are negative in certain currencies. This fact does not change the essence of interest rate risk measurement and management because the principle of recognising changes in interest rates over time remains unchanged just as the concept of hedging against interest rate risk by matching volumes with changing values within the given period remains valid. Due to legal and technical limitations, methods to prevent negative rates from being applied at the client's level can be applied with the objective of maintaining accordance between a transaction's contractual and economic natures. With respect to ongoing market practice, client deposits are seeing the introduction of deposit fees, which constitute a specific response to the existence of negative market interest rates and which also comply with the requirements given by limitations ensuing from the existing legal framework.

The Group uses internal models for managing interest rate risk. The objective of these models is to describe the expected economic behaviour of the Group's clients when market interest rates fluctuate. It is the policy of the Group's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through a gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section (B) of this Note.

The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity or a repricing date were grouped into the *'Undefined'* category. The table includes a break-out of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	24,851	0	0	0	0	24,851
Financial assets and other assets at fair value through profit or loss	1,710	0	0	0	20,904	22,614
Financial assets at fair value through profit or loss – non-SPPI	0	0	0	0	0	0
Positive fair values of hedging financial derivatives	0	0	20	0	12,539	12,559
Financial assets at fair value through other comprehensive income	6,648	411	5,960	11,890	356	25,265
Financial assets at amortised cost	490,532	88,668	276,649	77,850	17,404	951,103
– of which: Loans and advances to customers	232,784	74,792	254,270	46,090	17,018	624,954
Revaluation differences on portfolios hedge items	0	0	0	0	(372)	(372)
Current tax assets	0	2	0	0	57	59
Deferred tax assets	0	2	0	0	91	93
Prepayments, accrued income and other assets	0	0	0	0	5,753	5,753
Investments in subsidiaries and associates	0	0	0	0	1,134	1,134
Intangible assets	0	0	0	0	5,249	5,249
Tangible assets	0	0	0	0	7,676	7,676
Goodwill	0	0	0	0	3 752	3,752
Assets held for sale	0	0	0	0	196	196
Total assets	**523,741**	**89,083**	**282,629**	**89,740**	**74,739**	**1,059,932**
Liabilities						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities at fair value through profit or loss	2,250	0	0	0	19,322	21,572
Negative fair values of hedging financial derivatives	0	0	0	0	9,669	9,669
Financial liabilities at amortised cost	143,020	37,270	33,380	4,486	689,105	907,261
– of which: Amounts due to customers	84,244	21,048	28,007	4,486	674,666*	812,451
Revaluation differences on portfolios hedge items	0	0	0	0	(676)	(676)
Current tax liabilities	0	0	0	0	160	160
Deferred tax liabilities	0	0	0	0	765	765
Accruals and other liabilities	61	0	0	0	13,359	13,420
Provisions	0	0	0	0	1,853	1,853
Subordinated debt	2,578	0	0	0	0	2,578
Total liabilities	**147,910**	**37,270**	**33,380**	**4,486**	**733,557**	**956,603**
Statement of Financial Position interest rate gap as of 31 December 2018	**375,831**	**51,813**	**249,249**	**85,254**	**(658,818)**	**103,329**
Nominal value of derivatives**	897,847	316,837	505,361	463,374	0	2,183,419
Total off-balance sheet assets	**897,847**	**316,837**	**505,361**	**463,374**	**0**	**2,183,419**
Nominal value of derivatives**	1,012,026	341,972	554,756	272,951	0	2,181,705
Undrawn portion of loans***	(8,504)	(10,780)	8,771	10,513	0	0
Undrawn portion of revolving loans***	(689)	689	0	0	0	0
Total off-balance sheet liabilities	**1,002,833**	**331,881**	**563,527**	**283,464**	**0**	**2,181,705**
Net off-balance sheet interest rate gap as of 31 December 2018	**(104,986)**	**(15,044)**	**(58,166)**	**179,910**	**0**	**1,714**
Cumulative interest rate gap as of 31 December 2018	**270,845**	**307,614**	**498,697**	**763,861**	**105,043**	**X**

* This item principally includes client deposits for which there is not information about contractual maturity or repricing date.

** Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.

*** Undrawn loans and revolving loans are reported on a net basis, i.e. the Group reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	32,663	0	0	0	0	32,663
Financial assets and other assets at fair value through profit or loss	1,633	0	0	0	17,208	18,841
Financial assets at fair value through profit or loss – non-SPPI	2,694	0	0	0	0	2,694
Positive fair values of hedging financial derivatives	0	0	47	0	13,361	13,408
Financial assets at fair value through other comprehensive income	2,034	5,444	5,581	10,739	241	24,039
Financial assets at amortised cost	440,177	81,692	278,012	70,918	16,001	886,800
– of which: Loans and advances to customers	219,080	76,498	244,995	41,395	11,671	593,639
Revaluation differences on portfolios hedge items	0	0	0	0	(251)	(251)
Current tax assets	0	2	0	0	40	42
Deferred tax assets	0	0	0	0	254	254
Prepayments, accrued income and other assets	0	665	0	0	5,157	5,822
Investments in subsidiaries and associates	0	0	0	0	1,181	1,181
Intangible assets	0	0	0	0	4,684	4,684
Tangible assets	0	0	0	0	7,404	7,404
Goodwill	0	0	0	0	3,752	3,752
Assets held for sale	0	0	0	0	319	319
Total assets	**479,201**	**87,803**	**283,640**	**81,657**	**69,351**	**1,001,652**
Liabilities						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities at fair value through profit or loss	1,673	0	0	0	17,631	19,304
Negative fair values of hedging financial derivatives	0	0	0	0	10,329	10,329
Financial liabilities at amortised cost	115,748	25,960	27,659	4,857	676,701	850,925
– of which: Amounts due to customers	50,558	18,560	24,743	4,857	663,325*	762,043
Revaluation differences on portfolios hedge items	0	0	0	0	(1,468)	(1,468)
Current tax liabilities	0	0	0	0	263	263
Deferred tax liabilities	0	0	0	0	749	749
Accruals and other liabilities	81	0	0	0	18,788	18,869
Provisions	0	0	0	0	1,958	1,958
Subordinated debt	2,560	0	0	0	0	2,560
Total liabilities	**120,063**	**25,960**	**27,659**	**4,857**	**724,951**	**903,490**
Statement of Financial Position interest rate gap as of 1 January 2018	**359,138**	**61,843**	**255,981**	**76,800**	**(655,600)**	**98,162**
Nominal value of derivatives**	699,909	327,507	452,278	380,734	0	1,860,428
Total off-balance sheet assets	**699,909**	**327,507**	**452,278**	**380,734**	**0**	**1,860,428**
Nominal value of derivatives**	836,867	325,260	482,988	213,104	0	1,858,219
Undrawn portion of loans***	(7,684)	(9,064)	11,233	5,515	0	0
Undrawn portion of revolving loans***	(680)	680	0	0	0	0
Total off-balance sheet liabilities	**828,503**	**316,876**	**494,221**	**218,619**	**0**	**1,858,219**
Net off-balance sheet interest rate gap as of 1 January 2018	**(128,594)**	**10,631**	**(41,943)**	**162,115**	**0**	**2,209**
Cumulative interest rate gap as of 1 January 2018	**230,544**	**303,018**	**517,056**	**755,971**	**100,371**	**X**

* This item principally includes client deposits for which there is not information about contractual maturity or repricing date.

** Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.

*** Undrawn loans and revolving loans are reported on a net basis, i.e. the Group reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

Average interest rates as of 31 December 2018 and 1 January 2018 were as follow:

	31 Dec 2018			1 Jan 2018		
	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and current balances with central banks	0.87%	x	x	0.31%	x	x
Financial assets at fair value through other comprehensive income	2.12%	x	2.12%	0.00%	0.00%	2.98%
Financial assets at amortised cost	2.30%	2.99%	1.00%	1.70%	2.28%	1.13%
– of which: Loans and advances to customers	2.54%	3.76%	1.51%	2.36%	2.99%	1.65%
Total assets	**1.84%**	**2.07%**	**1.11%**	**1.34%**	**1.46%**	**1.10%**
Total interest-earning assets	**2.29%**	**2.99%**	**1.12%**	**1.65%**	**2.28%**	**1.13%**
Liabilities						
Amounts due to central banks	0.00%	x	x	0.00%	x	x
Financial liabilities at amortised cost	0.23%	1.20%	0.04%	0.15%	0.35%	0.14%
– of which: Amounts due to customers	0.20%	0.66%	0.02%	0.24%	0.34%	0.02%
Subordinated debt	x	x	0.94%	x	x	0.93%
Total liabilities	**0.22%**	**1.14%**	**0.04%**	**0.15%**	**0.33%**	**0.13%**
Total interest-bearing liabilities	**0.23%**	**1.20%**	**0.04%**	**0.16%**	**0.35%**	**0.14%**
Off-balance sheet assets						
Nominal value of derivatives (interest rate swaps, options, etc.)	1.65%	3.17%	0.56%	1.03%	2.91%	0.59%
Undrawn portion of loans	2.35%	x	1.61%	1.86%	x	1.22%
Undrawn portion of revolving loans	5.65%	3.80%	0.20%	5.01%	2.50%	0.23%
Total off-balance sheet assets	**1.77%**	**3.17%**	**0.56%**	**1.16%**	**2.89%**	**0.58%**
Off-balance sheet liabilities						
Nominal value of derivatives (interest rate swaps, options, etc.)	1.63%	3.09%	0.47%	0.87%	2.67%	0.48%
Undrawn portion of loans	2.35%	x	1.61%	1.86%	x	1.22%
Undrawn portion of revolving loans	5.65%	3.80%	0.20%	5.01%	2.50%	0.23%
Total off-balance sheet liabilities	**1.75%**	**3.09%**	**0.46%**	**1.01%**	**2.66%**	**0.48%**

Note: The above table sets out the average interest rates for 31 December 2018 and for 1 January 2018 calculated as a weighted average for each asset and liability category.

The 2W repo rate announced by the CNB increased during 2018 from 0.50% to 1.75%. Czech crown money market rates (PRIBOR) increased by 1.22-1.26% (1-12M). Interest rates swaps changed from -0.10% (10Y) to 0.70% (2Y).

Euro money market rates decreased during 2018 by 0.01-0.07% (1-12M), and interest rate swaps decreased from -0.11% (4-5Y) to -0.03% (2Y).

Dollar money market rates increased during 2018 by 0.90-1.11% (1-12M), and interest rate swaps increased from 0.34% (6-10Y) to 0.59% (2Y).

Following is a breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

	31 Dec 2018				1 Jan 2018			
(CZKm)	Fixed interest rate	Floating interest rate	No interest	Total	Fixed interest rate	Floating interest rate	No interest	Total
Assets								
Cash and current balances with central banks	4,000	17,917	2,934	24,851	5,000	16,551	11,112	32,663
Financial assets and other assets at fair value through profit or loss	3,159	89	19,366	22,614	964	669	17,208	18,841
Financial assets at fair value through profit or loss – non-SPPI	0	0	0	0	0	2,694	0	2,694
Positive fair values of hedging financial derivatives	20	0	12,539	12,559	47	0	13,361	13,408
Financial assets at fair value through other comprehensive income	22,865	2,043	357	25,265	19,208	4,590	241	24,039
Financial assets at amortised cost	481,470	464,712	4,921	951,103	460,665	420,986	5,149	886,800
– of which: Loans and advances to customers	407,209	213,054	4,691	624,954	387,130	201,557	4,952	593,639
Revaluation differences on portfolios hedge items	0	0	(372)	(372)	0	0	(251)	(251)
Liabilities								
Amounts due to central banks	1	0	0	1	1	0	0	1
Financial liabilities at fair value through profit or loss	0	0	21,572	21,572	0	0	19,304	19,304
Negative fair values of hedging financial derivatives	0	0	9,669	9,669	0	0	10,329	10,329
Financial liabilities at amortised cost	113,366	791,825	2,070	907,261	102,444	742,663	5,818	850,925
– of which: Amounts due to customers	57,941	752,646	1,864	812,451	60,505	695,978	5,560	762,043
Revaluation differences on portfolios hedge items	0	0	(676)	(676)	0	0	(1,468)	(1,468)
Subordinated debt	0	2,578	0	2,578	0	2,560	0	2,560

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate structure. For this purpose, a fixed interest rate is defined as a rate with a repricing period exceeding 1 year. Products having no parameters defining their interest rate structure are included in the 'No interest' category.

* This item principally includes client deposits where the Group has the option to reset interest rates and hence they are not sensitive to interest rate changes.

(E) Liquidity risk

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Bank's Board of Directors. Liquidity is monitored on a bank-wide level, with the Market Book also having a standalone limit. The Group has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Group has defined a set of indicators for which binding limits are established.

The Group is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Group's experiences show that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities (mainly reverse repo transactions with CNB) that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk of the Group is managed as stipulated above (and in particular not on the basis of undiscounted cash flows).

The Group has modified the method of presenting the following items to take more into account the nature of the items and the internal approach. The comparable period as of 1 January 2018 was restated.

In the line *'Cash and current balances with central banks'*, obligatory minimum reserves are presented in the time bucket "On demand up to 7 days". In the past, they were presented under time bucket "Maturity undefined".

In the line *'Financial assets at amortized cost'*, the impaired loans under IAS 39 had been presented in time bucket "Maturity undefined". Now, all 'Financial assets at amortized cost' are broken down by contractual residual maturity into particular time buckets.

In the line *'Off-balance sheet liabilities'*, the commitments and contingencies are newly presented in time bucket "On demand up to 7 days" due to the option for the client to exercise the claim. In the past, these items were presented in particular time buckets according to the contractual residual maturity of the off-balance sheet contract. In relation to this change, the Group has also modified the presentation of related provisions.

The table below provides a breakdown of assets, liabilities and equity into relevant maturity groupings based on the remaining period from the financial statements date to the contractual maturity date. The table includes a breakout of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	16,347	0	0	0	0	8,504	24,851
Financial assets and other assets at fair value through profit or loss	0	1	245	836	1,317	20,215	22,614
Financial assets at fair value through profit or loss – non-SPPI	0	0	0	0	0	0	0
Positive fair values of hedging financial derivatives	0	0	0	20	0	12,539	12,559
Financial assets at fair value through other comprehensive income	2,241	0	180	8,602	14,238	4	25,265
Financial assets at amortised cost	128,313	181,029	103,779	253,617	284,352	13	951,103
– of which: Loans and advances to customers	15,423	50,180	91,570	218,282	249,499	0	624,954
Revaluation differences on portfolios hedge items	0	0	0	0	0	(372)	(372)
Current tax assets	0	0	26	2	0	31	59
Deferred tax assets	50	0	0	2	0	41	93
Prepayments, accrued income and other assets	850	840	358	0	0	3,705	5,753
Investments in subsidiaries and associates	0	0	0	0	0	1,134	1,134
Intangible assets	0	0	0	0	0	5,249	5,249
Tangible assets	0	0	0	0	0	7,676	7,676
Goodwill	0	0	0	0	0	3,752	3,752
Assets held for sale	0	0	196	0	0	0	196
Total assets	**147,801**	**181,870**	**104,784**	**263,079**	**299,907**	**62,491**	**1,059,932**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss	2,250	0	0	0	0	19,322	21,572
Negative fair values of hedging financial derivatives	0	0	0	0	0	9,669	9,669
Financial liabilities at amortised cost	714,645	89,088	36,701	40,852	25,791	184	907,261
– of which: Amounts due to customers	696,676	63,328	19,850	27,927	4,486	184	812,451
Revaluation differences on portfolios hedge items	(449)	0	0	0	0	(227)	(676)
Current tax liabilities	0	106	49	0	0	5	160
Deferred tax liabilities	0	0	0	0	0	765	765
Accruals and other liabilities	11,140	497	760	0	0	1,023	13,420
Provisions	1,122	0	0	0	0	731	1,853
Subordinated debt	0	0	0	0	2,578	0	2,578
Equity	0	0	0	0	0	103,329	103,329
Total liabilities	**728,709**	**89,691**	**37,510**	**40,852**	**28,369**	**134,801**	**1,059,932**
Statement of Financial Position liquidity gap as of 31 December 2018	**(580,908)**	**92,179**	**67,274**	**222,227**	**271,538**	**(72,310)**	**0**
Off-balance sheet assets*	57,943	288,240	180,520	249,710	56,535	0	832,948
Off-balance sheet liabilities*	226,365	288,416	180,513	249,546	56,377	0	1,001,217
Net off-balance sheet liquidity gap as of 31 December 2018	**(168,422)**	**(176)**	**7**	**164**	**158**	**0**	**(168,269)**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts, as well as payables under guarantees, letters of credit and committed facilities.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	22,593	0	0	0	0	10,070	32,663
Financial assets at fair value through profit or loss	0	40	398	175	492	17,736	18,841
Financial assets and other assets at fair value through profit or loss – non-SPPI	0	2,694	0	0	0	0	2,694
Positive fair values of hedging financial derivatives	0	0	0	47	0	13,361	13,408
Financial assets at fair value through other comprehensive income	246	0	2,554	3,405	17,834	0	24,039
Financial assets at amortised cost	121,475	159,256	91,130	245,446	269,456	37	886,800
– of which: Loans and advances to customers	7,361	56,009	82,284	203,824	244,148	13	593,639
Revaluation differences on portfolios hedge items	0	0	0	0	0	(251)	(251)
Current tax assets	0	0	36	2	0	4	42
Deferred tax assets	113	9	0	3	0	129	254
Prepayments, accrued income and other assets	804	461	664	0	0	3,893	5,822
Investments in subsidiaries and associates	0	0	0	0	0	1,181	1,181
Intangible assets	0	0	0	0	0	4,684	4,684
Tangible assets	0	0	0	0	0	7,404	7,404
Goodwill	0	0	0	0	0	3,752	3,752
Assets held for sale	0	0	319	0	0	0	319
Total assets	**145,231**	**162,460**	**95,101**	**249,078**	**287,782**	**62,000**	**1,001,652**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss	1,673	0	0	0	0	17,631	19,304
Negative fair values of hedging financial derivatives	0	0	0	0	0	10,329	10,329
Financial liabilities at amortised cost	712,485	50,368	20,277	55,928	11,584	283	850,925
– of which: Amounts due to customers	678,136	37,676	15,169	25,860	5,103	99	762,043
Revaluation differences on portfolios hedge items	(1,206)	0	0	0	0	(262)	(1,468)
Current tax liabilities	0	254	8	0	0	1	263
Deferred tax liabilities	0	0	0	0	0	749	749
Accruals and other liabilities	16,482	568	0	0	0	1,819	18,869
Provisions	1,430	0	0	0	0	528	1,958
Subordinated debt	0	0	0	0	2,560	0	2,560
Equity	0	0	0	0	0	98 162	98 162
Total liabilities	**730,865**	**51,190**	**20,285**	**55,928**	**14,144**	**129,240**	**1 001 652**
Statement of Financial Position liquidity gap as of 1 January 2018	**(585,634)**	**111,270**	**74,816**	**193,150**	**273,638**	**(67,240)**	**0**
Off-balance sheet assets*	51,890	228,523	195,743	206,177	62,675	0	745,008
Off-balance sheet liabilities*	207,809	228,065	196,161	205,694	62,120	0	899,849
Net off-balance sheet liquidity gap as of 1 January 2018	**(155,919)**	**458**	**(418)**	**483**	**555**	**0**	**(154,841)**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts, as well as payables under guarantees, letters of credit and committed facilities.

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Group based on the undiscounted cash flows as of 31 December 2018:

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss (except derivatives)	2,244	0	0	0	0	0	2,244
Financial liabilities at amortised cost	714,639	89,422	36,819	41,633	26,008	184	908,705
– of which: Amounts due to customers	696,685	63,569	20,010	29,055	4,821	184	814,324
Current tax liabilities	0	106	49	0	0	5	160
Deferred tax liabilities	0	0	0	0	0	765	765
Accruals and other liabilities	11,140	497	760	0	0	1,023	13,420
Provisions	1,122	0	0	0	0	731	1,853
Subordinated debt	0	0	0	0	2,578	0	2,578
Total non-derivative financial liabilities	**729,146**	**90,025**	**37,628**	**41,633**	**28,586**	**2,708**	**929,726**
Other loans commitment granted	115,743	0	0	0	0	0	115,743
Guarantee commitments granted	52,722	0	0	0	0	0	52,722
Total contingent liabilities	**168,465**	**0**	**0**	**0**	**0**	**0**	**168,465**

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Group based on the undiscounted cash flows as of 1 January 2018:

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss (except derivatives)	1,673	0	0	0	0	0	1,673
Financial liabilities at amortised cost	712,595	50,450	20,461	57,145	12,163	283	853,097
– of which: Amounts due to customers	678,228	37,735	15,302	26,920	5,540	99	763,824
Current tax liabilities	0	254	8	0	0	1	263
Deferred tax liabilities	0	0	0	0	0	749	749
Accruals and other liabilities	16,482	568	0	0	0	1,819	18,869
Provisions	1,430	0	0	0	0	528	1,958
Subordinated debt	0	0	0	0	2,560	0	2,560
Total non-derivative financial liabilities	**732,181**	**51,272**	**20,469**	**57,145**	**14,723**	**3,380**	**879,170**
Other loans commitment granted	104,360	0	0	0	0	0	104,360
Guarantee commitments granted	51,229	0	0	0	0	0	51,229
Total contingent liabilities	**155,589**	**0**	**0**	**0**	**0**	**0**	**155,589**

(F) Foreign exchange position

The table below breaks out the Group's main currency exposures. The remaining currencies are shown within *'Other currencies'*. The Group manages its foreign exchange position on a daily basis. For this purpose, the Group has a set of internal limits.

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	22,691	1,672	238	250	24,851
Financial assets and other assets at fair value through profit or loss	18,911	3,381	318	4	22,614
Financial assets at fair value through profit or loss – non-SPPI	0	0	0	0	0
Positive fair values of hedging financial derivatives	11,043	1,454	62	0	12,559
Financial assets at fair value through other comprehensive income	5,408	19,507	350	0	25,265
Financial assets at amortised cost	779,396	156,286	13,670	1,751	951,103
– of which: Loans and advances to customers	499,492	120,736	3,746	980	624,954
Revaluation differences on portfolios hedge items	(372)	0	0	0	(372)
Current tax assets	59	0	0	0	59
Deferred tax assets	72	21	0	0	93
Prepayments, accrued income and other assets	4,084	1,542	21	106	5,753
Investments in subsidiaries and associates	1,134	0	0	0	1,134
Intangible assets	5,239	10	0	0	5,249
Tangible assets	7,672	4	0	0	7,676
Goodwill	3,752	0	0	0	3,752
Assets held for sale	196	0	0	0	196
Total assets	**859,285**	**183,877**	**14,659**	**2,111**	**1,059,932**
Liabilities					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	18,144	3,167	257	4	21,572
Negative fair values of hedging financial derivatives	8,013	1,583	73	0	9,669
Financial liabilities at amortised cost	732,259	153,678	17,796	3,528	907,261
– of which: Amounts due to customers	725,160	71,442	12,475	3,374	812,451
Revaluation differences on portfolios hedge items	(1,288)	814	(202)	0	(676)
Current tax liabilities	140	20	0	0	160
Deferred tax liabilities	765	0	0	0	765
Accruals and other liabilities	10,107	2,574	549	190	13,420
Provisions	1,490	298	10	55	1,853
Subordinated debt	0	2,578	0	0	2,578
Equity	103,037	292	0	0	103,329
Total liabilities	**872,668**	**165,004**	**18,483**	**3,777**	**1,059,932**
Net FX position as of 31 December 2018	**(14,387)**	**19,877**	**(3,824)**	**(1,666)**	**0**
Off-balance sheet assets*	1 773,930	875,721	148,221	31,457	2,829,329
Off-balance sheet liabilities*	1 761,114	893,896	144,132	29,938	2,829,080
Net off-balance sheet FX position as of 31 December 2018	**12,816**	**(18,175)**	**4,089**	**1,519**	**249**
Total net FX position as of 31 December 2018	**(567)**	**698**	**265**	**(147)**	**249**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal value of all derivative deals.

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	30,581	1,594	199	289	32,663
Financial assets and other assets at fair value through profit or loss	15,245	3,241	262	93	18,841
Financial assets at fair value through profit or loss – non-SPPI	0	2,694	0	0	2,694
Positive fair values of hedging financial derivatives	11,807	1,545	115	(59)	13,408
Financial assets at fair value through other comprehensive income	16,346	7,547	146	0	24 039
Financial assets at amortised cost	738,579	136,770	9,881	1,570	886 800
– of which: Loans and advances to customers	478,381	110,568	3,788	902	593 639
Revaluation differences on portfolios hedge items	(251)	0	0	0	(251)
Current tax assets	40	2	0	0	42
Deferred tax assets	229	25	0	0	254
Prepayments, accrued income and other assets	4,557	1,080	183	2	5,822
Investments in subsidiaries and associates	1,181	0	0	0	1,181
Intangible assets	4,675	9	0	0	4,684
Tangible assets	7,400	4	0	0	7,404
Goodwill	3,752	0	0	0	3,752
Assets held for sale	319	0	0	0	319
Total assets	**834,460**	**154,511**	**10,786**	**1,895**	**1,001,652**
Liabilities					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	16,935	2,063	213	93	19,304
Negative fair values of hedging financial derivatives	8,658	1,683	47	(59)	10,329
Financial liabilities at amortised cost	716,548	118,865	12,906	2,606	850,925
– of which: Amounts due to customers	686,223	61,288	12,164	2,368	762,043
Revaluation differences on portfolios hedge items	(2,370)	958	(56)	0	(1,468)
Current tax liabilities	247	16	0	0	263
Deferred tax liabilities	741	8	0	0	749
Accruals and other liabilities	15,572	2,483	657	157	18,869
Provisions	1,430	459	14	55	1,958
Subordinated debt	0	2,560	0	0	2,560
Equity	97,553	609	0	0	98,162
Total liabilities	**855,315**	**129,704**	**13,781**	**2,852**	**1,001,652**
Net FX position as of 1 January 2018	**(20,855)**	**24,807**	**(2,995)**	**(957)**	**0**
Off-balance sheet assets*	1,605,785	666,135	130,226	17,213	2,419,359
Off-balance sheet liabilities*	1,568,710	706,201	126,893	16,312	2,418,116
Net off-balance sheet FX position as of 1 January 2018	**37,075**	**(40,066)**	**3,333**	**901**	**1,243**
Total net FX position as of 1 January 2018	**16,220**	**(15,259)**	**338**	**(56)**	**1,243**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal value of all derivative deals.

(G) Operational risk

Since 2008, the Group has used the Advanced Measurement Approach (AMA) for operational risk management. In addition to standard operational risk instruments used within the AMA approach, such as operational losses collection, Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRI) or Scenario Analysis (SA), the Group developed and deployed also a permanent supervision system consisting of a set of operational everyday controls and a set of formalised periodic controls. These controls are independently and on a continuous basis reviewed within a so-called second level of controls. The Group is continuously developing all the aforementioned operational risk instruments and supporting continuous development of an operational risk culture throughout all organisational units.

The information collected by the Operational Risks Department is regularly analysed and provided to the Group's management. Based on this information, the management may decide on further strategic steps within the framework of operational risk management. The evaluation of operational risks is also an integral component of the process for new product development and validation.

Co-operation within consolidated operational risk management has been deepened among KB Group companies. The AMA approach has been used in four Group companies, of which two are banking entities (Komerční banka, a.s. and Modrá pyramida stavební spořitelna, a.s.) and two non-banking entities (SG Equipment Finance Czech Republic s.r.o. and ESSOX s.r.o.).

(H) Legal risk

The Group regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Group establishes a provision equal to the claimed amount in respect of all litigation where it is named as a defendant and where the likelihood of payment has been estimated to exceed 50%. The Group also manages its legal risk through the assessment of legal risks involved in the contracts to which the Group is a party.

(I) Estimated fair value of assets and liabilities of the Group

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where quoted market prices are not readily available, the fair value is estimated, as appropriate, using discounted cash flow models or other generally acceptable pricing models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect these estimates.

In estimating the fair value of the Group's financial instruments, the following methods and assumptions were used.

(a) Cash and current balances with central banks
The reported values of cash and current balances with the central bank are generally deemed to approximate their fair value.

(b) Financial assets at amortised cost

Loans and advances to banks
The estimated fair value of loans and advances to banks that mature in 180 days or less approximates their carrying amounts. The fair value of other loans and advances to banks is estimated based upon discounted cash flow analysis using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing loans and advances to banks is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

Loans and advances to customers
The fair value of variable yield loans that regularly reprice and which have no significant change in credit risk generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analysis based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

Debt securities
The fair value of debt securities is based upon quoted market prices. Where no market prices are available, the fair value is estimated based on discounted cash flow models using the interest rate currently offered as of the financial statements date.

(c) Amounts due to central banks
The reported values of amounts due to central banks are generally deemed to approximate their fair value.

(d) Financial liabilities at amortised cost

Amounts due to banks and Amounts due to customers
The fair value of deposits repayable on demand is represented by the carrying value of amounts repayable on demand as of the financial statements date. The carrying value of term deposits at variable interest rates approximates their fair values as of the financial statements date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values as of the financial statements date.

Securities issued
The fair value of debt securities issued by the Group is based upon quoted market prices. Where no market prices are available, the fair value is estimated using a discounted cash flow analysis.

(e) Subordinated debt
The fair value of subordinated debt is estimated using a discounted cash flow analysis.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Group's Statement of Financial Position at their fair values:

	31 Dec 2018		1 Jan 2018	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	24,851	24,851	32,663	32,663
Financial assets at amortised cost	951,103	951,518	886,800	896,233
– Loans and advances to banks	256,268	256,169	222,821	223,117
– Loans and advances to customers	624,954	624,334	593,639	600,051
– Debt securities	69,881	71,015	70,340	73,065
Financial liabilities				
Amounts due to central banks	1	1	1	1
Financial liabilities at amortised cost	907,261	906,850	850,925	850,007
– Amounts due to banks	92,270	92,197	84,050	84,028
– Amounts due to customers	812,451	812,446	762,043	761,497
– Securities issued	2,540	2,207	4,832	4,482
Subordinated debt	2,578	2,578	2,560	2,560

The following table presents the hierarchy of fair values for those financial assets and liabilities not presented on the Group's Statement of Financial Position at their fair values:

	31 Dec 2018				1 Jan 2018			
(CZKm)	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
Financial assets								
Cash and current balances with central banks	24,851	8,504	0	16,347	32,663	10,070	0	22,593
Financial assets at amortised cost	951,518	66,940	3,600	880,978	896,233	69,344	3,190	823,699
– Loans and advances to banks	256,169	0	0	256,169	223,117	0	0	223,117
– Loans and advances to customers	624,334	0	0	624,334	600,051	0	0	600,051
– Debt securities	71,015	66,940	3,600	475	73,065	69,344	3,190	531
Financial liabilities								
Amounts due to central banks	1	0	0	1	1	0	0	1
Financial liabilities at amortised cost	906,850	0	0	906,850	850,007	0	0	850,007
– Amounts due to banks	92,197	0	0	92,197	84,028	0	0	84,028
– Amounts due to customers	812,446	0	0	812,446	761,497	0	0	761,497
– Securities issued	2,207	0	0	2,207	4,482	0	0	4,482
Subordinated debt	2,578	0	0	2,578	2,560	0	0	2,560

(J) Allocation of fair values of financial instruments at fair value to the hierarchy of fair values

Financial assets and financial liabilities at fair value by fair value hierarchy (refer to Note 3.5.4):

(CZKm)	31 Dec 2018	Level 1	Level 2	Level 3	1 Jan 2018	Level 1	Level 2	Level 3
FINANCIAL ASSETS								
Financial assets at fair value through profit or loss	**22,369**	**4,837**	**17,532**	**0**	**17,845**	**1,517**	**16,328**	**0**
of which:								
– Equity securities	0	0	0	0	0	0	0	0
– Debt securities	3,248	2,995	253	0	1,633	1,300	333	0
– Derivatives	19,121	1,842	17,279	0	16,212	217	15,995	0
Other assets at fair value through profit or loss	**245**	**245**	**0**	**0**	**996**	**996**	**0**	**0**
Financial assets at fair value through profit or loss – non-SPPI	**0**	**0**	**0**	**0**	**2,694**	**0**	**2,694**	**0**
Positive fair value of hedging financial derivatives	**12,559**	**0**	**12,559**	**0**	**13,408**	**0**	**13,408**	**0**
Financial assets at fair value through other comprehensive income	**25,265**	**23,101**	**1,808**	**356**	**24,039**	**19,441**	**4,357**	**241**
Revaluation differences on portfolios hedge items	**(372)**	**0**	**(372)**	**0**	**(251)**	**0**	**(251)**	**0**
Financial assets at fair value	**60,066**	**28,183**	**31,527**	**356**	**58,731**	**21,954**	**36,536**	**241**
FINANCIAL LIABILITIES								
Financial liabilities at fair value through profit or loss	**21,572**	**4,212**	**17,360**	**0**	**19,304**	**2,079**	**17,225**	**0**
of which:								
– Sold securities	2,244	2,244	0	0	1,673	1,673	0	0
– Derivatives	19,328	1,968	17,360	0	17,631	406	17,225	0
Negative fair value of hedging financial derivatives	**9,669**	**0**	**9,669**	**0**	**10,329**	**0**	**10,329**	**0**
Revaluation differences on portfolios hedge items	**(676)**	**0**	**(676)**	**0**	**(1,468)**	**0**	**(1,468)**	**0**
Financial liabilities at fair value	**30,565**	**4,212**	**26,353**	**0**	**28,165**	**2,079**	**26,086**	**0**

Financial assets at fair value – Level 3:

		2018		2017
(CZKm)	Financial assets at FVOCI option	Total	Financial assets at FVOCI option	Total
Balance as of 1 January	**240**	**240**	**182**	**182**
Comprehensive income/(loss)				
– In the Statement of Income	0	0	0	0
– In Other Comprehensive Income	101	101	90	90
Purchases	0	0	0	0
Sales	0	0	0	0
Settlement	0	0	0	0
Transfer from Level 1	0	0	0	0
Foreign exchange rate difference	15	15	(32)	(32)
Balance as of 31 December	**356**	**356**	**240**	**240**

Shares and participation certificates

When using an alternative method of valuation based on the price/book value ratio, the fair value is not significantly different from the fair value determined on the basis of the present value of future cash flows which was used for the original valuation.

44 Offsetting financial assets and financial liabilities

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2018:

	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
(CZKm)	Gross amount of financial assets/ liabilities*	Gross amount of financial assets/ liabilities set off by financial liabilities/ assets	Net amount of financial assets/ liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	33,707	2,026	31,681	21,566	5,332	4,783
Negative fair value of derivatives	31,023	2,026	28,997	21,566	6,889	542

* This item includes also counterparties with only positive or negative fair value of derivatives.

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2017:

	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
(CZKm)	Gross amount of financial assets/ liabilities*	Gross amount of financial assets/ liabilities set off by financial liabilities/ assets	Net amount of financial assets/ liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	30,864	1,244	29,620	20,543	5,088	3,989
Negative fair value of derivatives	29,204	1,244	27,960	20,543	7,034	383

* This item includes also counterparties with only positive or negative fair value of derivatives.

45 Assets in custody and assets under management

The table below provides information about assets in custody and assets under management:

	31 Dec 2018		31 Dec 2017	
(CZKm)	Cash	Securities	Cash	Securities
Assets in custody	3,789	494,486	4,520	525,944
Assets in custody of KB Penzijní společnost, a.s.	0	58,892	0	54,622
Assets under management	0	3,039	0	2,987

46 Comparative information according to IAS 39

46.1 Principal accounting policies

46.1.1 Recognition of income and expenses

46.1.1.1 Net interest income and similar income

Interest income and expense related to interest-bearing instruments, except for instruments classified as financial assets or financial liabilities at fair value through profit or loss and interest hedging derivatives, are recognised on an accrual basis in the Statement of Income in the lines *'Interest income and similar income'* and *'Interest expense and similar expense'* using the effective interest rate (refer to 46.1.4.7 Effective interest rate method). Interest income and expense related to interest rate hedging derivatives are recognised in the lines described on an accrual basis using the contractual interest rate of the corresponding derivative. Late-fee income is recognised at the date of its payment and presented in the line *'Interest income and similar income'*.

Dividend income is recognised when the Group's right to receive a dividend payment is established and is presented in the line *'Dividend income'*.

46.1.1.2 Net fee and commission income
The recognition of income from fees and commissions depends on the purpose for which a fee was assessed and the basis of accounting for any associated financial instrument. In accordance with the substance of fees and nature of services for which they are assessed, the Group distinguishes the following three categories of fees:
- Fees and commissions that comprise an integral component of the effective interest rate of a financial instrument are recognised in the line *'Interest income and similar income'*;
- Fees and commissions for services provided – income from these is recognised as revenue when services are provided and it is presented in the line *'Net fee and commission income'*;
- Fees and commissions for the execution of an act – income from these is recognised as revenue when the act has been completed and is also presented in the line *'Net fee and commission income'*.

46.1.1.3 Net profit/(loss) on financial operations
This line includes net profit/loss on financial operations, which means realised and unrealised gains/losses on securities held for trading; security derivatives; currency, interest rate and trading commodity derivatives; foreign exchange transactions; foreign assets and liabilities retranslation to the functional currency; and realised gains/losses on available-for-sale financial assets.

In this line there is also recognised interest income and expense related to interest-bearing instruments classified as financial assets or financial liabilities at fair value through profit or loss.

46.1.2 Cash and cash equivalents
Cash comprises cash on hand and cash in transit.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes. This item also includes obligatory minimum reserves. The Group can freely transact with the amount of these reserves under the assumption that average obligatory minimum reserves are maintained within the given maintenance period established by the CNB.

In preparing its Statement of Cash Flows for the period, the Group includes into cash and cash equivalents the cash and current balances with central banks at the beginning and end of the period and current amounts due from and to banks.

46.1.3 Fair value and hierarchy of fair value
Fair value is the price that would be received in selling 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 most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of asset or liability measured at fair value. The hierarchy of fair values has the following three levels:
- *Level 1:* inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- *Level 2:* inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3:* inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The fair value is included in the hierarchy according to the lowest classified significant input used in its determination. Significant input information is that information which has a significant impact on the total fair value of the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis (i.e. those for which measurement at fair value is required or permitted in the statement of financial position at the end of each reporting period), the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the date of the event or change in circumstances that caused the transfer.

46.1.4 Financial instruments

46.1.4.1 Dates of recognition and derecognition
All regular way purchases or sales of financial assets are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment).

When settlement date accounting is applied, the financial asset is recognised in the Statement of Financial Position on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its delivery (collection of cash).

For financial assets measured at fair value, however, an acquired financial asset is measured to reflect changes in its fair value from the purchase trade date to the purchase settlement date according to its categorisation into an individual portfolio (i.e. either in profit or loss or in other comprehensive income).

All purchases and sales of financial instruments that do not meet the “regular way” settlement criterion in the marketplace concerned are treated as financial derivatives. The Group recognises financial derivatives in the Statement of Financial Position at the trade date. Financial derivatives are derecognised at their maturity.

The Group recognises a financial liability in the Statement of Financial Position when it becomes a party to the contractual provisions of the instrument and it is removed from the Statement of Financial Position when it is extinguished (i.e. in circumstances where a contractually defined obligation is fulfilled, cancelled or expires).

46.1.4.2 Initial measurement of financial assets and financial liabilities
When a financial asset or financial liability is initially recognised, the Group measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of that instrument.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received).

The transaction costs include mainly fees and commissions paid to brokers, dealers and agents.

Also, financial guarantee contracts issued are initially recognised at fair value, being the premium received, in the Statement of Financial Position in the line *‘Accruals and other liabilities’*. The guarantees are subsequently measured as of the financial statements date at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in profit or loss (in the Statement of Financial Position in the line *‘Accruals and other liabilities’*), and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee (in the Statement of Financial Position in the line *‘Provisions’*). The premium received is recognised in the Statement of Income in the line *‘Net fee and commission income’* on a straight-line basis over the life of the guarantee. The creation of provisions is recognised in the Statement of Income in the line *‘Allowances for loan losses’*.

46.1.4.3 “Day 1” profit or loss
In determining whether fair value at initial recognition equals the transaction price, the Group takes into account factors specific to the transaction and to the asset or liability.

The Group trades no financial instruments on an inactive market. On active markets the Group trades financial instruments only for the quoted price in the active market. For this reason, there is no difference between the transaction price and the fair value of the financial asset or financial liability that is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique whose variables include only data from observable markets (a “Day 1” profit or loss).

46.1.4.4 Financial assets and liabilities classification and subsequent measurement
Financial assets and liabilities held by the Group are classified upon initial recognition into appropriate portfolios of financial instruments in accordance with the characteristics of a given instrument, the Group’s intention as of the acquisition date, and pursuant to the Group’s financial instrument investment strategy as follows:
I. Financial assets and liabilities at fair value through profit or loss;
II. Held-to-maturity investments;
III. Loans and advances;
IV. Available-for-sale financial assets; or
V. Financial liabilities at amortised cost.

The Group does not make use of an option to designate a financial asset or liability upon initial recognition as a financial instrument at fair value through profit or loss (the so-called “Fair Value Option”).

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

The Group designates as financial assets at fair value through profit or loss securities held for trading and derivatives that are assets (i.e. financial instruments acquired by the Group for the purpose of generating a profit from short-term fluctuations in prices). These financial assets are recognised in the Statement of Financial Position in the line *'Financial assets at fair value through profit or loss'*.

Securities designated as held for trading include equity and debt securities, treasury bills, bills of exchange and participation certificates. The trading derivative financial instruments used by the Group include currency and commodity forwards, currency and interest rate swaps, derivatives on securities and emission allowances and options.

Financial liabilities at fair value through profit or loss include liabilities from securities sold and trading derivatives that are liabilities and are recognised in the Statement of Financial Position in the line *'Financial liabilities at fair value through profit or loss'*.

Unrealised gains and losses, as well as realised gains and losses arising from the fair value measurement of financial assets and liabilities, interest and dividends are recognised as income in the Statement of Income in the line *'Net profit/(loss) on financial operations'*. These financial assets are not tested for impairment because the change of fair value is recognised directly in profit or loss.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity and which do not meet the definition of loans and advances (i.e. are quoted on an active market).

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are integral components of the effective interest rate. The amortisation is included in *'Interest income and similar income'* in the Statement of Income. When an impairment of assets is identified, the Group recognises allowances in the Statement of Income in the line *'Allowance for impairment of securities'*.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than due to an isolated event that is beyond the Group's control, which is non-recurring and could not reasonably have been anticipated by the Group due to a significant decrease of a client's creditworthiness, changes in tax laws, major business combination or major disposition (including sale of a segment), changes in legislative requirements, a significant increase in regulatory capital requirements or significant increase in risk weights for held-to-maturity investments to calculate the capital adequacy), the entire portfolio would have to be reclassified as *'Available-for-sale financial assets'*. Furthermore, the Group would be prohibited from classifying any financial asset as *'Held-to-maturity investments'* for the following 2 years.

(iii) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- Assets that the Group intends to sell immediately or in the near term, which are classified as held for trading, as well as those that the Group upon initial recognition designates as at fair value through profit or loss;
- Assets that the Group upon initial recognition designates as available-for-sale; or
- Assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration (e.g. asset-backed securities or a fixed rate interest-only strip created in a securitisation and subject to prepayment risk), which are classified as available-for-sale financial assets or as financial assets at fair value through profit or loss.

Loans and advances are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are integral components of the effective interest rate. The amortisation is included in the line *'Interest income and similar income'* in the Statement of Income. When impairment of assets is identified, the Group recognises allowances in the Statement of Income in the line *'Allowance for loan losses'*.

Financial assets designated as loans and advances are reported in the Statement of Financial Position in the line *'Amounts due from banks'* or in the line *'Loans and advances to customers'*, as appropriate for the type of debtor.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and advances, or held-to-maturity investments. This portfolio comprises equity securities and debt securities, asset-backed securities and participation certificates.

Available-for-sale financial assets are subsequently measured at fair value and at the end of each reporting period tested to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. Unrealised gains or losses from the fair value measurement of these assets are recognised within Other Comprehensive Income in the line *'Net value gain/(loss) on available-for-sale financial assets, net of tax'*) until their sale, maturity or impairment as well as fair value changes arising from changes in foreign exchange rates. Gains or losses from changes in foreign exchange rates on debt instruments are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*, except that exchange rate gains or losses related to fair value revaluation are recognised within Other Comprehensive Income. When the available-for-sale financial asset is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

Accrued interest income for debt securities is recognised in the Statement of Income line *'Interest income and similar income'*. Dividend income arising from equity securities is recognised when the right to dividends is established and reported in the Statement of Income in the line *'Dividend income'*.

(v) Financial liabilities at amortised cost

Financial liabilities at amortised cost include non-derivative financial liabilities with fixed or determinable payments and are recognised according to the type of counterparty in the lines *'Amounts due to central banks'*, *'Amounts due to banks'*, *'Amounts due to customers'*, *'Securities issued'* and *'Subordinated debt'*.

Financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Income in the line *'Interest expense and similar expense'*.

In the event of the repurchase of its own debt securities, the Group derecognises these securities (i.e. the item *'Securities issued'* is decreased). Gains and losses arising as a result of repurchasing the Group's own debt securities are recognised as of the date of their repurchase in the Statement of Income in the line *'Net interest income'* as an adjustment to the interest paid from its own bonds.

46.1.4.5 Reclassification of financial assets

The Group does not reclassify any financial assets after initial recognition into the *'Financial assets at fair value through profit or loss portfolio'*. In rare circumstances, if non-derivative financial assets at fair value through profit or loss are no longer held for the purpose of selling or repurchasing in the short term, the financial assets may be reclassified out of the portfolio and be classified into the *'Available-for-sale financial assets'*, or 'Held-to-maturity investments' portfolio.

The Group may also reclassify a non-derivative trading asset out of the *'Financial assets at fair value through profit or loss'* portfolio and into the *'Loans and advances'* portfolio if it meets the definition of loans and advances and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. In certain rare circumstances, the Group may also reclassify financial assets out of the *'Available-for-sale financial assets'* portfolio and into the *'Loans and advances'* portfolio if they meet the definition of loans and advances and the Group has the intention and ability to hold the financial assets for the foreseeable future or until maturity. Fixed income securities quoted on an active market can be reclassified out of the *'Available-for-sale financial assets'* portfolio and into the *'Held-to-maturity investments'* portfolio if the Group's intention or ability to hold these securities has changed or upon expiry of the deadline during which securities were not permitted to be classified as securities held-to-maturity. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

The Group may reclassify financial assets or a significant amount out of the *'Held-to-maturity investments'* portfolio into the *'Available-for-sale financial assets'* portfolio or *'Loans and advances'* portfolio, doing so without triggering the so called "tainting rules", in cases when the given assets are near to maturity, the Group has received almost the entire original principal of the given financial asset or there has occurred a unique and exceptional event that is outside of the Group's control and the Group could not have expected it. Such unique cases include in particular a significant decrease of a client's creditworthiness, changes in tax laws or in legal requirements, a business combination or the sale of a part of the business (segment), a significant increase in regulatory capital requirements or a significant increase in risk weights for held-to-maturity investments used in calculating the capital adequacy.

For a financial asset reclassified out of the *'Available-for-sale financial assets'* portfolio, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flow is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to profit or loss. Reclassification is at the election of management and is determined on an instrument-by-instrument basis.

46.1.4.6 Determination of a financial instrument's fair value and its hierarchy

For the determination and categorisation of a financial instrument's fair value, the Group treats a security as quoted if quoted market prices are readily and regularly available from a stock exchange, dealers, securities traders, industrial groups, valuation services or regulatory authorities and if these prices represent current and regular market transactions under ordinary conditions.

If there are no quoted prices in an active market for the financial asset, the Group uses other values that are observable, directly or indirectly, from the markets for its measurement, such as:

I. Quoted prices for similar assets or liabilities in active markets;
II. Quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. there are few recent transactions, prices quotations are not based on current information, etc.);
III. Inputs other than quoted prices (e.g. inputs based on interest rates, yield curves, implied volatilities, credit spreads, etc.); or
IV. Inputs derived principally from, or corroborated by, observable market data.

Where the inputs for the determination of a financial instrument's fair value are not observable in a market due to the fact that there is no or only minimal activity for that asset or liability, the Group uses for fair value measurement inputs that are available but not directly observable within a market and which in the Group's view reflect assumptions that market participants take into account when pricing the financial instrument.

The fair value of debt securities for which an observable market price is not available is estimated using an income approach (the present value technique taking into account the future cash flows that a market participant would expect to receive from holding the instrument as an asset) and the fair value of unquoted equity instruments is estimated using an income approach or market approach (using prices and other relevant information generated by a market). The fair values of financial derivatives are obtained from quoted market prices, discounted cash flow models or option pricing models and they are adjusted for the credit risk of the counterparty or the Group's own credit risk, as appropriate.

The existence of published price quotations in an active market is normally the best evidence of fair value. The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and for an asset to be acquired or liability held, the asking price.

The Group manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk. It uses mid-market prices as the basis for establishing fair values for the offsetting risk positions and applies the bid or asking price to the net open position as appropriate.

When measuring the fair value of a financial asset or group of financial assets, the Group incorporates into the valuation an adjustment for the risk of default of the counterparty, a so-called credit valuation adjustment (CVA).

46.1.4.7 Effective interest rate method
The effective interest rate is the rate which exactly discounts the estimated future cash payments or receipts through the expected life of a financial instrument.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument and includes any fees and incremental costs that are directly attributable to the instrument and constitute an integral component of the effective interest rate, but it does not take into consideration future credit losses.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period.

46.1.4.8 Forborne loans
Forborne exposures are debt contracts in respect of which forbearance measures have been granted to the debtor and for which the discontinuation conditions are not met. Forbearance measures consist of concessions to a debtor facing or about to face difficulties in meeting its financial commitments. The concession refers to either modification of terms and conditions (e.g. changes in payment schedule, interest rate reductions, penalty interest waivers) or refinancing. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Renegotiated loans are continuously reviewed by the Group to ensure that all criteria are met and that future payments are likely to occur. The renegotiated loans continue to be subject to impairment assessment, calculated based on their future cash flows discounted by the loans' original effective interest rates.

46.1.4.9 Impairment of financial assets
At the end of each reporting period, the Group assesses on a regular basis whether there is any objective evidence that a financial asset or group of financial assets is impaired, the only exception being securities at fair value through profit or loss.

Objective evidence that a financial asset or group of assets is impaired includes observable evidence that comes to the attention of the Group and proving the significant deterioration of a debtor's (issuer's) financial health, breach of contract (default in interest or principal payment), high probability of bankruptcy or other financial reorganisation, or proving a measurable decrease in the estimated future cash flow due to adverse changes in industry conditions.

In addition to the aforementioned events, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, economic or legal environment in which the issuer operates and significant or prolonged decline in the fair value of the instrument below its cost. The determination of what constitutes a significant or prolonged decline is a matter of circumstances that requires application of the Group management's judgement. As indicators of possible significant or prolonged decline, the Group regards unrealised loss in respect of instrument acquisition cost or the fact that the quoted price of the instrument has been below its carrying amount during every trading date for several months. Furthermore, the Group considers the business model and strategy related to the instrument and supportive indicators as the financial situation of the issuer and its development perspective or regulatory requirements.

If there is objective evidence that an impairment loss on a financial instrument has been incurred, the Group calculates an impairment loss and recognises it in the respective item in the Statement of Income.

For a financial asset classified in portfolios carried at amortised cost (i.e. *'Held-to-maturity investments'* and *'Loans and advances'* portfolios), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow discounted at the financial asset's original effective interest rate. Estimations of future cash flows for loans are based on expected cash flows from the economic activities of the client and the possible realisation of loan collateral.

The Group uses one of three methods to assess the amount of allowances. For larger, individually significant loans classified as default (Substandard, Doubtful and Loss loans based on the Czech National Bank's classification), the allowances are assessed on an individual basis requiring management to monitor the borrower's repayment abilities individually, including the estimated value from the collateral foreclosure and expected duration of the recovery process, etc. These allowances are calculated using discounted expected future cash flows.

For smaller, individually not significant impaired loans where the loans are homogeneous in nature (for example the consumer and mortgage loans to individuals and smaller corporate portfolios), the allowances are calculated by models using historical delinquency statistics.

Portfolio allowances are calculated for losses that have been incurred but have not been identified. Portfolio allowances are held against non-impaired loans across all segments and calculated using models based on probabilities of default and loss given default until the impairment event occurs and individual or model allowances for impaired loans are recognised.

Historical loss experience is adjusted on the basis of currently observable data to reflect new loss observations and to have better discrimination ability (i.e. to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently). The methodology and assumptions used for estimating the future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying amount of an asset is reduced through the use of an allowance account, the creation of which is recognised in the Statement of Income in the line *'Allowance for loan losses'* or *'Allowance for impairment of securities'*. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is correspondingly reversed.

When it can be reasonably anticipated that clients will be unable to fulfil their obligations to the Group in respect of such loans, loss loans are written off and recognised in the Statement of Income in the line *'Allowance for loan losses'*. Subsequent recoveries are credited to the Statement of Income in *'Allowance for loan losses'* if previously written off. If the Group collects an amount greater than that written off subsequent to the write-off of the loan, the difference is reported through *'Interest income and similar income'*.

For *'Available-for-sale financial assets'* and in the case of objective evidence of their impairment, a cumulative loss that had been recognised in Other Comprehensive Income is reclassified to the Statement of Income and recognised in the line *'Allowance for impairment of securities'* for debt instruments and in the line *'Net profit/(loss) on financial operations'* for equity instruments. The amount of the loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the Statement of Income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Statement of Income, the impairment loss is reversed, with the amount of the reversal recognised in the Statement of Income. The Group cannot reverse any impairment loss recognised in the Statement of Income for an equity instrument.

46.1.4.10 Repurchase agreements

The Group accounts for contracts to sell and buy back financial instruments (so-called "repos" or "reverse repos") according to their substance as the taking or granting of a loan with a corresponding transfer of financial instruments as collateral.

In the case of repurchase transactions ("repos"), the Group only provides securities held in the portfolio of *'Financial assets or financial liabilities at fair value through profit or loss'* or in the *'Available-for-sale financial assets'* portfolio and that are recorded in the Statement of Financial Position in the lines so named. The corresponding liability arising from a loan taken is recognised in the line *'Amounts due to banks'* or *'Amounts due to customers'*, as appropriate.

Securities purchased under reverse repurchase agreements ("reverse repos") are recorded in the off-balance sheet, where they are remeasured at fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the Statement of Financial Position according to the counterparty type in the line *'Amounts due from banks'* or *'Loans and advances to customers'*.

The Group is entitled to provide those securities received in reverse repo transactions as collateral or sell them even in the absence of default by their owner. These securities continue to be recorded in the off-balance sheet and measured at fair value. According to the counterparty type, the corresponding liability arising from the loan taken is included in *'Amounts due to banks'* or *'Amounts due to customers'*. The Group has the obligation to return these securities to its counterparties, however.

The differences between the sale and repurchase prices in respect of repo and reverse repo transactions are treated by the Group as interest, and it is accrued evenly to expenses and income over the life of the repo agreement using the effective interest rate method.

In regard to the sale of a security acquired as collateral through a reverse repo transaction, the Group derecognises from the off-balance sheet evidence the security acquired under the reverse repo transaction and recognises in the Statement of Financial Position an amount payable from a short sale that is remeasured at its fair value. This payable is included in *'Financial liabilities at fair value through profit or loss'*.

46.1.4.11 Derivatives and hedge accounting

A derivative is a financial instrument or other contract having all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other market variable;
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- It is settled at a future date.

At the inception of a financial derivative contract, the Group designates the derivative instrument as either held for trading or hedging.

Held for trading derivatives are classified into a portfolio of *'Financial assets or financial liabilities at fair value through profit or loss'* based on whether the fair value is positive or negative (refer to 46.1.4.4 Financial assets and liabilities classification and subsequent measurement).

Hedging derivatives are derivatives that the Group uses to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Group designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:

- There is compliance with the Group's risk management objective and strategy in undertaking the hedge;
- At inception of the hedge there is formal designation and documentation of the hedging relationship which includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- The hedge is expected to be highly effective at inception and throughout the period;
- The effectiveness of the hedge can be reliably measured; and
- Changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Hedging derivatives are accounted for according to the type of hedging relationship, which can be one of the following:

I. Hedging of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or
II. Hedging of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge); or
III. Hedging of a net investment in a foreign operation.

Changes in the fair value of a derivative that is designated and qualified as a fair value hedge are recognised in the Statement of Income line *'Net profit/(loss) on financial operations'*. Changes in the fair value of a hedged item are recognised in the Statement of Financial Position as a component of the carrying amount of the hedged item and in the Statement of Income line *'Net profit/(loss) on financial operations'*.

It is on this basis that the Group hedges the interest rate risk and foreign currency risk of financial assets (loans with fixed interest rates and debt instruments classified as available-for-sale) and interest rate risk of deposits, repos, mortgage bonds issued, as well as selected portfolios of building savings. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and an adjustment to the carrying amount of the hedged interest-bearing financial instrument is amortised to profit or loss over the period until the maturity of the hedged item.

In connection with the reclassification of certain debt securities from the *'Available-for-sale financial assets'* portfolio and into the *'Held-to-maturity investments'* portfolio, the Group revoked the designation of respective interest rate swaps as fair value hedges and prospectively classifies them as a cash flow hedge of interest rate risk associated with selected portfolios of assets or liabilities.

The Group accounts also for portfolio fair value hedges (hedging transactions concerning portfolios of financial assets or liabilities), for which interest rate swaps are used. When accounting for these transactions, the Group applies the IAS 39 "carve-out", as adopted by the European Union. The accounting treatment of financial derivatives designated as portfolio fair value hedges is similar to that of other fair value hedging derivatives.

Changes in the fair value of hedging derivatives classified as cash flow hedges and that prove to be highly effective in relation to the hedged risks are recognised in the line *'Cash flow hedging'* in Other Comprehensive Income and they are transferred to the Statement of Income and classified as income or expense in the periods during which the hedged items affect the Statement of Income. The ineffective portion of a hedge is charged directly to the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

It is on this basis that the Group hedges the interest rate risk and currency risk associated with selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and the cumulative gain or loss on the hedging instrument that has been recognised in Other Comprehensive Income for the period when the hedge was effective remains in equity until the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, the gain or loss accumulated as other comprehensive income is reclassified to profit or loss.

The Group additionally hedges against the foreign exchange rate risk arising from the net investment in the subsidiaries Bastion European Investments S.A. and PSA FINANCE SLOVAKIA, s.r.o. Foreign currency deposits are used as a hedging instrument. Foreign exchange rate differences arising from its retranslation are included in Other Comprehensive Income.

Financial derivatives constituting economic hedges under the Group's risk management positions but not qualifying for hedge accounting under the specific rules of IAS 39 are treated as derivatives held for trading.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 43(C).

46.1.4.12 Embedded derivatives

In some cases, a derivative, such as an option for an earlier redemption of a bond, is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract. The embedded derivative is separated and accounted for as a derivative if, and only if, all of the following conditions are met:

- The embedded derivative as a separate instrument meets the definition of a derivative;
- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; and
- The host contract is not measured at fair value with fair value changes recognised in the Statement of Income.

46.1.5 Provisions

Provisions are recognised when and only when:

- The Group has a present obligation (legal or constructive) as a result of a past event;
- It is probable that settlement of the obligation will cause an outflow of resources causing a decrease of economic benefits; and
- A reliable estimate can be made of the amount of the obligation. Provisions for legal disputes are estimated on the basis of the amount sought by the plaintiff, including accrued interest and fees.

Provisions are measured as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate reflecting current market assessments and the risks specific to the liability. Provision increases related to the passage of time are recognised as interest expense.

Among others, the Group recognises provisions for credit-related commitments which do not meet the criteria for recognition in the Statement of Financial Position. These provisions cover estimated losses from credit-related commitments into which the Group enters in the normal course of its business and that are recorded in the off-balance sheet. These commitments include primarily guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. Provisions for credit-related commitments are created on the same basis as are allowances for loan portfolios.

46.2 Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

		31 Dec 2017
(CZKm)	Fair value	Cost*
Shares and participation certificates	**241**	**146**
Fixed income debt securities	22,828	21,567
Variable yield debt securities	6,643	6,448
Total debt securities	**29,471**	**28,015**
Total available-for-sale financial assets	**29,712**	**28,161**

* Acquisition cost for shares and participation certificates; amortised acquisition cost excluding coupon for debt securities.

As of 31 December 2017, the *'Available-for-sale financial assets'* portfolio includes securities at fair value of CZK 29,471 million that are publicly traded on stock exchanges and securities at fair value of CZK 241 million that are not publicly traded.

As of 31 December 2017, the *'Available-for-sale financial assets'* portfolio includes bonds at fair value of CZK 1,233 million that are used as collateral for intraday facilities in central banks.

Shares and participation certificates available-for-sale at fair value comprise the following:

(CZKm)	31 Dec 2017
Shares and participation certificates	
– Other currencies	241
Total shares and participation certificates available-for-sale	**241**

Shares and participation certificates available-for-sale at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2017
Shares and participation certificates available-for-sale issued by:	
– Other foreign entities	241
Total shares and participation certificates available-for-sale	**241**

Debt securities available-for-sale at fair value comprise the following:

(CZKm)	31 Dec 2017
Fixed income debt securities	
– Czech crowns	16,550
– Other currencies	6,278
Total fixed income debt securities	**22,828**
Variable yield debt securities	
– Czech crowns	4,085
– Other currencies	2,558
Total variable yield debt securities	**6,643**
Total debt securities available-for-sale	**29,471**

Debt securities available-for-sale at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2017
Debt securities available-for-sale issued by:	
– State institutions in the Czech Republic	19,561
– Foreign state institutions	7,352
– Financial institutions in the Czech Republic	2,558
– Foreign financial institutions	0
Total debt securities available-for-sale	**29,471**

Debt securities available-for-sale issued by Foreign state institutions comprise the following:

(CZKm)	31 Dec 2017	
Country of issuer	Fair value	Cost*
Poland	754	639
Romania	1,744	1,679
Slovakia	3,779	3,134
European Investment Bank	1,075	1,000
Total	**7,352**	**6,452**

* Acquisition cost for shares and participation certificates amortised acquisition cost excluding coupon for debt securities

Of the debt securities issued by State institutions in the Czech Republic, CZK 19,561 million consist of securities eligible for refinancing with the CNB.

Reclassification of certain debt securities held in the portfolio of ‘Available-for-sale financial assets’

During the first quarter of 2014, the Group reviewed the accounting recognition of certain debt securities issued by State institutions held in the portfolio of *‘Available-for-sale financial assets’* (hereafter only “AFS”) on the basis of the Group’s changing its intention for their classification. The Group concluded that all regulatory and accounting requirements, as well as internal limits, were satisfied for recognition of the debt securities in the nominal value of CZK 56,596 million in the portfolio of *‘Held-to-maturity investments’* (hereafter only “HTM”) and decided to reclassify the respective securities from AFS to HTM. The securities were reclassified at fair value. The corresponding unrealised gains and losses in equity of CZK 5,011 million as of the reclassification date are retained in Other Comprehensive Income. Such amounts are amortised over the remaining life of the security.

46.3 Amounts due from banks

Balances due from banks comprise the following:

(CZKm)	31 Dec 2017
Current accounts with other banks	484
Debt securities	5,557
Loans and advances to banks	17,726
Advances due from central bank (reverse repo transactions)	184,522
Term placements with other banks	20,095
Total amounts due from banks, gross	**228,384**
Portfolio allowances for loans to banks	(10)
Specific allowances for loans to banks	0
Total allowances for loans to banks	**(10)**
Total amounts due from banks, net	**228,374**

Advances due from the CNB and other banks under reverse repurchase transactions are collateralised by treasury bills issued by the CNB and other debt securities, the fair values of which are as follow:

(CZKm)	31 Dec 2017
Treasury bills	183,503
Debt securities issued by state institutions	2,028
Shares	0
Investment certificates	0
Total	**185,531**

Total amount of advances due from the CNB and other banks under reverse repurchase transactions was CZK 186,554 million.

Securities acquired as loans and advances
As of 31 December 2017, the Group maintains in its portfolio bonds at an amortised cost of CZK 5,557 million and a nominal value of CZK 5,524 million, of which bonds with a nominal value of CZK 99 million and EUR 79 million are issued by Financial institutions in the Czech Republic and CZK 705 million and EUR 106 million are issued by Foreign financial institutions.

46.4 Loans and advances to customers

Loans and advances to customers comprise the following:

(CZKm)	31 Dec 2017
Loans to customers	602,937
Bills of exchange	218
Forfaits	588
Total loans and advances to customers excluding debt securities and other amounts due to customers, gross	**603,743**
Debt securities	3,635
Other amounts due from customers	3,471
Total loans and advances to customers, gross	**610,849**
Portfolio allowances for loans to customers	
– Individuals	(429)
– Corporates*	(831)
Specific allowances for loans to customers	
– Individuals	(4,673)
– Corporates*	(6,804)
Total allowances for loans to customers	**(12,737)**
Specific allowances for other amounts due from customers	(10)
Total allowances for loans and other amounts due from customers	**(12,747)**
Total loans and advances to customers, net	**598,102**

* This item also includes allowances for loans granted to individual entrepreneurs.

As of 31 December 2017, loans and advances to customers included accrued interest of CZK 1,051 million, of which CZK 438 million relates to interest from overdue receivables.

As of 31 December 2017, loans provided to customers under reverse repurchase transactions in the amount of CZK 1,256 million are collateralised by securities with a fair value of CZK 1,567 million.

As of 31 December 2017, the loan portfolio of the Group (excluding Debt securities and Other amounts due from customers) is comprised of the following, as broken down by classification:

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value
Standard	575,640	276,103	299,537	(804)*	574,836
Watch	9,499	3,781	5,718	(456)*	9,043
Substandard	4,584	2,495	2,089	(1,521)	3,063
Doubtful	2,132	566	1,566	(1,080)	1,052
Loss	11,888	1,497	10,391	(8,876)	3,012
Total	**603,743**	**284,442**	**319,301**	**(12,737)**	**591,006**

* This item includes portfolio allowances (due to losses incurred but not reported).

Set out below is a breakdown of loans by sector (excluding Debt securities and Other amounts due from customers):

(CZKm)	31 Dec 2017
Food industry and agriculture	18,233
Mining and extraction	3,927
Chemical and pharmaceutical industry	7,439
Metallurgy	13,187
Automotive industry	12,827
Manufacturing of other machinery	9,168
Manufacturing of electrical and electronic equipment	3,955
Other processing industry	11,504
Power plants, gas plants and waterworks	17,364
Construction industry	10,706
Retail	17,225
Wholesale	27,605
Accommodation and catering	1,902
Transportation, telecommunication and warehouses	24,296
Banking and insurance industry	24,300
Real estate	46,894
Public administration	24,439
Other industries	35,970
Individuals	292,802
Total loans to customers	**603,743**

The majority of loans – more than 91% – were provided to entities on the territory of the Czech Republic.

Broken out below are the types of collateral held in support of loans and advances to customers as stated in the Consolidated Statement of Financial Position:

(CZKm)	Total client loan collateral*	Discounted client loan collateral value**	Applied client loan collateral value***
			31 Dec 2017
Guarantees of state and governmental institutions	1,328	1,046	1,044
Bank guarantee	17,605	16,781	16,575
Guaranteed deposits	8,530	8,396	7,569
Pledge of real estate	484,717	314,652	232,206
Pledge of movable assets	13,949	1,338	1,312
Guarantee by legal entity	27,528	19,930	14,310
Guarantee by individual (natural person)	2,447	233	222
Pledge of receivables	31,142	786	0
Insurance of credit risk	8,856	8,411	8,410
Other	4,718	3,368	2,794
Nominal value of collateral	**600,820**	**374,941**	**284,442**

* The nominal value of the collateral is determined based on internal rules of the Group (e.g. internal property valuation, current value of collateral, market value of securities, etc.).

** The nominal value of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc.

*** The applied collateral value is the discounted collateral value reduced to the actual balance of the collateralised exposure.

Pledges on industrial real estate represent 8% of total pledges on real estate.

Debt securities designated as loans and advances

As of 31 December 2017, the Group holds in its portfolio bonds at an amortised cost of CZK 3,104 million and a nominal value of CZK 3,042 million, of which bonds with a nominal value of CZK 450 million are issued by State institutions in the Czech Republic, USD 1 million by Foreign state institutions, CZK 2,110 million by Other entities in the Czech Republic and EUR 16 million and CZK 68 million by Other foreign entities. Additionally, the Group holds in this portfolio bills of exchange at an amortised cost of CZK 505 million and a nominal value of CZK 507 million, of which bills of exchange in the nominal value of CZK 300 million are issued by State institutions in the Czech Republic and CZK 207 million by Other entities in the Czech Republic. The portfolio is hedged using fair value hedge derivatives with a positive fair value of CZK 26 million.

Forborne loans and advances to customers

Forborne loans and advances to customers as of 31 December 2017:

(CZKm)	Neither past due nor impaired	Past due not impaired	Impaired	Total forborne	Allowances	Collateral applied
Individuals	1,413	230	1,409	3,052	629	2,149
Corporates*	294	29	2,574	2,897	1,522	798
Total	**1,707**	**259**	**3,983**	**5,949**	**2,151**	**2,947**

* This item also includes loans granted to individual entrepreneurs.

The carrying value of forborne assets in comparison with the loan portfolio of the Group (excluding Debt securities and Other amounts due from customers):

(CZKm)	Gross receivable	Forborne assets	Share in gross receivable
			31 Dec 2017
Individuals	290,419	3,052	1.05 %
Corporates*	313,324	2,897	0.92 %
Total	**603,743**	**5,949**	**0.99 %**

* This item also includes loans granted to individual entrepreneurs.

Portfolio and specific allowances for forborne assets:

(CZKm)	Portfolio allowances	Specific allowances	31 Dec 2017 Total
Individuals	13	616	629
Corporates*	24	1,498	1,522
Total	**37**	**2,114**	**2,151**

* This item also includes allowances for loans granted to individual entrepreneurs.

Finance lease

Within the Group, ESSOX s.r.o., PSA FINANCE ČESKÁ REPUBLIKA, s.r.o., PSA FINANCE SLOVAKIA, s.r.o. and SG Equipment Finance Czech Republic s.r.o. provide lease services. Assets leased under lease arrangements at ESSOX s.r.o. and PSA FINANCE ČESKÁ REPUBLIKA, s.r.o. primarily include new passenger and utility vehicles with an average lease instalment period of 60 months. At PSA FINANCE SLOVAKIA, s.r.o., leased assets primarily include passenger and utility vehicles with an average lease instalment period of 46 months. At SG Equipment Finance Czech Republic s.r.o. leased assets primarily include trucks, tractors and buses with an average lease instalment period of 64 months, agricultural vehicles and machines with an average lease instalment period of 60 months, machine technology with an average lease instalment period of 66 months, hardware and software technology with an average lease instalment period of 44 months and real estate with an average lease instalment period of 9 years.

Loans and advances to customers – leasing

(CZKm)	31 Dec 2017
Due less than 1 year	5,127
Due from 1 to 5 years	9,099
Due over 5 years	491
Total	**14,717**

Future interest (the difference between gross and net investment in the lease) on lease contracts is:

(CZKm)	31 Dec 2017
Due less than 1 year	313
Due from 1 to 5 years	394
Due over 5 years	19
Total	**726**

As of 31 December 2017, the provisions recognised against uncollectible lease receivables amount to CZK 344 million.

46.5 Held-to-maturity investments

Held-to-maturity investments comprise the following:

(CZKm)	Carrying value	31 Dec 2017 Cost*
Fixed income debt securities	59,915	58,745
Total held–to-maturity investments	**59,915**	**58,745**

* Amortised acquisition cost excluding coupon.

As of 31 December 2017, the *'Held-to-maturity investments'* portfolio includes bonds of CZK 59,915 million that are publicly traded on stock exchanges and bonds of CZK 0 million that are not publicly traded.

As of 31 December 2017, the *'Held-to-maturity investments'* portfolio includes bonds of CZK 976 million that are used as collateral for derivative deals with a central counterparty. The central counterparty is LCH.Clearnet SA. The Group uses Société Générale Newedge UK Limited as related broker.

Fixed income debt securities held-to-maturity comprise the following:

(CZKm)	31 Dec 2017
Fixed income debt securities	
– Czech crowns	47,528
– Foreign currencies	12,387
Total fixed income debt securities	**59,915**

Fixed income debt securities held-to-maturity, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2017
Fixed income debt securities issued by:	
– State institutions in the Czech Republic	50,216
– Foreign state institutions	9,699
Total fixed income debt securities	**59,915**

Debt securities held-to-maturity issued by Foreign state institutions comprise the following:

(CZKm)	31 Dec 2017	
Country of Issuer	Fair value	Cost*
Slovakia	2,697	2,476
Poland	7,422	7,002
Total	**10,119**	**9,478**

* Amortised acquisition cost excluding coupon.

46.6 Provisions

Provisions comprise the following:

(CZKm)	31 Dec 2017
Provisions for contracted commitments	517
Provisions for other credit commitments	1,394
Total provisions	**1,911**

The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, self-insurance and the retirement benefits plan.

Provisions for other credit commitments are broken out below by type of risks covered:

(CZKm)	31 Dec 2017
Provision for off-balance sheet commitments	1,306
Provision for undrawn loan facilities	88
Total	**1,394**

46.7 Risk management and financial instruments

46.7.1 Credit risk

The Group's maximum credit exposure as of 31 December 2017:

	Total exposure			Collateral applied		
(CZKm)	**Statement of financial position**	**Off-balance sheet***	**Total credit exposure**	**Statement of financial position**	**Off-balance sheet***	**Total collateral**
Current balances with central banks	**22,593**	**x**	**22,593**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**18,841**	**x**	**18,841**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**13,408**	**x**	**13,408**	**0**	**x**	**0**
Available-for-sale financial assets	**29,712**	**x**	**29,712**	**0**	**x**	**0**
Amounts due from banks	**228,384**	**2,866**	**231,250**	**181,250**	**119**	**181,369**
Loans and advances to customers	**610,849**	**152,723**	**763,572**	**284,442**	**17,742**	**302,184**
– Individuals	290,419	34,430	324,849	218,975	5,322	224,297
of which: mortgage loans	217,695	15,745	233,440	188,282	5,158	193,440
consumer loans	27,611	2,232	29,843	4,676	4	4,680
constructions savings scheme loans	41,250	9,091	50,341	25,540	151	25,691
– Corporates**	313,324	118,293	431,617	65,467	12,420	77,887
of which: top corporate clients	130,787	69,262	200,049	36,168	7,029	43,197
– Debt securities	3,635	x	3,635	0	x	0
– Other amounts due from customers	3,471	x	3,471	0	x	0
Revaluation differences on portfolios hedge items	**(251)**	**x**	**(251)**	**0**	**x**	**0**
Held-to-maturity investments	**59,915**	**x**	**59,915**	**0**	**x**	**0**
Total	**983,451**	**155,589**	**1,139,040**	**465,692**	**17,861**	**483,553**

* Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis (i.e. without the impact of allowances).

46.7.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent that instrument is exposed to interest rate risk. Market developments have led to a situation where interest rates are negative in certain currencies. This fact does not change the essence of interest rate risk measurement and management because the principle of recognising changes in interest rates over time remains unchanged just as the concept of hedging against interest rate risk by matching volumes with changing values within the given period remains valid. Due to legal and technical limitations, methods to prevent negative rates from being applied at the client's level can be applied with the objective of maintaining accordance between a transaction's contractual and economic natures. With respect to ongoing market practice, client deposits are seeing the introduction of deposit fees, which constitute a specific response to the existence of negative market interest rates and which also comply with the requirements given by limitations ensuing from the existing legal framework.

The Group uses internal models for managing interest rate risk. The objective of these models is to describe the expected economic behaviour of the Group's clients when market interest rates fluctuate. It is the policy of the Group's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through a gap analysis of assets and liabilities in individual groups.

The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity or a repricing date were grouped into the *'Undefined'* category. The table includes a break-out of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	32,663	0	0	0	0	32,663
Financial assets at fair value through profit or loss	1,633	0	0	0	17,208	18,841
Positive fair values of hedging financial derivatives	0	0	47	0	13,361	13,408
Available-for-sale financial assets	1,654	7,800	6,237	13,780	241	29,712
Assets held for sale	0	0	0	0	319	319
Amounts due from banks	218,501	3,654	4,690	911	618	228,374
Loans and advances to customers	224,929	74,133	241,801	41,570	15,669	598,102
Revaluation differences on portfolios hedge items	0	0	0	0	(251)	(251)
Held-to-maturity investments	0	3,924	28,934	27,057	0	59,915
Current tax assets	0	2	0	0	40	42
Deferred tax assets	0	0	0	0	70	70
Prepayments, accrued income and other assets	0	665	0	0	5,158	5,823
Investments in subsidiaries and associates	0	0	0	0	1,181	1,181
Intangible assets	0	0	0	0	4,684	4,684
Tangible assets	0	0	0	0	7,404	7,404
Goodwill	0	0	0	0	3,752	3,752
Total assets	**479,380**	**90,178**	**281,709**	**83,318**	**69,454**	**1,004,039**
Liabilities						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities at fair value through profit or loss	1,673	0	0	0	17,631	19,304
Negative fair values of hedging financial derivatives	0	0	0	0	10,329	10,329
Amounts due to banks	61,531	7,227	1,916	0	13,376	84,050
Amounts due to customers	50,558	18,560	24,743	4,857	663,325*	762,043
Revaluation differences on portfolios hedge items	0	0	0	0	(1,468)	(1,468)
Securities issued	3,659	173	1,000	0	0	4,832
Current tax liabilities	0	0	0	0	263	263
Deferred tax liabilities	0	12	0	0	987	999
Accruals and other liabilities	81	0	0	0	18,788	18,869
Provisions	0	0	0	0	1,911	1,911
Subordinated debt	2,560	0	0	0	0	2,560
Total liabilities	**120,063**	**25,972**	**27,659**	**4,857**	**725,142**	**903,693**
Statement of Financial Position interest rate gap as of 31 December 2017	**359,317**	**64,206**	**254,050**	**78,461**	**(655,688)**	**100,346**
Nominal value of derivatives**	699,909	327,507	452,278	380,734	0	1,860,428
Total off-balance sheet assets	**699,909**	**327,507**	**452,278**	**380,734**	**0**	**1,860,428**
Nominal value of derivatives**	836,867	325,260	482,988	213,104	0	1,858,219
Undrawn portion of loans***	(7,684)	(9,064)	11,233	5,515	0	0
Undrawn portion of revolving loans***	(680)	680	0	0	0	0
Total off-balance sheet liabilities	**828,503**	**316,876**	**494,221**	**218,619**	**0**	**1,858,219**
Net off-balance sheet interest rate gap as of 31 December 2017	**(128,594)**	**10,631**	**(41,943)**	**162,115**	**0**	**2,209**
Cumulative interest rate gap as of 31 December 2017	**230,723**	**305,560**	**517,667**	**758,243**	**102,556**	**X**

* This item principally includes client deposits where the Group has the option to reset interest rates and hence they are not sensitive to interest rate changes.
** Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.
*** Undrawn loans and revolving loans are reported on a net basis, i.e. the Group reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

Following is a breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

				31 Dec 2017
(CZKm)	Fixed interest rate	Floating interest rate	No interest	Total
Assets				
Cash and current balances with central banks	5,000	16,551	11,112	32,663
Financial assets at fair value through profit or loss	964	669	17,208	18,841
Positive fair values of hedging financial derivatives	47	0	13,361	13,408
Available-for-sale financial assets	22,828	6,643	241	29,712
Amounts due from banks	6,013	222,163	198	228,374
Loans and advances to customers	391,541	201,613	4,948	598,102
Revaluation differences on portfolios hedge items	0	0	(251)	(251)
Held-to-maturity investments	59,915	0	0	59,915
Liabilities				
Amounts due to central banks	1	0	0	1
Financial liabilities at fair value through profit or loss	0	0	19,304	19,304
Negative fair values of hedging financial derivatives	0	0	10,329	10,329
Amounts due to banks	38,859	44,933	258	84,050
Amounts due to customers	60,505	695,978	5,560	762,043
Revaluation differences on portfolios hedge items	0	0	(1,468)	(1,468)
Securities issued	3,080	1,752	0	4,832
Subordinated debt	0	2,560	0	2,560

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate structure. For this purpose, a fixed interest rate is defined as a rate with a repricing period exceeding 1 year. Products having no parameters defining their interest rate structure are included in the 'No interest' category.

* This item principally includes client deposits where the Group has the option to reset interest rates and hence they are not sensitive to interest rate changes.

46.7.3 Liquidity risk

Liquidity risk is a measure of the extent to which the Group may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Bank's Board of Directors. Liquidity is monitored on a bank-wide level, with the Market Book also having a standalone limit. The Group has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Group has defined a set of indicators for which binding limits are established.

The Group is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Group's experiences show that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities (mainly reverse repo transactions with CNB) that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk of the Group is managed as stipulated above (and in particular not on the basis of undiscounted cash flows).

The table below provides a breakdown of assets, liabilities and equity into relevant maturity groupings based on the remaining period from the financial statements date to the contractual maturity date. The table includes a breakout of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	14,747	0	0	0	0	17,916	32,663
Financial assets at fair value through profit or loss	0	17	385	157	544	17,738	18,841
Positive fair values of hedging financial derivatives	0	0	0	47	0	13,361	13,408
Available-for-sale financial assets	0	15	4,145	6,331	18,081	1,140	29,712
Assets held for sale	0	0	298	0	0	21	319
Amounts due from banks	109,473	105,765	1,785	5,553	278	5,520	228,374
Loans and advances to customers, net	3,763	55,810	81,153	203,036	235,521	18,819	598,102
Revaluation differences on portfolios hedge items	0	0	0	0	0	(251)	(251)
Held-to-maturity investments	0	69	4,793	28,827	26,226	0	59,915
Current tax assets	0	0	36	2	0	4	42
Deferred tax assets	0	0	0	2	0	68	70
Prepayments, accrued income and other assets	804	461	664	0	0	3,894	5,823
Investments in subsidiaries and associates	0	0	0	0	0	1,181	1,181
Intangible assets	0	0	0	0	0	4,684	4,684
Tangible assets	0	0	0	0	0	7,404	7,404
Goodwill	0	0	0	0	0	3,752	3,752
Total assets	**128,787**	**162,137**	**93,259**	**243,955**	**280,650**	**95,251**	**1,004,039**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss	1,673	0	0	0	0	17,631	19,304
Negative fair values of hedging financial derivatives	0	0	0	0	0	10,329	10,329
Amounts due to banks	33,882	9,690	4,934	29,063	6,481	0	84,050
Amounts due to customers	678,136	37,676	15,169	25,860	5,103	99	762,043
Revaluation differences on portfolios hedge items	0	0	0	0	0	(1,468)	(1,468)
Securities issued	467	3,002	174	1,005	0	184	4,832
Current tax liabilities	0	254	8	0	0	1	263
Deferred tax liabilities	0	0	0	12	0	987	999
Accruals and other liabilities	16,267	583	0	0	0	2,019	18,869
Provisions	8	91	784	488	1	539	1,911
Subordinated debt	0	0	0	0	2,560	0	2,560
Equity	0	0	0	0	0	100,346	100,346
Total liabilities	**730,434**	**51,296**	**21,069**	**56,428**	**14,145**	**130,667**	**1,004,039**
Statement of Financial Position liquidity gap as of 31 December 2017	**(601,647)**	**110,841**	**72,190**	**187,527**	**266,505**	**(35,416)**	**0**
Off-balance sheet assets*	51,890	228,523	195,743	206,177	62,675	0	745,008
Off-balance sheet liabilities*	65,744	250,160	247,906	254,210	65,170	16,659	899,849
Net off-balance sheet liquidity gap as of 31 December 2017	**(13,854)**	**(21,637)**	**(52,163)**	**(48,033)**	**(2,495)**	**(16,659)**	**(154,841)**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts, as well as payables under guarantees, letters of credit and committed facilities.

The Group has modified the method of presentation of annuity payments' breakdown in the line *'Loans and advances to customers'* according to residual maturity. The table below provides quantitative information of the change as of 31 December 2017:

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Reported	5,812	58,992	59,281	182,803	272,395	18,819	598,102
Change	(2,049)	(3,182)	21,872	20,233	(36,874)	0	0
Restated	3,763	55,810	81,153	203,036	235,521	18,819	598,102

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Group based on the undiscounted cash flows as of 31 December 2017.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss (except derivatives)	1,673	0	0	0	0	0	1,673
Amounts due to banks	33,984	13,929	7,949	34,383	6,873	0	97,118
Amounts due to customers	678,227	37,735	15,311	26,920	5,540	198	763,931
Securities issued	467	3,012	183	1,029	0	184	4,875
Current tax liabilities	0	254	8	0	0	1	263
Deferred tax liabilities	0	0	0	12	0	988	1000
Accruals and other liabilities	16,267	603	0	0	0	2,587	19,457
Provisions	8	91	785	488	1	544	1,917
Subordinated debt	0	0	0	0	2,560	0	2,560
Total non-derivative financial liabilities	**730,627**	**55,624**	**24,236**	**62,832**	**14,974**	**4,502**	**892,795**
Other loans commitment granted	11,642	14,269	33,072	28,408	459	16,510	104,360
Guarantee commitments granted	1,882	7,826	18,673	20,108	2,591	149	51,229
Total contingent liabilities	**13,524**	**22,095**	**51,745**	**48,516**	**3,050**	**16,659**	**155,589**

46.7.4 Foreign exchange position

The table below breaks out the Group's main currency exposures. The remaining currencies are shown within *'Other currencies'*. The Group manages its foreign exchange position on a daily basis. For this purpose, the Group has a set of internal limits.

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	30,581	1,594	199	289	32,663
Financial assets at fair value through profit or loss	15,245	3,241	262	93	18,841
Positive fair values of hedging financial derivatives	11,807	1,545	115	(59)	13,408
Available-for-sale financial assets	20,635	8,931	146	0	29,712
Assets held for sale	319	0	0	0	319
Amounts due from banks	191,116	30,513	6,078	667	228,374
Loans and advances to customers	482,125	111,265	3,808	904	598,102
Revaluation differences on portfolios hedge items	(251)	0	0	0	(251)
Held-to-maturity investments	47,528	12,387	0	0	59,915
Current tax assets	40	2	0	0	42
Deferred tax assets	50	20	0	0	70
Prepayments, accrued income and other assets	4,550	1,088	183	2	5,823
Investments in subsidiaries and associates	1,181	0	0	0	1,181
Intangible assets	4,675	9	0	0	4,684
Tangible assets	7,400	4	0	0	7,404
Goodwill	3,752	0	0	0	3,752
Total assets	**820,753**	**170,599**	**10,791**	**1,896**	**1,004,039**
Liabilities					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	16,935	2,063	213	93	19,304
Negative fair values of hedging financial derivatives	8,658	1,683	47	(59)	10,329
Amounts due to banks	25,543	57,554	715	238	84,050
Amounts due to customers	686,223	61,288	12,164	2,368	762,043
Revaluation differences on portfolios hedge items	(2,370)	958	(56)	0	(1,468)
Securities issued	4,782	23	27	0	4,832
Current tax liabilities	247	16	0	0	263
Deferred tax liabilities	991	8	0	0	999
Accruals and other liabilities	15,564	2,491	657	157	18,869
Provisions	1,404	438	14	55	1,911
Subordinated debt	0	2,560	0	0	2,560
Equity	99,887	459	0	0	100,346
Total liabilities	**857,865**	**129,541**	**13,781**	**2,852**	**1,004,039**
Net FX position as of 31 December 2017	**(37,112)**	**41,058**	**(2,990)**	**(956)**	**0**
Off-balance sheet assets*	1,605,785	666,135	130,226	17,213	2,419,359
Off-balance sheet liabilities*	1,568,710	706,201	126,893	16,312	2,418,116
Net off-balance sheet FX position as of 31 December 2017	**37,075**	**(40,066)**	**3,333**	**901**	**1,243**
Total net FX position as of 31 December 2017	**(37)**	**992**	**343**	**(55)**	**1,243**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal value of all derivative deals.

46.7.5 Estimated fair value of assets and liabilities of the Group

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Group's financial instruments. In circumstances where quoted market prices are not readily available, the fair value is estimated, as appropriate, using discounted cash flow models or other generally acceptable pricing models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect these estimates.

In estimating the fair value of the Group's financial instruments, the following methods and assumptions were used.

(a) Cash and current balances with central banks

The reported values of cash and current balances with the central bank are generally deemed to approximate their fair value.

(b) Amounts due from banks

The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analysis using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis. The fair value of a loss loan is equal to the appraised value of the underlying collateral.

(c) Loans and advances to customers

The fair value of variable yield loans that regularly reprice and which have no significant change in credit risk generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analysis based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

(d) Held-to-maturity investments

The fair value of the held-to-maturity portfolio is based upon quoted market prices. Where no market prices are available, the fair value is estimated based on discounted cash flow models using the interest rate currently offered as of the financial statements date.

(e) Amounts due to central banks, banks and customers

The fair value of deposits repayable on demand represents the carrying value of amounts repayable on demand as of the financial statements date. The carrying value of term deposits at variable interest rates approximates their fair values as of the financial statements date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values as of the financial statements date.

(f) Securities issued

The fair value of debt securities issued by the Group is based upon quoted market prices. Where no market prices are available, the fair value is estimated using a discounted cash flow analysis.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Group's Statement of Financial Position at their fair values:

	31 Dec 2017	
(CZKm)	Carrying value	Fair value
Financial assets		
Cash and current balances with central banks	32,663	32,663
Amounts due from banks	228,374	228,670
Loans and advances to customers	598,102	604,574
Held-to-maturity investments	59,915	62,177
Financial liabilities		
Amounts due to central banks	1	1
Amounts due to banks	84,050	84,028
Amounts due to customers	762,043	761,497
Securities issued	4,832	4,482
Subordinated debt	2,560	2,560

The following table presents the hierarchy of fair values for those financial assets and liabilities not presented on the Group's Statement of Financial Position at their fair values:

	31 Dec 2017			
(CZKm)	Fair value	Level 1	Level 2	Level 3
Financial assets				
Cash and current balances with central banks	32,663	10,070	0	22,593
Amounts due from banks	228,670	0	0	228,670
Loans and advances to customers	604,574	0	0	604,574
Held-to-maturity investments	62,177	62,177	0	0
Financial liabilities				
Amounts due to central banks	1	0	0	1
Amounts due to banks	84,028	0	0	84,028
Amounts due to customers	761,497	0	0	761,497
Securities issued	4,482	0	0	4,482
Subordinated debt	2,560	0	0	2,560

46.7.6 Allocation of fair values of financial instruments at fair value to the hierarchy of fair values

Financial assets and financial liabilities at fair value by fair value hierarchy (refer to Note 46.1.3):

(CZKm)	31 Dec 2017	Level 1	Level 2	Level 3
Financial assets				
Financial assets at fair value through profit or loss				
– Emission allowances	996	996	0	0
– Debt securities	1,633	1,300	333	0
– Derivatives	16,212	217	15,995	0
Financial assets at fair value through profit or loss	**18,841**	**2,513**	**16,328**	**0**
Positive fair value of hedging financial derivatives	**13,408**	**0**	**13,408**	**0**
Available-for-sale financial assets				
– Shares and participation Certificates	241	0	0	241
– Debt securities	29,471	25,169	4,302	0
Available-for-sale financial assets	**29,712**	**25,169**	**4,302**	**241**
Revaluation differences on portfolios hedge items	**(251)**	**0**	**(251)**	**0**
Financial assets at fair value	**61,710**	**27,682**	**33,787**	**241**
Financial liabilities				
Financial liabilities at fair value through profit or loss				
– Sold securities	1,673	1,673	0	0
– Derivatives	17,631	406	17,225	0
Financial liabilities at fair value through profit or loss	**19,304**	**2,079**	**17,225**	**0**
Negative fair value of hedging financial derivatives	**10,329**	**0**	**10,329**	**0**
Revaluation differences on portfolios hedge items	**(1,468)**	**0**	**(1,468)**	**0**
Financial liabilities at fair value	**28,165**	**2,079**	**26,086**	**0**

Financial assets at fair value – Level 3:

(CZKm)	2017 Available-for-sale financial assets	Total
Balance as of 1 January	**182**	**182**
Comprehensive income/(loss)		
– In the Statement of Income	0	0
– In Other Comprehensive Income	90	90
Purchases	0	0
Sales	0	0
Settlement	0	0
Transfer from Level 1	0	0
Foreign exchange rate difference	(32)	(32)
Balance as of 31 December	**240**	**240**

47 Post balance sheet events

Establishment of the company KB SmartSolutions, s.r.o.
On 7 January 2019, the Bank established the company KB SmartSolutions, s.r.o. (a wholly owned subsidiary of the Bank having share capital of CZK 100 thousand) with the objective to facilitate the preparation of some new services of the KB Group. Subsequently, KB SmartSolutions, s.r.o. established on 8 January 2019 the company My Smart Living, s.r.o. (a wholly owned subsidiary of KB SmartSolutions, s.r.o. having share capital of CZK 100 thousand), which will address clients' needs in relation to housing.

Separate Financial Statements

prepared in accordance with International Financial Reporting Standards as adopted by the European Union as of 31 December 2018

Separate Statement of Income and Statement of Comprehensive Income for the year ended 31 December 2018

Separate Statement of Income for the year ended 31 December 2018

(CZKm)	Note	2018	Restated 2017
Interest income	5	29,876	23,340
Interest expense	5	(10,377)	(5,584)
Net interest income		**19,499**	**17,756**
Net fee and commission income	6	5,585	5,702
Net profit/(loss) on financial operations	7	3,181	3,570
Dividend income	8	2,127	1,912
Other income	9	315	276
Net operating income		**30,707**	**29,216**
Personnel expenses	10	(6,962)	(6,495)
General and administrative expenses	11	(4,587)	(4,854)
Depreciation, amortisation and impairment of operating assets	12	(1,606)	(1,709)
Total operating expenses		**(13,155)**	**(13,058)**
Operating profit		**17,552**	**16,158**
Impairment losses	13	408	58
Net gain from loans and advances transferred and written off	13	121	223
Cost of risk		**529**	**281**
Profit/(loss) on subsidiaries and associates	14	229	1,198
Net profits on other assets	15	(14)	84
Profit before income tax		**18,296**	**17,721**
Income tax	16	(3,058)	(2,807)
Net profit for the period	**17**	**15,238**	**14,914**

The accompanying Notes form an integral part of these Separate Financial Statements.

Separate Statement of Comprehensive Income for the year ended 31 December 2018

(CZKm)	Note	2018	2017
Net profit for the period	**17**	**15,238**	**14,914**
Items that will not be reclassified to the Statement of Income			
Remeasurement of retirement benefits plan, net of tax	37	22	(23)
Revaluation of equity securities at FVOCI option*, net of tax	38	78	71
Items that may be reclassified subsequently to the Statement of Income			
Cash flow hedging			
– Net fair value gain/(loss), net of tax	39	(45)	(8,513)
– Transfer to net profit/(loss), net of tax	39	(156)	(2,680)
Hedge of a foreign net investment	39	(240)	142
Foreign exchange difference on translation of a foreign net investment		0	(11)
Revaluation of debt securities at FVOCI**, net of tax	40	(359)	(826)
Other comprehensive income for the period, net of tax		**(700)**	**(11,840)**
Total comprehensive income for the period, net of tax		**14,538**	**3,074**

* Revaluation of equity securities at fair value through other comprehensive income option
** Revaluation of debt securities at fair value through other comprehensive income

The accompanying Notes form an integral part of these Separate Financial Statements.

Separate Statement of Financial Position as of 31 December 2018

(CZKm)	Note	31 Dec 2018	1 Jan 2018*	31 Dec 2017**
ASSETS				
Cash and current balances with central banks	18	22,504	32,523	32,523
Financial assets at fair value through profit or loss	19	23,035	18,373	19,369
Other assets at fair value through profit or loss	19	245	996	
Positive fair value of hedging financial derivatives	41	12,108	13,017	13,017
Available-for-sale financial assets	44.2			23,677
Financial assets at fair value through other comprehensive income	20	23,576	22,294	
Amounts due from banks	44.3			232,279
Loans and advances to customers	44.4			535,321
Held-to-maturity investments	44.5			56,936
Financial assets at amortised cost	21	888,623	823,991	
Current tax assets		0	0	0
Deferred tax assets	31	19	104	18
Prepayments, accrued income and other assets	22	4,027	3,923	3,923
Investments in subsidiaries and associates	23	17,798	19,928	19,928
Intangible assets	24	4,737	4,189	4,189
Tangible assets	25	4,690	4,765	4,765
Assets held for sale	26	142	127	127
Total assets		**1,001,504**	**944,230**	**946,072**
LIABILITIES AND EQUITY				
Amounts due to central banks		1	1	1
Financial liabilities at fair value through profit or loss	27	22,239	19,834	19,834
Negative fair value of hedging financial derivatives	41	9,454	10,189	10,189
Amounts due to banks				69,600
Amounts due to customers				702,053
Securities issued				35,338
Financial liabilities at amortised cost	28	861,745	806,991	
Revaluation differences on portfolios hedge items		(449)	(1,206)	(1,206)
Current tax liabilities		106	254	254
Deferred tax liabilities	31	24	0	265
Accruals and other liabilities	29	11,269	16,682	16,682
Provisions	30	1,816	1,921	1,898
Subordinated debt	32	2,578	2,560	2,560
Total liabilities		**908,783**	**857,226**	**857,468**
Share capital	33	19,005	19,005	19,005
Share premium, funds, retained earnings, revaluation and net profit for the period		73,716	67,999	69,599
Total equity		**92,721**	**87,004**	**88,604**
Total liabilities and equity		**1,001,504**	**944,230**	**946,072**

* The balances as of 1 January 2018 were prepared in accordance with new accounting policy in compliance with IFRS 9, more details are described in Note 3.6.1.
** The balances as of 31 December 2017 were not re-presented.

The accompanying Notes form an integral part of these Separate Financial Statements.

These Separate Financial Statements were approved by the Board of Directors on 4 March 2019.

Signed on behalf of the Board of Directors:

Jan Juchelka
Chairman of the Board of Directors and Chief Executive Officer

Vladimír Jeřábek
Member of the Board of Directors

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

(CZKm)	Share capital	Own shares	Capital funds and retained earnings*	Share based payment	Remea-surement of retirement benefits plan	Revaluation of equity securities at FVOCI option	Cash flow hedging	Hedge of a foreign net investment	Translation of a foreign net investment	Revaluation of debt securities at FVOCI	Total equity
Balance as of 31 December 2016	**19,005**	**(592)**	**60,112**	**371**	**(131)**	**6**	**11,372**	**167**	**6**	**2,716**	**93,032**
Treasury shares, other	0	0	71	29	0	0	0	0	0	0	100
Payment of dividends	0	0	(7,602)	0	0	0	0	0	0	0	(7,602)
Transactions with owners	**0**	**0**	**(7,531)**	**29**	**0**	**0**	**0**	**0**	**0**	**0**	**(7,502)**
Net profit for the period	0	0	14,914	0	0	0	0		0	0	14,914
Other comprehensive income for the period, net of tax	0	0	0	0	(23)	71	(11,193)	142	(11)	(826)	(11,840)
Comprehensive income for the period	**0**	**0**	**14,914**	**0**	**(23)**	**71**	**(11,193)**	**142**	**(11)**	**(826)**	**3,074**
Balance as of 31 December 2017	**19,005**	**(592)**	**67,495**	**400**	**(154)**	**77**	**179**	**309**	**(5)**	**1,890**	**88,604**
Changes in accounting policies	0	0	(531)	0	0	0	0	0	0	(1,069)	(1,600)
Balance as of 1 January 2018	**19,005**	**(592)**	**66,964**	**400**	**(154)**	**77**	**179**	**309**	**(5)**	**821**	**87,004**
Treasury shares, other	0	0	81	30	0	0	0	0	0	0	111
Payment of dividends	0	0	(8,932)	0	0	0	0	0	0	0	(8,932)
Transactions with owners	**0**	**0**	**(8,851)**	**30**	**0**	**0**	**0**	**0**	**0**	**0**	**(8,821)**
Net profit for the period	0	0	15,238	0	0	0	0	0	0	0	15,238
Other comprehensive income for the period, net of tax	0	0	0	0	22	78	(201)	(240)	0	(359)	(700)
Comprehensive income for the period	**0**	**0**	**15,238**	**0**	**22**	**78**	**(201)**	**(240)**	**0**	**(359)**	**14,538**
Balance as of 31 December 2018	**19,005**	**(592)**	**73,351**	**430**	**(132)**	**155**	**(22)**	**69**	**(5)**	**462**	**92,721**

* Capital funds and retained earnings consist of other funds created from profit in the amount of CZK 4,189 million (1 Jan 2018: CZK 4,189 million; 31 Dec 2017: CZK 4,189 million), net profit from the period in the amount of CZK 15,238 million (1 Jan 2018: CZK 14,914 million; 31 Dec 2017: CZK 14,914 million) and retained earnings in the amount of CZK 53,924 million (1 Jan 2018: CZK 47,861 million; 31 Dec 2017: CZK 48,392 million).

The accompanying Notes form an integral part of these Separate Financial Statements.

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

(CZKm)	2018	Restated 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	18,296	17,721
Non-cash and other adjustments:		
Movement of allowances/provisions (including impact of loans and advances transferred and written off)	(287)	243
Depreciation and amortization expense on tangible and intangible fixed assets	1,627	1,450
Gains/(losses) from the sale of assets	14	(84)
Revaluation of debt securities and derivatives	(927)	(2,915)
Accrued interest, amortisation of discount and premium	234	437
Profit/(loss) on subsidiaries and associates (including dividends)	(2,356)	(3,110)
Foreign exchange differences	223	1,404
Other changes	425	477
Operating profit before change in operating assets and liabilities	**17,249**	**15,623**
Changes in assets and liabilities from operating activities after non-cash adjustments:		
Amounts due from banks (received/paid)	(38,193)	(174,999)
Loans and advances to customers	(22,525)	(9,127)
Purchase, sale and maturity of held-to-maturity investments		3,527
Debt securities at amortised cost	(1,244)	
Purchase, sale and maturity of available-for-sale financial assets		5,725
Financial assets at fair value through other comprehensive income	(1,395)	
Financial assets at fair value through profit and loss	(860)	8,764
Other assets	(172)	(820)
Amounts due to banks (received/paid)	11,095	21,851
Amounts due to customers	52,438	63,585
Financial liabilities at fair value through profit and loss	571	1,513
Other liabilities	(5,756)	2,348
Net cash flow from operating assets and liabilities	**(6,041)**	**(77,633)**
Net cash flow from operating activities before tax	**11,208**	**(62,010)**
Income tax paid	(2,952)	(2,889)
Net cash flow from operating activities	**8,256**	**(64,899)**
CASH FLOWS FROM INVESTMENT ACTIVITIES		
Dividends received	2,126	1,912
Purchase of tangible and intangible assets	(2,200)	(2,588)
Sale of tangible and intangible assets	101	360
Purchase of investments in subsidiaries and associates	(175)	(183)
Sale/decrease of investments in subsidiaries and associates	2,526	3,027
Net cash flow from investment activities	**2,378**	**2,528**
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(8,851)	(7,537)
Purchase of own shares	0	0
Securities issued	0	2,068
Securities redeemed	(5,009)	(12,113)
Subordinated debt	14	2,560
Net cash flow from financing activities	**(13,846)**	**(15,022)**
Net increase/(decrease) in cash and cash equivalents	**(3,212)**	**(77,393)**
Cash and cash equivalents at the beginning of the year	23,976	101,612
Net increase/(decrease) in cash and cash equivalents	(3,212)	(77,393)
Foreign exchange differences on cash and cash equivalents at beginning of year	45	(244)
Cash and cash equivalents at the end of the year (refer to Note 34)	**20,809**	**23,975**
Interest received	30,383	23,876
Interest paid	(10,650)	(5,683)

The accompanying Notes form an integral part of these Separate Financial Statements.

Notes to the Separate Financial Statements as of 31 December 2018

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1 Principal activities

Komerční banka, a.s. (henceforth the "Bank") is incorporated in the Czech Republic as a joint-stock company. The principal activities of the Bank are as follow:

I. Providing loans, advances and guarantees in Czech crowns and foreign currencies;
II. Acceptance and placement of deposits in Czech crowns and foreign currencies;
III. Providing current and term deposit accounts in Czech crowns and foreign currencies;
IV. Providing banking services through an extensive branch network in the Czech Republic;
V. Treasury operations in the interbank market;
VI. Servicing foreign trade transactions; and
VII. Investment banking.

The registered office address of the Bank is Na Příkopě 33/969, 114 07 Prague 1. The Bank has operations in the Czech Republic and Slovakia through its foreign branch (Komerční banka, a.s., pobočka zahraničnej banky).

The Bank's ordinary shares are publicly traded on the Prague Stock Exchange. Société Générale S.A. is the Bank's majority shareholder, holding 60.35% (2017: 60.35%) of the Bank's issued share capital.

2 Events for the year ended 31 December 2018

Dividends declared in respect of the year ended 31 December 2017
At the General Meeting held on 25 April 2018 the shareholders approved a dividend for the year ended 31 December 2017 of CZK 47 per share before tax. The dividend was declared in the aggregate amount of CZK 8,932 million and the remaining balance of the net profit was allocated to retained earnings. The dividends were paid out in Czech crowns.

KB Change
In order to address the key challenges existing in the Czech banking market, the Bank has decided to update its strategic direction. The changes and steps are formulated in the transformational programme KB Change, announced in May 2018. Its ultimate vision is to be a lifetime partner with a human touch for active individual, small business, and corporate customers, to provide employees a sense of purpose and room for growth, and to deliver long-term sustainable profitability to shareholders while acting responsibly towards society.

Changes in the Bank's financial group
As of the effective date 1 January 2018, ESSOX s.r.o. and PSA FINANCE CZECH REPUBLIC, s.r.o. were merged into ESSOX s.r.o. ESSOX s.r.o. is a subsidiary of the Bank and PSA FINANCE CZECH REPUBLIC, s.r.o. had been a subsidiary of ESSOX s.r.o.

As of 1 January 2018, PSA FINANCE SLOVAKIA, s.r.o. changed its business name to ESSOX FINANCE, s.r.o. ESSOX FINANCE, s.r.o. is a subsidiary of ESSOX s.r.o.

Starting from the accounting period beginning on 1 January 2018, Modrá pyramida stavební spořitelna, a.s. changed its accounting and reporting policies from Czech GAAP (Act No. 563/1991 Coll., on Accounting; Decree of the Ministry of Finance of the Czech Republic No. 501/2002 Coll., implementing certain provisions of Act No. 563/1991 for banks and financial institutions; and relevant accounting standards prepared and promulgated by the Ministry of Finance of the Czech Republic) to International Financial Reporting Standards as adopted by the European Union.

In February 2018, the Bank sold a 19% stake in the company Cataps, s.r.o., thereby reducing its ownership from 20% to 1%. As of the end of 2017, the ownership stake had been classified as *'Assets held for sale'*.

With effect from 1 June 2018, the company STD2 (the Bank's wholly owned subsidiary) changed its legal form from that of public-limited company to that of limited-liability company. The change in legal form has no impact on the consolidation method. In September 2018, the Bank increased the equity of this company by CZK 175 million in the form of a cash contribution of other funds not part of the registered capital.

In December 2018, the equity in Bastion European Investments S.A. was decreased by EUR 81 million (equivalent to CZK 2,305 million). The decrease was initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A. The foreign exchange rate risk arising from the net investment in the subsidiary Bastion European Investments S.A. is hedged by foreign currency deposits. The hedging relationship was partially terminated in the context of reducing the company's equity.

3 Principal accounting policies

These are Separate Financial Statements. The Consolidated Financial Statements are issued as of the same date.
As of 31 December 2018, the total consolidated equity was CZK 103,329 million (1 January 2018: CZK 98,162 million) and for the year ended 31 December 2018 total consolidated profit was CZK 15,171 million (2017: CZK 15,274 million).

The principal accounting policies followed in the preparation of these Separate Financial Statements are set out below.

3.1 Statement of compliance with IFRS

The Separate Financial Statements are prepared pursuant to and comply with International Financial Reporting Standards (hereafter only "IFRS") as adopted by the European Union, on the basis of Regulation (EC) No. 1606/2002 on the application of international accounting standards, and effective for the annual period beginning on 1 January 2018.

The Separate Financial Statements presented for the year ended 31 December 2018 are prepared on the basis of current best estimates. The management of the Bank believes that these present a true and fair view of the Bank's financial results and financial position using all relevant and available information as of the financial statements date.

3.2 Underlying assumptions of the Separate Financial Statements

3.2.1 Accrual basis

The Separate Financial Statements are prepared on an accrual accounting basis (i.e. the effects of transactions and other events are recognised when they occur and are reported in the Separate Financial Statements for the period to which they relate).

An exception is the Statement of Cash Flows, which is prepared on a cash basis (i.e. it presents cash inflows and outflows during the reporting period without regard to the period to which each transaction relates).

3.2.2 Going concern

The Separate Financial Statements are prepared on the assumption that the Bank is a going concern and will continue in operation for the foreseeable future. The Bank has neither the intention nor the need to liquidate or materially curtail the scale of its operations.

3.2.3 Reporting period

The Bank reports for a 12-month period which is identical to the calendar year.

3.3 Basis of preparation

3.3.1 Presentation currency

The Separate Financial Statements are presented in Czech crowns (hereafter only "CZK"), which constitute the Bank's presentation currency. The balances shown are stated in CZK million unless indicated otherwise.

3.3.2 Historical cost

The Separate Financial Statements are prepared under the historical cost convention, except for items measured at fair value comprising financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, hedging derivatives and hedge items in fair value hedge accounting.

Assets held for sale are measured at the lower of their (i) fair value less cost to sell; or (ii) carrying amount just prior to reclassification into *'Assets held for sale'*.

3.3.3 Significant accounting judgements and estimates

In applying the accounting policies for the purpose of preparing the Separate Financial Statements in accordance with IFRS, it is necessary for the Bank's management to use professional judgement and make estimates and assumptions. These impact upon reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the financial statements date and the reported amounts of revenues and expenses during the reporting period. These estimates and judgements are based on the information available as of the financial statements date and they relate especially to the determination of:

- Fair values in the Statement of Financial Position of financial instruments not quoted in an active market which are classified as financial assets or liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income or hedging derivatives (refer to Note 3.5.5);
- The value of intangible assets (refer to Note 3.5.9);
- The amount of impairment of assets (refer to Note 3.5.9);
- Provisions recognised under liabilities (refer to Note 3.5.10);
- The amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies (refer to Note 3.5.7); and
- The amount of impairment and provisions for credit risk related to financial assets measured at amortised cost or at fair value through other comprehensive income, loan commitments and financial guarantees granted as measured using models or internal assumptions based on historical, current and prospective data (refer to Note 3.5.5).

Information about the key judgements and assumptions concerning the future and other key sources of estimation uncertainty as of the financial statements date that have a significant risk of causing material adjustment to the carrying values of assets and liabilities are disclosed in individual notes as appropriate.

3.3.4 Investments in subsidiaries and associates

A subsidiary is an entity in which the Bank has control, i.e. it directly or indirectly owns more than half the voting rights or it has the power to govern the entity in another way. An associate is an entity in which the Bank has significant influence, i.e. directly or indirectly owns 20% to 50% of the voting rights.

Investments in which the Bank directly or indirectly owns less than 20% of the voting rights are classified as *'Financial assets at fair value through profit or loss'* and are reported as such, unless the Bank uses the irrevocable election to measure the investments at fair value through other comprehensive income.

Investments in subsidiaries and associates are measured at historical cost (i.e. foreign currency investments are translated using the foreign exchange rate at the transaction date) decreased by potential accumulated impairment losses. The Bank assesses regularly at the end of each reporting period whether there is any impairment loss by comparing the carrying values of each investment with its recoverable amount. If the recoverable amount is lower, the Bank recognises the impairment loss through the use of an allowances account. Investments in subsidiaries and associates are presented in the line *'Investments in subsidiaries and associates'*.

3.4 Application of new and revised IFRS

3.4.1 Standards and interpretations newly applied by the Bank in the current period

The following standards, interpretations and amendments were newly applied by the Bank as from 1 January 2018. Unless otherwise described below, their application have no significant impact in the current period (and/or prior period).

Standard	Impact/Comments
IFRS 15 Revenue from Contracts with Customers – new standard, issued in May 2014 Clarifications to IFRS 15, issued in April 2016	The new standard supersedes preceding revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. It outlines a single comprehensive model for accounting and disclosure of revenue arising from contracts with customers to provide goods or services, regardless of the industry or the type of transaction. For the banking sector, the following areas in particular may be affected: credit card loyalty schemes, pricing mechanisms including variable amounts, distinct goods or services in multi-element arrangements, up-front fees at or near contract inception. The Bank's main business lies outside the scope of IFRS 15 and the application of this standard has no material impact. Based on an analysis carried out in areas most affected by IFRS 15, the accounting treatment for recognition of revenues generated by contracts with customers generally complies with the treatments stipulated by IFRS 15. Those areas requiring changes, however, had only minor effect upon the financial statements and included fees from insurance as a supplementary service where the Bank is acting as an agent (newly a netting approach for reporting in the line *'Net fee and commission income'*) and performance fees in the light of constraints on variable consideration.

Standard	Impact/Comments
IFRS 9 Financial Instruments – new standard	IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces a new approach to the classification and measurement of financial assets, a new impairment methodology and new hedge accounting rules for micro hedges. The classification and measurement of financial assets depends on assessment of both: (i) a financial asset's contractual cash flow characteristics; and (ii) the entity's business model for managing the financial asset. The resulting measurement categories are: • Amortised cost; • Fair value through other comprehensive income; and • Fair value through profit or loss. In comparison to IAS 39, the embedded derivatives in financial assets are no longer bifurcated. In respect to financial liabilities, IFRS 9 retains almost all of the existing requirements from IAS 39 except changes in the entity's own credit risk for financial liabilities designated at fair value through profit or loss using the fair value option, which are newly presented in other comprehensive income. The impairment requirements in the new standard are based on an expected credit loss model and are applied to both financial assets and off-balance sheet credit risk-bearing exposures (loan commitments and financial guarantee contracts) not accounted for at fair value through profit or loss and excluding also equity instruments. Entities are required to recognise from initial recognition throughout the life of an asset a loss allowance to the extent of 12-month expected credit losses or lifetime expected credit losses depending on whether there has been a significant increase in credit risk after initial recognition. The measurement of expected credit losses should reflect a probability-weighted outcome, the time value of money and reasonable and supportable information. IFRS 9 provides guidance on estimating expected credit losses for financial assets whose contractual conditions have been modified, distinguishing between modifications that result in derecognition and modifications that do not result in derecognition. The new hedge accounting requirements align hedge accounting more closely with risk management, which means that more of an entity's risk management activities may qualify for hedge accounting and more designations of groups of items as hedged items are possible. The new model does not fundamentally change the types of hedging relationships or the requirement to measure and recognise ineffectiveness under IAS 39. However, there is only a prospective effectiveness test remaining that is newly based on objective (focus on the economic relationship between the hedged item and the hedging instrument) and replaces the range of 80-125%. The Bank has implemented IFRS 9 Financial Instruments and related amendments of IFRS 7 Financial instruments: Disclosures with an initial application date of 1 January 2018. As a result, the Bank has changed its accounting policies and disclosures for financial instruments. The notes below reflect the new requirements. The impacts of the first-time application of IFRS 9 are presented in Note 3.6.1.
Annual Improvements to IFRS 2014–2016 Cycle	Annual Improvements amend three standards (IFRS 1 First-time adoption of International Financial Reporting Standards, IAS 28 Investments in Associates and Joint Ventures and IFRS 12 Disclosures of Interests in Other Entities) predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology. Amendments to IFRS 12 were effective already from 1 January 2017; amendments to IFRS 1 and IAS 28 are effective from 1 January 2018.
Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	The amendments relate to three areas: the accounting for the effects of vesting conditions on cash-settled share-based payment transactions; the classification of share-based payment transactions with net settlement features for withholding tax obligations; and the accounting for modification of a share-based payment transaction that changes the classification from cash-settled to equity-settled.
IFRIC 22 Foreign Currency Transactions and Advance Consideration	Following IAS 21 The Effects of Changes in Foreign Exchange Rates, the interpretation addresses the accounting for foreign currency transactions or parts of transactions where: • There is consideration that is denominated or priced in a foreign currency; • The entity recognises a prepayment asset or a deferred income liability in respect of that consideration in advance of the recognition of the related asset, expense or income; and • The prepayment asset or deferred income liability is non-monetary. For the purposes of determining the exchange rate, IFRIC 22 specifies the date of the transaction as the date of initial recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

3.4.2 Issued standards and interpretations not applied for the current period

Although the following standards, interpretations and amendments had been issued by IASB, they are not yet effective for the reporting period beginning on 1 January 2018 and/or they have not yet been approved by the European Commission (highlighted in the table below). The Bank has decided not to apply them earlier.

Currently, the Bank does not anticipate that their application will significantly impact the Bank's financial position and financial performance for the reporting period, unless otherwise described below.

IFRS 16 Leases

IFRS 16 Leases will replace the current standard IAS 17. The new standard will fundamentally change the accounting from the lessee's point of view when ceasing to distinguish between finance leases and operating leases, and instead introducing a single on-balance sheet accounting model. This will be applicable for almost all leases with the optional exceptions for short-term leases and leases for which the underlying asset is of low value. The accounting by lessors under the new standard is substantially unchanged from today's accounting in IAS 17. Lessors continue to classify leases as operating or finance. For a finance lease, the net investment in the lease (lease receivable) is subject to the derecognition and impairment requirements in IFRS 9 Financial Instruments.

Based on assessments, the Bank has identified areas to be impacted by application of the new IFRS 16 requirements. The Bank as a lessee under operating lease of office buildings and branches, in particular, will need to recognise those leases on the balance sheet, thereby causing an increase of assets (right-of-use assets) and liabilities (lease liabilities). In addition, the nature of expenses related to those leases will change as IFRS 16 replaces the straight-line operating lease expenses with a depreciation charge for right-of-use assets and interest expense on lease liabilities. The Bank is not considering the implementation of IFRS 16 for intangible assets.

Throughout 2018, the Bank has continued with the project to implement IFRS 16, effective from 1 January 2019. Within this project, all lease contracts were analysed for collecting lease specifications and parameters, reviews were performed of internal processes and IT systems and an in-house calculation tool was developed to be used in generating the data required by IFRS 16 for recognition, measurement and disclosures.

For transitional purposes, the Bank will follow the modified retrospective approach, i.e. without restatement of comparative information and with the recognition of differences from the initial application of the standard, if any, in equity. At transition, for leases previously classified as operating leases under IAS 17, lease liabilities will be measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as of 1 January 2019, and right-of-use assets at an amount equal to the lease liability. When initially applying IFRS 16, the Bank will use, in particular, the following practical expedients to leases previously classified as operating leases under IAS 17: application of a single discount rate to a portfolio of leases with reasonably similar characteristics, application of the exemption not to recognise lease liabilities and right-of-use assets to leases for which the underlying asset is of low value, and use of hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

As a consequence of IFRS 16 application, the Bank as a lessee expects for leases previously classified as operating leases under IAS 17 to recognise on 1 January 2019 right-of-use assets within 'Tangible assets' (i.e. the line item in which the Bank presents underlying assets of the same nature that it owns) and by analogy lease liabilities in the line 'Financial liabilities at amortised cost', both by approximately CZK 2.8 billion, the vast majority being related to property leases. Due to the adoption of IFRS 16, the Bank's net interest income will decrease, while its net profit for the period will remain almost unchanged (due to a shifting of part of expenses between categories). The Bank's activities as a lessor are not material and hence it does not expect any significant impact on the financial statements. However, some additional disclosures will need to be applied.

The Bank is assessing the effects of IFRS 16 on its capital adequacy requirements and resolution fund contribution. Based on the European Banking Authority's view on IFRS 16 adoption, the right-of-use asset should be included in the calculation of the capital adequacy ratios and leverage ratios. The right-of-use asset should be treated according to the underlying asset, i.e. applying the 100% risk weight for tangible underlying assets. From a capital adequacy perspective, a negligible decrease in regulatory capital is expected.

Standard	Summarised content	Effective for reporting period beginning on or after
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures)	The amendments clarify the accounting treatment for sale or contribution of assets between an investor and its associates or joint ventures. It resolves a current inconsistency between the existing requirements in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures on how to calculate any gain or loss arising from this transaction. The accounting treatment depends on whether the non-monetary assets subject of the transaction constitute a "business", as defined in IFRS 3 Business Combinations. In such case, the gain or loss is recognised in full.	The effective date of 1 January 2016 was withdrawn and deferred indefinitely (early adoption continues to be permitted) EU endorsement postponed

Standard	Summarised content	Effective for reporting period beginning on or after
IFRS 16 Leases – new standard	The new standard, superseding IAS 17 Leases and related interpretations, establishes principles for the recognition, measurement, presentation and disclosure of leases for both: the lessee and the lessor. From the lessee's point of view, the standard newly provides a single on-balance sheet accounting model. Lessees are required to recognise assets (right-of-use assets) and liabilities (lease liabilities) for all leases unless the lease term is 12 months or less or the underlying asset is of low value, in which case the lessees have an accounting policy choice to apply a method similar to operating leases under IAS 17. A right-of-use asset is treated similarly as are other non-financial assets; it is depreciated in accordance with the requirements in IAS 16 Property, Plant and Equipment and tested for impairment under IAS 36 Impairment of Assets. A lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use its incremental borrowing rate. Lessors continue to classify leases as operating or finance, with an accounting approach substantially unchanged from IAS 17. For a finance lease, the net investment in the lease (lease receivable) is subject to the derecognition and impairment requirements in IFRS 9 Financial Instruments.	1 January 2019
IFRIC 23 Uncertainty over Income Tax Treatments	The interpretation provides guidance on how to reflect the effects of uncertainty in accounting for income taxes under IAS 12, in particular: (i) whether uncertain tax treatments should be considered separately; (ii) assumptions for taxation authorities' examinations; (iii) determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates; and (iv) effect of changes in facts and circumstances.	1 January 2019
Prepayment Features with Negative Compensation (Amendments to IFRS 9)	The amendments supplement the existing requirements in IFRS 9 for financial assets regarding early termination rights in order to enable measurement at amortised cost or at fair value through other comprehensive income, subject to an assessment of the business model, even in the case of negative compensation. The amendments also clarify the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in derecognition. The entity shall recognise any adjustment to the amortised cost of the financial liability in profit or loss at the date of the modification or exchange.	1 January 2019
Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)	The amendments clarify that IFRS 9 Financial Instruments (including impairment requirements) shall be applied to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture to which the equity method is not applied.	1 January 2019
Annual Improvements to IFRS 2015-2017 Cycle	Annual Improvements amend four standards (IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs) in three subject areas, predominantly with the objective of removing unintentional inconsistencies in individual standards or redundant or confusing references and improving wording or updating out-of-date terminology.	1 January 2019 EU not yet endorsed
Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	The amendments clarify the accounting when a plan amendment, curtailment or settlement occurs. Companies are newly required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan.	1 January 2019 EU not yet endorsed
Definition of a Business (Amendments to IFRS 3)	The amendments revise the definition of a business to assist entities in providing assessments whether a transaction should be accounted for as a business combination or as an asset acquisition.	1 January 2020 EU not yet endorsed
Definition of Materiality (Amendments to IAS 1 and IAS 8)	The amendments clarify the definition of material and its application to help entities make better materiality judgements and align the wording of the definition of material across IFRS Standards and other publications.	1 January 2020 EU not yet endorsed

Standard	Summarised content	Effective for reporting period beginning on or after
Conceptual Framework for Financial Reporting Amendments to References to the Conceptual Framework in IFRS Standards	The IASB issued a revised Conceptual Framework for Financial Reporting that should be used immediately by the Board and IFRS Interpretations Committee in developing new pronouncements. Entities developing an accounting policy based on the Conceptual Framework will have to apply the changes from 1 January 2020. Alongside the revised Conceptual Framework, the IASB published Amendments to References to the Conceptual Framework effective for reporting periods beginning on or after 1 January 2020, updating in most cases references to previous versions with references to the 2018 versions.	1 January 2020 EU not yet endorsed*
IFRS 17 Insurance Contracts	The new Standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts. The new standard is not applicable to the Bank because the Bank does not issue any insurance contracts or held any reinsurance contracts.	1 January 2021 EU not yet endorsed

* Only Amendments to References to the Conceptual Framework in IFRS Standards are subject to the EU endorsement process.

3.5 Principal accounting policies

3.5.1 Transactions in foreign currencies

3.5.1.1 Functional and presentation currency

The Bank's functional currency (i.e. the currency of the primary economic environment within which the Bank operates) is the Czech crown.

The Bank has a branch and a subsidiary, ESSOX FINANCE, s.r.o., in the Slovak Republic and a subsidiary, Bastion European Investments S.A., in Belgium. These both have the euro as their functional currency and are considered as foreign operations from a financial reporting point of view.

3.5.1.2 Transactions and balances translation

Transactions realised in foreign currency (i.e. in a currency other than the functional currency) are translated into the functional currency at the date of initial recognition using the spot foreign exchange rate announced by the bank authority (hereafter only the "BA") for the respective foreign currency. Depending on the functional currency, the BA means the Czech National Bank (hereafter only the "CNB") for the Czech crown and the European Central Bank (hereafter only the "ECB") for the euro.

At the end of the reporting period, all statement of financial position line items denominated in foreign currency are translated into the functional currency, depending on their nature, as follows:

I. Foreign currency monetary items are translated using the closing rate (foreign exchange rate announced by the BA at the end of the reporting period);
II. Non-monetary items that are measured at historical cost are translated using the BA's foreign exchange rate at the date of the transaction; and
III. Non-monetary items that are measured at fair value in a foreign currency are translated using the BA's foreign exchange rate at the date when the fair value was determined.

Gains and losses arising from the translation of foreign currency items at the end of the reporting period as well as those related to their settlement are recognised as gains or losses for the period in which they occur and are presented in the line *'Net profit/(loss) on financial operations'*.

Where a gain or loss from a fair value change in a non-monetary item denominated in foreign currency is recognised directly in Other Comprehensive Income, however, related foreign exchange rate differences are recognised in the same way. These non-monetary items include equity instruments, for which the Bank has decided at initial recognition to use the irrevocable election to measure these at fair value with changes recognised in Other Comprehensive Income without subsequent recycling into profit or loss on realisation. Also recognised in Other Comprehensive Income are foreign exchange rate differences related to the fair value revaluation of debt instruments held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (excluding the effective portion of their fair value hedges and excluding foreign exchange rate differences related to changes in their amortised cost) and non-derivative financial liabilities (current accounts, deposits) used as hedging items for the cash flow hedge of foreign currency risk and the hedge of a net investment in a foreign operation.

3.5.2 Recognition of income and expenses

3.5.2.1 Net interest income

Interest income and expense related to interest-bearing instruments, except for instruments classified as financial assets or financial liabilities at fair value through profit or loss and interest hedging derivatives, are recognised on an accrual basis in the Statement of Income in the lines *'Interest income'* and *'Interest expense'* using the effective interest rate (refer to 3.5.5.7 Effective interest rate method). For credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the amortised cost of the asset, i.e. an amount adjusted for expected credit losses over the life of the asset. Interest income and expense related to interest rate hedging derivatives are recognised in the lines described on an accrual basis using the contractual interest rate of the corresponding derivative. Late-fee income is recognised at the date of its payment and presented in the line *'Interest income'*.

3.5.2.2 Net fee and commission income

The recognition of income from fees and commissions depends on the purpose for which a fee was assessed and the basis of accounting for any associated financial instrument. In accordance with the substance of fees and nature of services for which they are assessed, the Bank distinguishes the following three categories of fees:

- Fees and commissions that comprise an integral component of the effective interest rate of a financial instrument are recognised in the line *'Interest income'*;
- Fees and commissions for services provided – income from these is recognised as revenue when services are provided and it is presented in the line *'Net fee and commission income'*;
- Fees and commissions for the execution of an act – income from these is recognised as revenue when the act has been completed and is also presented in the line *'Net fee and commission income'*.

3.5.2.3 Net profit/(loss) on financial operations

This line includes net profit/loss on financial operations, which means realised and unrealised gains/losses on securities held for trading; security derivatives; currency, interest rate and trading commodity derivatives; foreign exchange transactions; foreign assets and liabilities retranslation to the functional currency; and realised gains/losses on financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

This line also includes interest income and expense related to interest-bearing instruments classified as financial assets or financial liabilities at fair value through profit or loss.

3.5.3 Cash and cash equivalents

Cash comprises cash on hand and cash in transit.

Cash equivalents are short-term (with maturity of three months or less), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes. This item also includes obligatory minimum reserves. The Bank can freely transact with the amount of these reserves under the assumption that average obligatory minimum reserves are maintained within the given maintenance period established by the CNB.

3.5.4 Fair value and hierarchy of fair value

Fair value is the price that would be received in selling 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 most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of assets or liabilities measured at fair value. The hierarchy of fair values has the following three levels:

- *Level 1:* inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- *Level 2:* inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3:* inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The fair value is included in the hierarchy according to the lowest classified significant input used in its determination. Significant input information consists of information that has a significant impact on the total fair value of the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis (i.e. those for which measurement at fair value is required or permitted in the Statement of Financial Position at the end of each reporting period), the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the date of the event or change in circumstances that caused the transfer.

3.5.5 Financial instruments

3.5.5.1 Dates of recognition and derecognition

All regular way purchases or sales of financial assets are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment).

When settlement date accounting is applied, the financial asset is recognised in the Statement of Financial Position on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its delivery (collection of cash).

For financial assets measured at fair value, however, the acquired financial asset is measured to reflect changes in its fair value from the purchase trade date to the purchase settlement date. Gains and losses from changes in fair value are recognised depending on the type of financial instrument and taking into account the classification based on both the business model and contractual cash flow characteristics (i.e. either in profit or loss or in other comprehensive income).

All purchases and sales of financial instruments that do not meet the "regular way" settlement criterion in the marketplace concerned are treated as financial derivatives. The Bank recognises financial derivatives in the Statement of Financial Position at the trade date. Financial derivatives are derecognised at their maturity.

The Bank recognises a financial liability in the Statement of Financial Position when it becomes a party to the contractual provisions of the instrument and it is removed from the Statement of Financial Position when it is extinguished (i.e. in circumstances where a contractually defined obligation is fulfilled, cancelled or expires).

3.5.5.2 Initial measurement of financial assets and financial liabilities

When a financial asset or financial liability is initially recognised, the Bank measures it at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of that instrument.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received).

The transaction costs mainly include fees and commissions paid to brokers, dealers and agents.

Also, financial guarantee contracts issued are initially recognised at fair value, being the premium received, in the Statement of Financial Position in the line *'Accruals and other liabilities'*. The guarantees are subsequently measured as of the financial statements date at the higher of the amount initially recognised less, when appropriate, cumulative amortisation of revenues recognised in the Statement of Income in accordance with IFRS 15 (in the Statement of Financial Position in the line *'Accruals and other liabilities'*), or the impairment for expected credit losses from any financial obligation arising as a result of the guarantee (in the Statement of Financial Position in the line *'Provisions'*). The premium received is recognised in the Statement of Income in the line *'Net fee and commission income'* on a straight-line basis over the life of the guarantee. The creation of provisions is recognised in the Statement of Income in the line *'Impairment losses'*.

3.5.5.3 "Day 1" profit or loss

In determining whether fair value at initial recognition equals the transaction price, the Bank takes into account factors specific to the transaction and to the asset or liability.

The Bank trades no financial instruments on an inactive market. On active markets, the Bank trades financial instruments only for the quoted price in the active market. For this reason, there is no difference between the transaction price and the fair value of the financial asset or financial liability that is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique whose variables include only data from observable markets (a "Day 1" profit or loss).

3.5.5.4 Financial assets and liabilities classification and subsequent measurement

The classification of the Bank's financial instruments is determined at the date of initial recognition and is unchanged throughout the period of holding the financial instrument, except for rare situations listed in 3.5.5.5 Reclassification of financial assets and liabilities.

Depending on the nature of the financial instrument and the evaluation of both the business model for managing the financial asset and the asset's contractual cash flow characteristics, financial instruments held by the Bank are after initial recognition subsequently measured at:
I. Amortised costs;
II. Fair value through other comprehensive income; or
III. Fair value through profit or loss.

The Bank does not make use of an option to designate a financial asset or liability upon initial recognition as a financial instrument at fair value through profit or loss (the "Fair Value Option"). For some investments in equity instruments not held for trading purposes the Bank uses the irrevocable election to measure these at fair value with changes being recognised in other comprehensive income.

3.5.5.4.1 Loans and debt instruments
Loans and debt instruments are non-derivative financial assets with legally enforceable fixed or determinable payments and fixed maturities.

Classification and subsequent measurement of loans and debt instruments are determined based on the evaluation of:
- The Bank's business model for managing financial assets; and
- The financial asset's contractual cash flow characteristics.

Description of business models
The business model is determined at a level at which the financial assets are jointly managed to achieve a particular business objective. The business model does not depend on management's intentions for an individual instrument, but reflects the way a portfolio of financial assets is managed in order to generate cash flows under standard economic conditions. The Bank distinguishes the following business models:
I. "Hold to collect contractual cash flows";
II. "Hold to collect contractual cash flows and sell"; or
III. "Held for trading".

(i) "Hold to collect contractual cash flows" business model
Loans and debt instruments that fall into the business model "Hold to collect contractual cash flows" are held in order to collect contractual cash flows over the life of the instrument. In determining whether cash flows are going to be realised by collecting the financial assets' contractual cash flows, the Bank considers the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity for a given portfolio.

The Bank admits the following sales that are consistent with the business model "Hold to collect contractual cash flows":
- Sales due to an increase in the assets' credit risk irrespective of their frequency and value;
- Sales made to manage credit risk concentration if those sales are infrequent (even if significant in value) or insignificant in value (even if frequent);
- Sales made close to the maturity of the asset when the proceeds from the sales approximate the collection of the remaining contractual cash flows; and
- Sales made based on a requirement imposed by a third party, such as regulatory bodies.

The financial assets that fall into the business model "Hold to collect contractual cash flows" include: (i) all loans and advances; and (ii) all debt instruments that are not part of the liquidity buffer and are not determined for trading; and (iii) from 1 January 2018 onwards all new investments into CZK-denominated bonds forming part of the liquidity buffer with maturity up to 12 years.

(ii) "Hold to collect contractual cash flows and sell" business model
Loans and debt instruments that fall into the business model "Hold to collect contractual cash flows and sell" are held in order to collect contractual cash flows and sell financial assets. In this type of business model, both collecting contractual cash flows and selling financial assets are integral to achieving the objective of the business model. The objective of this business model is to manage the Bank's everyday liquidity needs. The Bank expects that in case of a structural deficit of assets and liabilities, sales of these loans and debt instruments will be realised to cover the lack of liquid assets.

As compared to the business model whose objective is to hold financial assets to collect contractual cash flows, the Bank expects greater frequency and value of sales.

Selling financial assets is not an incidental activity, but an integral part of achieving the business model's objective. However, there is no threshold for the frequency or value of sales that must occur in this business model as both collecting contractual cash flows and selling financial assets are integral to achieving its objective.

The financial assets that fall into the business model "Hold to collect contractual cash flows and sell" include: (i) all EUR denominated government bonds (or quasi-government bonds) forming part of the liquidity buffer; and (ii) from 1 January 2018 onwards all new investments into CZK-denominated government bonds forming part of the liquidity buffer and with maturity greater than 12 years or greater than 10 years according to the Bank's internal rules.

(iii) "Held for trading" business model
Loans and debt instruments that fall into the business model "Held for trading" are held with the objective of realising cash flows through the sale of those assets. The Bank makes decisions based on the assets' fair values and manages the assets to realise those fair values.

The financial assets that fall into the business model "Held for trading" include all other loans and debt instruments that are not part of the business model "Hold to collect contractual cash flows" or "Hold to collect contractual cash flows and sell".

Contractual cash flows characteristics test
Based on the assessment of the contractual cash flow characteristics, the Bank ascertains whether the contractual cash flows on loans and debt instruments are solely payments of principal and interest on the principal amount outstanding (SPPI test). Principal is the fair value of the financial asset at initial recognition. Interest particularly consists of consideration for the time value of money and credit risk, or it can also include consideration for liquidity risk, administrative costs or profit margin that is consistent with the basic lending arrangement.

Measurement at amortised costs
After initial recognition, loans and debt instruments are subsequently measured at amortised costs if both the following conditions are met: the financial asset is held within the business model "Hold to collect contractual cash flows" and the contractual cash flows meet the characteristics of payments of principal and interest on the principal amount outstanding.

Amortised cost is the amount at which the financial instruments are measured at initial recognition minus the principal repayments and using the effective interest method plus or minus the fees that are an integral part of the financial asset, and amortisation of the premium or discount (i.e. any difference between the initial amount and the maturity amount) and further reduced by any loss allowance for expected credit losses. Interest income is recognised in the line *'Interest income'* in the Statement of Income. Impairment losses are recognised in the Statement of Income in the line *'Impairment losses'*.

Measurement at fair value through other comprehensive income
After initial recognition, loans and debt instruments are subsequently measured at fair value with changes being recognised in Other Comprehensive Income, if both the following conditions are met: the financial asset is held within the business model "Hold to collect contractual cash flows and sell" and the contractual cash flows meet the characteristics of payments of principal and interest on the principal amount outstanding.

Unrealised gains or losses from fair value changes as well as gains or losses from changes in fair value resulting from changes in foreign exchange rates are, until their derecognition or reclassification, recognised within Other Comprehensive Income in the line *'Revaluation of debt securities, net of tax'*.

When holding the financial asset, loss allowances are recognised. However, unlike with financial assets measured at amortised costs, the loss allowances are not presented separately in the Statement of Financial Position and do not reduce the carrying amount of the financial asset. The loss allowances are recognised directly in Other Comprehensive Income and in the Statement of Income in the line *'Impairment losses'*.

Gains or losses from changes in foreign exchange rates on loans and debt instruments are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*, except for exchange rate gains or losses related to fair value revaluation that are recognised within Other Comprehensive Income. Accrued interest income is recognised in the Statement of Income in the line *'Interest income'*.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in Other Comprehensive Income is recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

Measurement at fair value through profit or loss
After initial recognition, loans and debt instruments are subsequently measured at fair value with changes being recognised in profit or loss if the financial asset falls within the business model "Held for trading" or the contractual cash flows do not meet the characteristics of payments of principal and interest on the principal amount outstanding.

The category of fair value through profit or loss is a residual category. The Bank classifies loans and debt instruments into this category if they do not meet the criteria for measurement at amortised cost or at fair value through other comprehensive income.

Unrealised gains and losses as well as realised gains or losses arising from the revaluation of these financial assets, interest and foreign exchange rate differences are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*. These financial assets are outside the scope of the IFRS 9 impairment requirements, and therefore, impairment losses are not recognised.

3.5.5.4.2 Equity instruments
Equity instruments are non-derivative financial assets with entitlement to participate in the exercise of ownership rights without a defined maturity and without legally enforceable fixed or determinable payments.

Equity instruments are outside the scope of the IFRS 9 impairment requirements, and therefore impairment losses are not recognised. Equity instruments are measured at fair value with changes being recognised in profit or loss, except for using the election at initial recognition to measure the equity instrument at fair value with changes being recognised in other comprehensive income, without subsequent recycling into profit or loss on disposal. This election is irrevocable and is made on an instrument-by-instrument basis.

The Bank may use the option only for instruments that are not held for trading. When using the option, the disposal will not result in the realisation and recognition of the disposal's result in the Statement of Income, but instead it will remain in the Bank's Other Comprehensive Income and, following the approval by the General Meeting, will eventually be transferred to retained earnings. Dividend income arising from equity instruments is recognised when the right to dividends is established and presented in the Statement of Income in the line *'Dividend income'*.

The Bank applies the option (measurement of equity instruments at fair value through other comprehensive income) for investments of a strategic nature and with an equity interest of less than 20%. This approach is based on the Bank's intention to continue holding these investments in the long term or on the existence of a long-term restriction against selling these investments.

3.5.5.4.3 Emission allowances
The Bank is not considered a primary producer of greenhouse gas emissions. Trades with emission allowances are carried out in the role of intermediary in order to generate profit based on market price fluctuations. The emission allowances are recognised in the Statement of Financial Position in the line *'Other assets at fair value through profit or loss'*.

3.5.5.4.4 Derivatives and hedge accounting
A derivative is a financial instrument or other contract having all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, market prices of securities, or another market variable;
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- It is settled at a future date.

At the inception of a financial derivative contract, the Bank designates the derivative instrument as either held for trading or hedging.

Held for trading derivatives are classified into a portfolio of *'Financial assets or financial liabilities at fair value through profit or loss'* based on whether the fair value is positive or negative.

Hedging derivatives are derivatives that the Bank uses to hedge interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. In accordance with the transitional provisions of IFRS 9, the Bank has elected to apply IAS 39 hedge accounting methods. The Bank designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:
- It is compliant with the Bank's risk management objective and strategy;
- At inception of the hedge, the hedging relationship is formally documented, which includes identification of the hedging instrument and hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness;
- The hedge is expected to be highly effective at inception and throughout the period;
- The effectiveness of the hedge can be reliably measured; and
- Changes in the fair value or cash flows of the hedging instrument and hedged item or transaction are almost fully offset (within a range of 80% to 125%).

Hedging derivatives are accounted for according to the type of hedging relationship, which can be one of the following:

I. Hedging of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or
II. Hedging of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge); or
III. Hedging of a net investment in a foreign operation.

Changes in the fair value of a derivative that is designated and qualified as a fair value hedge are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*. Changes in the fair value of a hedged item are recognised in the Statement of Financial Position as a component of the carrying amount of the hedged item and in the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

It is on this basis that the Bank hedges the interest rate risk and foreign currency risk of financial assets (loans and debt instruments with fixed interest rates) and interest rate risk of deposits, repos and mortgage bonds issued. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If a hedge no longer meets the criteria for hedge accounting or the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and an adjustment to the carrying amount of the hedged interest-bearing financial instrument is amortised to profit or loss over the period until the maturity of the hedged item.

The Bank also accounts for portfolio fair value hedges (hedging transactions concerning portfolios of financial assets or liabilities), for which interest rate swaps are used. When accounting for these transactions, the Bank applies the IAS 39 “carve-out”, as adopted by the European Union. The accounting treatment of financial derivatives designated as portfolio fair value hedges is similar to that of other fair value hedging derivatives.

Changes in the fair values of hedging derivatives classified as cash flow hedges that prove to be highly effective in relation to the hedged risks are recognised in the line *‘Cash flow hedging’* in Other Comprehensive Income and are transferred to the Statement of Income and classified as income or expense in the periods during which the hedged items affect the Statement of Income. The ineffective portion of a hedge is charged directly to the Statement of Income in the line *‘Net profit/(loss) on financial operations’*.

It is on this basis that the Bank hedges the interest rate risk and currency risk associated with the cash flows of selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If a hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and the cumulative gain or loss on the hedging instrument that has been recognised in Other Comprehensive Income for the period when the hedge was effective remains in equity until the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, the gain or loss accumulated as other comprehensive income is reclassified to profit or loss.

Using foreign currency deposits as the hedging instrument, the Bank additionally hedges the foreign exchange rate risk arising from the net investment in the subsidiaries Bastion European Investments S.A. and ESSOX FINANCE, s.r.o. Foreign exchange rate differences arising from its retranslation are included in Other Comprehensive Income.

Financial derivatives constituting economic hedges under the Bank’s risk management positions but not qualifying for hedge accounting under the specific rules of IAS 39 are treated as derivatives held for trading.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 41(C).

3.5.5.4.5 Financial liabilities

The Bank classifies financial liabilities into the categories “Financial liabilities at amortised costs” and “Financial liabilities at fair value through profit or loss” depending on the methods of managing the performance of the financial liability.

When the performance of the financial liability is managed based on trading that mostly reflects active and frequent purchases and sales (i.e. financial instruments held for trading are mostly used to generate profit from short-term fluctuations in the price or margin), the Bank classifies these financial liabilities after initial recognition as subsequently measured at fair value through profit or loss. Such financial liabilities are only liabilities from disposed securities and trading derivatives with a negative value. They are recognised in the Statement of Financial Position in the line *‘Financial liabilities at fair value through profit or loss’*.

Unrealised as well as realised gains or losses arising from revaluation of these financial liabilities, interests and foreign exchange rate differences are recognised in the Statement of Income in the line *‘Net profit/(loss) on financial operations’*.

All other financial liabilities are after initial recognition subsequently measured at amortised cost using the effective interest rate method. The Bank classifies non-derivative financial liabilities with fixed or determinable payments as subsequently measured at amortised costs. These financial liabilities are recognised according to the type of counterparty in the lines *‘Amounts due to central banks’, ‘Financial liabilities at amortised cost’* and *‘Subordinated debt’*.

Interest expense is recognised in the Statement of Income in the line *‘Interest expense’*.

In the event of repurchasing its own debt securities, the Bank derecognises these securities (i.e. the item *‘Securities issued’* is decreased). Gains and losses arising as a result of repurchasing the Bank’s own debt securities are recognised as of the date of their repurchase in the Statement of Income in the line *‘Net interest income’* as an adjustment to the interest paid from its own bonds.

3.5.5.4.6 Embedded derivatives

In some cases, a derivative, such as an option for an earlier redemption of a bond, is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract.

Derivatives embedded in financial assets, loans and debt instruments within the scope of IFRS 9 are not separated from the host contract. Instead, the entire hybrid instrument is assessed for classification and measurement based on the Group's business model for managing the hybrid instrument and its contractual cash flow characteristics as disclosed in Note 3.5.5.4 Financial assets and liabilities classification and subsequent measurement.

The embedded derivative is separated from the host contract and accounted for separately if, and only if, all of the following conditions are met:

- The host contract is not a financial asset within the scope of IFRS 9;
- The embedded derivative as a separate instrument meets the definition of a derivative;
- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; and
- The host contract is not measured at fair value with fair value changes recognised in the Statement of Income.

If the embedded derivative cannot be measured separately, the entire hybrid contract is designated as at fair value through profit or loss.

3.5.5.5 Reclassification of financial assets and liabilities

Reclassification of loans and debt instruments shall arise when, and only when, the objective of the business model changes for the entire portfolio of financial instruments that are jointly managed with the objective "Hold to collect contractual cash flows", "Hold to collect contractual cash flows and sell" and "Held for trading".

Reclassification is not possible:

- If the Bank uses the option to designate a financial asset at initial recognition as an instrument measured at fair value through profit or loss (the "Fair Value Option");
- For equity instruments (measured at fair value through profit or loss or through other comprehensive income); or
- For financial liabilities.

If the Bank reclassifies loans and debt instruments, the change in classification is applied prospectively from the first day of the next reporting period following the change in the business model.

Measurement of reclassified financial assets at the reclassification date and subsequently:

- When reclassifying a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value and at the reclassification date, a new effective interest rate is determined. Subsequent changes in fair value are recognised in other comprehensive income. For the purpose of calculating expected credit losses from the reclassification date, the date of reclassification is treated as the date of initial recognition of the asset;
- When reclassifying a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount and a new effective interest rate is determined. For the purpose of calculating expected credit losses from the reclassification date, the date of reclassification is treated as the date of initial recognition of the asset;
- When reclassifying a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date;
- When reclassifying a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. The cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification;
- When reclassifying a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value is recognised in profit or loss;
- When reclassifying a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and its fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

The Bank did not reclassify any loans and debt instruments.

3.5.5.6 *Determination of a financial instrument's fair value and its hierarchy*

For the determination and categorisation of a financial instrument's fair value, the Bank treats a security as quoted if quoted market prices are readily and regularly available from a stock exchange, dealers, securities traders, industrial groups, valuation services or regulatory authorities and if these prices represent current and regular market transactions under ordinary conditions.

If there are no quoted prices in an active market for the financial asset, the Bank uses other values that are observable, directly or indirectly, from the markets for its measurement, such as:

I. Quoted prices for similar assets or liabilities in active markets;
II. Quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. there are few recent transactions, prices quotations are not based on current information, etc.);
III. Inputs other than quoted prices (e.g. inputs based on interest rates, yield curves, implied volatilities, credit spreads, etc.); or
IV. Inputs derived principally from, or corroborated by, observable market data.

Where the inputs for the determination of a financial instrument's fair value are not observable in a market due to the fact that there is no or only minimal activity for that asset or liability, the Bank uses for fair value measurement inputs that are available but not directly observable within a market and which, in the Bank's view, reflect assumptions that market participants take into account when pricing the financial instrument.

The fair value of debt securities for which an observable market price is not available is estimated using an income approach (the present value technique taking into account the future cash flows that a market participant would expect to receive from holding the instrument as an asset) and the fair value of unquoted equity instruments is estimated using an income approach or market approach (using prices and other relevant information generated by a market). The fair values of financial derivatives are obtained from quoted market prices, discounted cash flow models or option pricing models and are adjusted for the credit risk of the counterparty (CVA) or the Bank's own credit risk (DVA), as appropriate.

The existence of published price quotations in an active market is normally the best evidence of fair value. The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and for an asset to be acquired or liability held the ask price.

The Bank manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk. It uses mid-market prices as the basis for establishing the fair values of offsetting risk positions and applies the bid or asking price to the net open position as appropriate.

3.5.5.7 *Effective interest rate method*

The effective interest rate is the rate which exactly discounts the estimated future cash payments or receipts throughout the expected life of a financial instrument.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument and includes any fees and incremental costs that are directly attributable to the instrument and constitute an integral component of the effective interest rate, but it does not take into consideration future credit losses.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income or interest expense over the relevant period.

3.5.5.8 *Forborne loans*

Forborne exposures are debt contracts in respect of which forbearance measures have been granted to the debtor and for which the discontinuation conditions are not met. Forbearance measures consist of concessions to a debtor facing or about to face difficulties in meeting its financial commitments. The concession refers to either modification of terms and conditions (e.g. changes in the payment schedule, interest rate reductions, penalty interest waivers) or refinancing. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Renegotiated loans are continuously reviewed by the Bank to ensure that all criteria are met and that future payments are likely to occur. The renegotiated loans continue to be subject to impairment assessment, calculated based on their future cash flows as discounted by the loans' original effective interest rates.

3.5.5.9 *Modification of financial assets*

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. When the modification occurs, the Bank assesses whether or not the new terms are substantially different from the original terms.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a new asset at fair value and recalculates a new effective interest rate for the asset. Differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition. The date of renegotiation is considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. If the terms are not substantially different, the renegotiation or modification does not result in derecognition.

3.5.5.10 Derecognition of financial assets other than on modification

The Bank derecognises all or part of a financial asset (or group of similar assets) when the contractual rights to the cash flows from the asset expire or when the Bank has transferred the contractual rights to receive the cash flows and substantially all of the risks and rewards linked to the ownership of the asset.

The Bank also derecognises financial assets in respect of which it has retained the contractual rights to the associated cash flows but is contractually obligated to pass these same cash flows through to a third party and for which it has transferred substantially all risks and rewards.

Where the Bank has transferred the cash flows of a financial asset but has neither transferred nor retained substantially all the risks and rewards of its ownership and has effectively not retained control of the financial asset, the Bank derecognises it and, where necessary, recognises a separate asset or liability to cover any rights and obligations created or retained as a result of the asset's transfer. If the Bank has retained control of the asset, it continues to recognise it in the balance sheet to the extent of its continuing involvement in that asset.

When a financial asset is derecognised in its entirety, a gain or loss on disposal is recorded in the Statement of Income for an amount equal to the difference between the carrying amount of the asset and the consideration received. In respect of financial assets at fair value through other comprehensive income, with the exception of equity instruments, the cumulative gain or loss previously reported in Other Comprehensive Income is recorded in the Statement of Income.

The Bank only derecognises all or part of a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired. A financial liability is also derecognised and recognised again in the event of a substantial amendment to its contractual conditions or where an exchange is made with the lender for an instrument whose contractual conditions are substantially different.

3.5.5.11 Impairment of financial assets

The impairment of financial assets is based on the expected credit loss model.

All of the following assets are subject to the Bank's impairment requirements:
- Financial assets measured at amortised cost;
- Debt instruments assets duly measured at fair value through other comprehensive income (FVOCI) mentioned in 3.5.5.4.1 Loans and debt instruments held in the business model "Hold to collect contractual cash flows and sell";
- Loan commitments if a present commitment to provide credit exists (except for loan commitments measured at fair value through profit or loss);
- Financial guarantee contracts (to which IFRS 9 applies except for those measured at fair value through profit or loss); and
- Finance lease receivables in the scope of IAS 17 Leases.

The Bank does not assess impairment on non-client financial assets constituting insignificant credit risk, such as, in particular, receivables from the CNB arising from obligatory minimum reserves, nostro accounts, contract assets within the scope of IFRS 15 Revenue from contracts with customers (i.e. rights to consideration after the transfer of goods or services), intragroup receivables and others.

In order to determine impairment, financial assets are classified into three stages depending on the extent of credit deterioration since initial recognition:
- Stage 1 – financial assets are initially recognised in Stage 1, unless they are purchased or originated credit-impaired (subject to a specific treatment). Subsequently, this stage remains unchanged for financial assets for which the credit risk has not increased significantly since initial recognition or that have low credit risk at the reporting date;
- Stage 2 – financial assets with a significant increase in credit risk since initial recognition but in respect of which no objective evidence of impairment exists; or
- Stage 3 – financial assets with objective evidence of impairment at the reporting date.

Transition between the risk stages is assessed on an individual basis by evaluating the risk characteristics specific for the given asset. To this end, the Bank uses in particular the relative criteria for an increase of the probability of default, supplemented by the absolute criteria, such as days past due and the client's rating.

Significant increase in credit risk

At each reporting date, the Bank assesses whether credit risk has increased significantly. This assessment is based on increase in the probability of default since initial recognition. The Bank uses in particular relative criteria supplemented by such absolute criteria as delay of contractual payments by more than 30 days past due, worsening financial situation of the issuer or borrower (rating) and the 24-month trial period after restructuring a loan.

Credit-impaired financial assets

The Bank recognises financial assets as credit-impaired when one or more events occurred that have a detrimental impact on the estimated future cash flows. Evidence of credit-impairment may include observable data about the following events:

- Significant financial difficulty of the issuer or borrower;
- A breach of contract, such as a default or past due event more than 90 days past due;
- Concession granted by the lender for reasons of the borrower's financial difficulty that the lender would not otherwise consider;
- Increased probability that the borrower will enter bankruptcy;
- Disappearance of an active market for that financial asset because of financial difficulties; or
- Purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Measurement of expected credit losses

With the exception of purchased or originated credit-impaired financial assets, the Bank recognises expected credit losses (hereafter only "expected losses") to the extent of:

- 12-month expected losses (expected losses resulting from default events on a financial instrument that may occur within 12 months after the reporting date – Stage 1; or
- Lifetime expected losses (expected losses resulting from all possible default events over the expected life of a financial instrument) – Stages 2 and 3.

The Bank recognises a loss allowance in an amount equal to lifetime expected credit losses for credit exposures where there have been significant increases in credit risk since initial recognition.

If in subsequent reporting periods the credit quality of the financial instrument improves so that there is no longer a significant increase in credit risk since initial recognition, the Bank reverts to recognising a loss allowance based on 12-month expected losses. This does not apply to purchased or originated credit-impaired financial assets.

Basis for estimating expected losses

Expected losses are measured in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes and takes into account the time value of money. The Bank considers reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. When measuring the expected losses and taking into account the time value of money, the expected cash flows are discounted as of the reporting date using the original effective interest rate determined at initial recognition (or an approximation thereof).

The Bank assesses expected losses for credit-impaired financial assets of significant exposures based on expected cash flows from the client's economic activity or realisation of collateral.

For estimating expected losses for purchased or originated credit-impaired financial assets, the Bank applies the credit-adjusted effective interest rate. Unlike the effective interest rate (calculated using the estimated future cash flows not taking into account expected losses), the credit-adjusted effective interest rate incorporates the impact of expected losses of the financial asset.

Purchased or originated credit-impaired financial assets

Purchased or originated credit-impaired financial assets are accounted for differently as the assets are already impaired at initial recognition. For these assets, lifetime expected losses are incorporated into the expected cash flows used to calculate the credit-adjusted effective interest rate at initial recognition. Subsequently, any changes in expected losses are recognised as a loss allowance and as a gain or loss in the Statement of Income. The interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortised cost.

Write-off of financial assets

The Bank applies two approaches in writing off financial assets: individual/batch write-offs without further recovery and batch write-offs with further recovery.

Write-offs without further recovery are preceded by a soft or hard collection process based upon individual assessment of the client situation. Write-offs are handled individually or for multiple clients in a batch based on approval by the relevant authority.

Batch write-offs with further recovery are managed by a regular semi-annual process involving only the hard collection portfolio. Subject of write-offs are accounts fulfilling pre-defined criteria for batch write-off. Recovery continues for those accounts even though they have been written off.

3.5.5.12 Repurchase agreements
The Bank accounts for contracts to sell and buy back financial instruments ("repos" or "reverse repos") according to their substance as the taking or granting of a loan with a corresponding transfer of financial instruments as collateral.

In the case of repurchase transactions ("repos"), the Bank only provides debt instruments held in the business models "Hold to collect contractual cash flows and sell" or "Held for sale" recognised as *'Financial assets at fair value through other comprehensive income'* or *'Financial assets or financial liabilities at fair value through profit or loss'*. The corresponding liability arising from a loan taken is recognised in the line *'Financial liabilities at amortised cost'*.

Securities purchased under reverse repurchase agreements ("reverse repos") are recorded in the off-balance sheet, where they are remeasured at fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the Statement of Financial Position in the line *'Financial assets at amortised cost'*.

The Bank is entitled to provide those securities received in reverse repo transactions as collateral or sell them even in the absence of default by their owner. These securities continue to be recorded in the off-balance sheet and measured at fair value. The corresponding liability arising from the loan taken is recognised under *'Financial liabilities at amortised cost'*. The Bank is nevertheless obliged to return these securities to its counterparties.

The differences between the sale and repurchase prices in respect of repo and reverse repo transactions are treated by the Bank as interest, and it is accrued evenly to expenses and income over the life of the repo agreement using the effective interest rate method.

If the security acquired as collateral under a reverse repo transaction is sold, the Bank derecognises the security acquired under the reverse repo transaction from the off-balance sheet records and recognises in the Statement of Financial Position an amount payable from a short sale that is remeasured at its fair value. This payable is included in *'Financial liabilities at fair value through profit or loss'*.

3.5.6 Assets held for sale
The line *'Assets held for sale'* represents assets for which the Bank expects that their carrying amounts will be recovered principally through sale transactions rather than through continuing use. These assets are available for immediate sale in their present condition, they are actively marketed for sale at a price that is reasonable in relation to their current fair value, and their sale is highly probable, that is to say that a plan to sell and leading to the location of a buyer has been initiated. The Bank expects that the sale of assets will be completed, the market situation permitting, within 1 year from the date of the assets' classification as *'Assets held for sale'*.

Assets held for sale are measured at the lower of:
- The carrying amount of the respective asset at the date of its classification as *'Assets held for sale'*; or
- Fair value less estimated costs to sell (e.g. cost of expert valuation reports, legal or financial advisory services, the estimates of which are based on historical experience, as well as real estate transfer tax for real estate).

Assets designated as *'Assets held for sale'* are no longer depreciated.

The Bank recognises an impairment loss on assets held for sale in the line *'Net profits on other assets'* if their selling price less estimated costs to sell is lower than their carrying amount. Any subsequent increase in the selling price less costs to sell is recognised as a gain but not in excess of the cumulative impairment loss that has been recognised either during the time when the assets were classified as held for sale or before their reclassification into the line *'Assets held for sale'* (i.e. during the period when the asset had been held for supplying the Bank's services or for administrative purposes).

3.5.7 Income tax

3.5.7.1 Current income tax
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those valid as of the Statement of Financial Position date.

Current income tax is recognised in the Statement of Income, or, as the case may be, in the Statement of Other Comprehensive Income if it relates to an item directly taken into other comprehensive income.

The Bank does not set off current tax assets and current tax liabilities unless it has a legally enforceable right to set off the recognised amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3.5.7.2 Deferred income tax
Using the balance sheet liability method, deferred income tax is recorded for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts presented in the Statement of Financial Position. Deferred income tax is determined using tax rates valid or substantially enacted for the periods in which the Bank expects to realise the deferred tax asset or to settle the deferred tax liability. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the tax asset can be used.

Deferred income tax is recognised in the Statement of Income, or, as the case may be, in the Statement of Other Comprehensive Income if it relates to an item directly taken into other comprehensive income (such as deferred income tax related to changes in the fair value of financial assets measured at fair value through other comprehensive income or in relation to a cash flow hedge).

The Bank offsets deferred income tax assets and deferred income tax liabilities only if it has a legally enforceable right to set off current tax assets against current tax liabilities and if deferred tax assets and deferred tax liabilities relate to income tax levied by the same taxation authority and relate to the same taxable entity.

The largest temporary differences relate to tangible and intangible assets, loans and advances, hedging derivatives and financial assets measured at fair value through other comprehensive income.

3.5.8 Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

<u>The Bank as lessor</u>
Operating leases
The Bank presents assets that are the subject of an operating lease in the appropriate lines within the Statement of Financial Position according to the nature of those assets and uses for them the accounting policies applied to the relevant asset class.

Lease payments received from operating leases are recognised as the Bank’s income on a straight-line basis over the term of the relevant lease under *‘Other income’*.

Finance leases
In respect of assets held under finance leases, the net investment in the lease is recognised as *‘Financial assets at amortised cost’* while the assets themselves are not recognised. The difference between the gross receivable and the present value of the receivable is recognised as deferred interest income.

Lease income is recognised over the term of the lease, reflecting a constant periodic rate of interest on the remaining balance of the receivable, and it is presented in the line *‘Interest income’*.

<u>The Bank as lessee</u>
Operating leases
Lease payments under an operating lease are recognised on a straight-line basis over the lease term and are presented in the line *‘General and administrative expenses’*. Possible penalty payments due to the early termination of a lease are recognised in the reporting period in which the lease was terminated.

Finance leases
At the commencement of a lease term, an asset held under a finance lease is recognised in the appropriate line within the Statement of Financial Position in accordance with the nature of the asset and simultaneously a liability is recognised in an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Subsequently, the Bank uses the same accounting policies for these assets as for its own assets presented in the same line as the leased asset. If the legal ownership of the asset held under a finance lease is not transferred to the lessee by the end of the lease term, however, the asset is depreciated on a straight-line basis over the lease term.

The Bank divides lease payments between amortisation recognised as the reduction of the outstanding liability and a finance charge recognised in the Statement of Income as *‘Interest expense’*. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability during the entire lease period.

3.5.9 Tangible and intangible assets
Intangible assets principally include software and internally generated intangible assets (mainly software). Tangible assets include plant, property and equipment that are used by the Bank in supplying its services and for administrative purposes and that are used for longer than one reporting period.

Tangible and intangible assets are measured at the historical acquisition cost less accumulated impairment losses (allowances) and, in the case of depreciated assets, less accumulated depreciation and increased by technical improvements, if any. The historical acquisition cost comprises the purchase price and any costs directly attributable to asset acquisition, such as delivery and handling costs, installation and assembly costs, advisory fees, and administrative charges. The acquisition cost of internally generated intangible assets comprises external expenses and internal personnel expenses related to an internal project's development phase. The Bank capitalises no expenses related to the research phase.

Tangible and intangible assets are depreciated from their acquisition costs on a straight-line basis over their useful lives. Cars acquired under finance leases are depreciated from acquisition cost less estimated residual value, which is determined on the basis of the purchase price following the expiration of the lease as established in the lease contract. The Bank assumes no residual value for other assets. Depreciation and amortisation are reported in the Statement of Income in the line *'Depreciation, amortisation and impairment of operating assets'*.

The Bank does not depreciate land and works of art. Tangible and intangible assets under construction and technical improvements are depreciated only once they have been brought into a condition fit for use.

During the reporting period, the Bank used the following useful lives in years:

	2018	2017
Machinery and equipment	4	4
Information technology – notebooks, servers	4	4
Information technology – desktop computers	6	6
Fixtures, fittings and equipment	6	6
Vehicles	5/6	5
ATMs	10	10
Selected equipment of the Bank	8	8
Energy machinery and equipment	12/15	12/15
Distribution equipment	20	20
Buildings and structures	40	40
Buildings and structures – selected components:		
– Heating, air-conditioning, windows, doors	20	20
– Lifts, electrical installations	25	25
– Facades	30	30
– Roofs	20	20
– Other components	15	15
– Residual value of buildings and technical improvements without selected components	50	50
Technical improvements on leasehold assets	According to the lease term	According to the lease term
Intangible results of development activities (assets generated internally as component of internal projects)	According to the useful life, typically 5	According to the useful life, typically 5
Licences – software	5	5
Other rights of use	According to contract	According to contract

At the end of each reporting period, the Bank assesses whether there exists any indication that a tangible or intangible asset can be impaired. Indicators of possible impairment include information about a significant decline in an asset's market value, significant changes within the technological, market, economic or legal environment, obsolescence or physical damage to an asset, or change in the manner in which the asset is used. Where any such indicator exists, the Bank estimates the recoverable amount of the asset concerned (i.e. the higher amount of its fair value less costs to sell and value in use in comparison with the asset's carrying value). If the asset's carrying amount is greater than its recoverable amount, the Bank reduces its carrying amount to its recoverable amount and presents the recognised impairment loss in the line *'Depreciation, amortisation and impairment of operating assets'*.

Repairs and maintenance are charged directly to the Statement of Income when they occur.

3.5.10 Provisions
The Bank recognises provisions for contracted commitments (principally comprising the provisions for ongoing contracted potential commitments, legal disputes, self-insurance and the retirement benefits plan) and for restructuring.

Provisions are recognised when and only when:
- The Bank has a present obligation (legal or constructive) as a result of a past event;
- It is probable that settlement of the obligation will cause an outflow of resources causing a decrease of economic benefits; and
- A reliable estimate can be made of the amount of the obligation. Provisions for legal disputes are estimated on the basis of the amount sought by the plaintiff, including accrued interest and fees.

Provisions are measured as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate reflecting current market assessments and the risks specific to the liability. Provision increases related to the passage of time are recognised as interest expense.

A provision for restructuring is recognised when the Bank has approved a detailed, formal plan for restructuring and the restructuring has either commenced or the main features of the restructuring plan have been announced to those affected before the end of the reporting period. The restructuring provision shall include only the direct expenditures arising from the restructuring which are necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

The Bank also recognises provisions for credit-related commitments into which the Bank enters in the normal course of business. These credit-related commitments do not meet the criteria for recognition in the Statement of Financial Position and are recorded in the off balance sheet. These commitments primarily include guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. The provisions represent impairment based on expected losses from any potential financial liabilities arising from these credit-related commitments. Provisions for credit-related commitments are created on the same basis as are loss allowances for financial assets.

3.5.11 Employee benefits

3.5.11.1 General
The Bank provides its employees with retirement benefits and disability benefits. The employees are entitled to receive retirement or disability benefits if they are employed by the Bank until their retirement age or if they are entitled to receive a disability pension, but only if they were employed within the Bank for a minimum defined period.

Estimated benefit costs are recognised on an accruals basis through a provision over the employment term using an accounting methodology that is similar to the methodology used in respect of defined benefit pension plans. In determining the parameters of the model, the Bank refers to the most recent employee data (the length of employment with the Bank, age, gender, average salary) and estimates made on the basis of monitored historical data about the Bank's employees (expected reduction of the current staffing levels) and other estimates (the amounts of bonuses, anticipated increase in salaries, estimated amounts of social security and health insurance contributions, discount rate).

These provisions are presented in the line *'Provisions'*. The changes in provisions are disaggregated into three components that are presented as follows:

I. Service cost (i.e. additional liability that arises from employees providing service during the period) is presented in the line *'Personnel expenses'*;
II. The interest expense on the net benefit liability is presented in the line *'Personnel expenses'*; and
III. Other changes in the value of the defined benefit obligation, such as changes in estimates, are presented within Other Comprehensive Income in the line *'Remeasurement of retirement benefits plan, net of tax'*.

The use of a provision is presented in the line *'Personnel expenses'*.

The Bank additionally provides short-term benefits to its employees, such as contributions to retirement pension insurance and capital life insurance schemes. The Bank recognises the costs of these contributions on an accrual basis in the line *'Personnel expenses'* (refer to Note 10).

The Bank has the following share plans and deferred compensation schemes:

3.5.11.2 Deferred bonus payments
In accordance with European regulation (Capital Requirements Directive III; No. 2010/76/EU), the Bank implemented a new compensation scheme for employees whose professional activities have a material impact on the Bank's risk profile. For employees identified in accordance with the CRD III regulation, performance-linked remuneration is split into two components: (i) a non-deferred component that is paid in the following year; and (ii) a deferred component that is spread over 3 years. The amounts of the two components are further split into bonuses paid in cash and bonuses paid in cash equivalent of the Société Générale S.A. share price or in cash equivalent of the Komerční banka, a.s. share price (indexed bonuses). Both bonuses are subject to presence and performance conditions:

- In the case of bonuses paid in the cash equivalent of the Société Générale S.A. share price, the performance condition is based on the profitability of the Société Générale Group;
- In the case of bonuses paid in cash and bonuses paid in cash equivalent of the Komerční banka, a.s. share price, the performance condition is based on the profitability of the Komerční banka Group. Moreover, for investment banking employees there is the condition that the Bank's net investment banking operating income be higher than zero.

Indexed bonuses qualify as cash-settled share-based transactions. The liability is measured at the end of each reporting period until settled at the fair value of the shares of Société Générale S.A. or Komerční banka, a.s. multiplied by numbers of shares granted and it is spread over the vesting period.

The amounts of bonuses finally vested is calculated as the number of Société Générale S.A. shares or Komerční banka, a.s shares multiplied by their price fixed as the volume-weighted average of the last 20 closing trading prices prior to the first business day following the end of the applicable retention period.

Deferred cash bonuses (i.e. bonuses paid to employees more than 12 months after the end of the reporting period in which the employees render the related services) are considered as long-term employee benefits and the related expense is recognised over the vesting period in the line *'Personnel expenses'*.

3.5.11.3 Free share plan
To enhance loyalty and motivation to contribute to long-term growth in the value of the Société Générale Group, the Bank can award some of its key employees free shares (deferred share plan). These free shares are subject to a vesting condition (i.e. presence in the Group at the end of the vesting period, which is 4 years) and for certain beneficiaries are also subject to the condition that Société Générale Group records positive net income.

Expenses related to the free share and deferred share plans provided by Société Générale to the Bank's employees are recognised in the Bank's financial statements as equity-settled share-based payment transactions. The fair value of these instruments, measured using the arbitrage model at the granting date, is spread over the vesting period and recorded in the lines *'Personnel expenses'* and *'Share premium, funds, retained earnings, revaluation and net profit for the period'* under equity. At the end of each accounting period, the number of these instruments is adjusted in order to take into account performance and service conditions and adjust the overall cost of the plan as originally determined. Expenses recognised under the *'Personnel expenses'* from the start of the plan are then adjusted accordingly.

3.5.12 Share capital

Dividends on ordinary shares
Dividends on ordinary shares are recognised as a liability and deducted from equity at the time they are approved by the Bank's General Meeting.

Treasury shares
When the Bank acquires its own equity instruments, the consideration paid, including any attributable transaction costs, is recognised as a deduction from the line *'Share premium, funds, retained earnings, revaluation and net profit for the period'* under equity. Gains and losses on sales of treasury shares are also recognised in equity and presented in the line *'Share premium, funds, retained earnings, revaluation and net profit for the period'*.

3.5.13 Contingent assets, contingent liabilities and off-balance sheet items
In addition to transactions giving rise to recognition of assets and liabilities in the Statement of Financial Position, the Bank enters into transactions through which it generates contingent assets and liabilities. The Bank maintains contingent assets and liabilities as off-balance sheet items. The Bank monitors these transactions inasmuch as they constitute a substantial proportion of its activities and materially impact the level of risks to which the Bank is exposed (they may increase or decrease other risks, for instance, by hedging assets and liabilities reported in the Statement of Financial Position).

A contingent asset or liability is defined as a possible asset or liability that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly under the Bank's control.

A contingent liability also exists in the case of a present obligation where an outflow of resources embodying economic benefits probably will not be required to settle the obligation or the amount of the obligation cannot be measured reliably. Contingent liabilities include, for example, irrevocable loan commitments, commitments arising from bank guarantees, bank acceptances, letters of credit and warrants.

In addition to contingent assets and contingent liabilities, the off-balance sheet includes assets arising from valuables and securities custody as well as from fiduciary activities and related obligations to return these to customers (e.g. assets under management).

Off-balance sheet items also include nominal values of interest and foreign currency instruments, such as forwards, swaps, options and futures. More information regarding derivative operations is presented in Note 3.5.5.4.4 Derivatives and hedge accounting.

3.5.14 Operating segments

Operating segments are reported in accordance with internal reports regularly prepared and presented to the Bank's Board of Directors, which is considered the "chief operating decision maker" (i.e. a person or group of persons that allocates resources and assesses the performance of individual operating segments of the Bank).

The Bank has the following operating segments:

- *Retail Banking:* includes the provision of products and services to individuals (i.e. predominantly current and savings accounts, term deposits, overdrafts, credit card loans, personal loans and mortgages);
- *Corporate Banking:* includes the provision of products and services to corporate entities (i.e. current accounts, term deposits, revolving loans, business loans, mortgages, foreign currency and derivative products, syndicated and export financing, and guarantee transactions);
- *Investment Banking:* involves trading in financial instruments; and
- *Other:* consists of the head office of the Bank.

The Investment Banking segment does not reach quantitative limits for obligatory reporting. The management of the Bank nevertheless believes that the information concerning this segment is useful for users of the Financial Statements and thus reports this segment separately.

As the principal activity of the Bank is the provision of financial services, the Board of Directors of the Bank assesses the performance of operating segments predominantly according to net interest income. For this reason, interest income and interest expense of individual operating segments are reported not separately but on a net basis.

In addition, the Bank monitors net fee and commission income, net profit/(loss) on financial operations, and other income predominantly including income from the lease of non-residential premises by segments. Other profit and loss items are not monitored by operating segments.

The Bank does not monitor total assets or total liabilities by segment.

The information on the items of net operating income is provided to the Board of Directors of the Bank using valuations identical to those stated in the Bank's financial accounting records.

The Bank has no client or group of related parties for which the income from transactions would account for more than 10% of the Bank's total income.

3.5.15 Regulatory requirements

The Bank is subject to the regulatory requirements of the CNB and other institutions. These regulations include limits and other restrictions pertaining to minimum capital adequacy requirements, classification of loans and off-balance sheet commitments, and creation of allowances and provisions to cover credit risk associated with the Bank's clients, as well as with its liquidity, interest rate and foreign currency positions.

3.6 Changes in accounting policies

3.6.1 First-time application of IFRS 9 Financial Instruments

As of 1 January 2018, the Bank has implemented the new standard IFRS 9 Financial Instruments superseding the previous standard IAS 39. This resulted in changes in accounting policies for financial instruments and supplementation of disclosures in the Notes as required by amendments of IFRS 7 Financial instruments: Disclosures. The new accounting policies, including the new approach to classification and measurement of financial assets and the new impairment methodology, are reflected in Note 3.5.5.

The first-time application of IFRS 9 is retrospective in terms of classification and measurement and impairment. As permitted by the transitional provisions of IFRS 9, however, the Bank elected not to restate comparative information for prior periods. Differences arising from the adoption of IFRS 9 have been recognised directly in the opening balance of equity as of 1 January 2018 and are disclosed below.

The comparative data for balance sheet items and commitments associated with financial instruments presented throughout the Notes below are the balances as of 1 January 2018. These amounts constitute the balances as of 31 December 2017 as adjusted for reclassifications and remeasurements resulting from the first-time application of IFRS 9. The comparative data as of 31 December 2017, as well as the accounting policies under IAS 39 applicable to these comparative data, are available in Note 44.

The Bank has also elected, as a policy choice provided by the transitional provisions of IFRS 9, to continue recognising hedging transactions under IAS 39 as adopted by the European Union.

Changes to classification and measurement

Under IFRS 9, financial assets are classified into one of three categories: amortised cost; fair value through other comprehensive income; or fair value through profit or loss. The classification and measurement of financial assets loans and debt instruments are assessed based on those financial assets' contractual cash flow characteristics and the entity's business model for managing these assets.

The principles for classifying and measuring financial instruments are detailed in Note 3.5.5.

Changes to impairment calculation

Application of the new impairment methodology under IFRS 9 that is based on the expected credit loss model and supersedes the incurred loss model provided for in IAS 39 means there will be earlier recognition of expected credit losses from the point at which financial instruments originate or are acquired.

The scope and principles of impairment and provisions for expected credit losses are detailed in Note 3.5.5.

Set out below are disclosures relating to the impact of the initial application of IFRS 9.

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

To determine the classification under IFRS 9 of financial assets recognised on the Statement of Financial Position as of 31 December 2017, the Bank performed detailed analysis of:

- The characteristics of contractual cash flows based on facts and circumstances at the date of initial recognition of the instrument; and
- The business models for managing the assets based on facts and circumstances as of 1 January 2018.

The following table reconciles for financial assets and liabilities the original measurement categories and carrying amounts determined in compliance with IAS 39 and the new measurement categories and carrying amounts upon transition to IFRS 9 on 1 January 2018.

(CZKm)	IAS 39 as of 31 December 2017		Reclassification	Remeasurement		IFRS 9 as of 1 January 2018	
Financial assets	Measurement category	Balance		ECL	Other	Measurement category	Balance
Financial assets at amortised cost							
Loans and advances to banks		232,279		4			229,438
– To: Financial assets at FVOCI			(2,039)				
– To: Debt securities at amortised costs			(806)				
Loans and advances to customers		535,321		(601)			531,085
– To: Debt securities at amortised costs			(3,635)				
Debt securities at amortised costs		X		(11)			63,468
– From: Loans and advances to banks			806				
– From: Loans and advances to customers			3,635				
– From: Available-for-sale financial assets			16,159		(334)		
– From: Held-to-maturity investments			43,213				
Total	**L&A**	**767,600**	**57,333**	**(608)**	**(334)**	**AC**	**823,991**
Available-for-sale financial assets		23,677					X
– To: Financial assets at FVOCI			(7,332)				
– To: Debt securities at amortised costs			(16,159)		(186)		
Total	**AFS**	**23,677**	**(23,491)**		**(186)**	**N/A**	**X**
Held-to-maturity investments		56,936					X
– To: Financial assets at FVOCI			(12,194)		(193)		
– To: Debt securities at amortised costs			(43,213)		(1,337)		
Total	**HTM**	**56,936**	**(55,407)**		**(1,529)**	**N/A**	**X**
Financial assets at fair value through other comprehensive income		X					22,294
– From: Available-for-sale financial assets			7,332				
– From: Held-to-maturity investments			12,194		732		
– From: Loans and advances to banks			2,039		(3)		
Total	**N/A**	**X**	**21,565**		**729**	**FVOCI**	**22,294**

(CZKm)	IAS 39 as of 31 December 2017		Reclassification	Remeasurement		IFRS 9 as of 1 January 2018	
Financial liabilities	Measurement category	Balance		ECL	Other	Measurement category	Balance
Provisions		1,898		23			1,921
Total	**AC**	**1,898**		**23**		**AC**	**1,921**

Reclassifications of financial assets to amortised costs

For financial assets that have been reclassified to the measurement category amortised cost (from the previous measurement category available-for-sale) as a result of the transition to IFRS 9, the following table shows the fair value of the financial assets as of 31 December 2018 and the fair value of gain or loss that would have been recognised in other comprehensive income during the reporting period if the financial assets had not been reclassified.

(CZKm)	2018
From: Available-for-sale financial assets (IAS 39 classification)	
– Fair value as of 31 December 2018	15,760
– Fair value gain/(loss) that would have been recognised in OCI during the year if the financial asset had not been reclassified	(376)

Reconciliation of impairment allowances and provisions from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with IAS 39 and provisions for off-balance exposures under IAS 37 to the new impairment allowance measured in accordance with the IFRS 9 expected loss model as of 1 January 2018.

(CZKm)	As of 31 Dec 2017			As of 1 Jan 2018
Impairment allowance	Loan loss allowance under IAS 39/Provision under IAS 37	Reclassification	Remeasurement	Loan loss allowance under IFRS 9
Impairment of financial assets				
Loans and advances (IAS 39), Held-to-maturity investments (IAS 39)/Financial assets at amortised costs (IFRS 9)				
– Loans and advances to banks at amortised costs	(10)		4	(6)
– Loans and advances to customers at amortised costs	(10,333)		(601)	(10,934)
– Debt securities at amortised costs	0		(11)	(11)
Total	**(10,343)**		**(608)**	**(10,951)**
Provisions for guarantees and other credit-related commitments				
– Provisions for guarantees and other credit-related commitments	1,393		23	1,416

Reconciliation of reserves and retained earnings

(CZKm)	Reserves and retained earnings
Other comprehensive income/Revaluation reserve	
Closing balance under IAS 39 (31 December 2017)	2,296
– Reclassification of debt securities from AFS to AC	(520)
– Reversal of revaluation relating to HTM created from AFS under IAS39	(1,529)
– Reclassification of debt securities from HTM to FVOCI	732
– Recognition of ECL under IFRS 9 for debt financial assets at FVOCI	(3)
– Deferred tax	251
Opening balance under IFRS 9 (1 January 2018)	1,227
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	67,495
– Recognition of ECL under IFRS 9 including those measured at FVOCI	(631)
– Deferred tax	100
Opening balance under IFRS 9 (1 January 2018)	66,964
Total change in equity due to adopting IFRS 9	**(1,600)**

3.6.2 Other changes in accounting policies

As of 1 January 2018 the Bank has made the following changes in reporting principles without any impact on total Net profit for the period:

- Fees for early loan repayment – newly recognised in the line *'Interest income'*, previously in the line *'Net fee and commission income'*;
- Dividend income – newly recognised in a separate line part of *'Net operating income'*, previously part of *'Net interest income'*;
- Provisions for other risk expenses – newly recognised in the line 'General and administrative expenses' (GAE), previously in the line *'Cost of risk'* (CoR);
- Fees from insurance as a supplementary service where the Bank is acting as an agent – newly a netting approach for reporting in the line *'Net fee and commission income'* in accordance with requirements of the new standard IFRS 15 Revenue from contracts with customers that the Bank has implemented as of 1 January 2018, previously a gross approach of reporting fee income and fee expenses.

(CZKm)	Reported 2017	Restated 2017
Interest income	23,189	23,340
Net fee and commission income	5,853	5,702
Net operating income	29,216	29,216
General and administrative expenses	(4,859)	(4,854)
Cost of risk	286	281

In 2018, the Bank modified the method of compiling the Statement of Cash Flows, which is now compiled by the indirect method. The reason for the change was to unify the approach with that of the parent company and practice in the market. The Bank also changed the classification of cash flows from equity instruments and debt securities. These items had previously been reported in cash flows from financial activities and now they are reported in cash flows from operating activities. The new classification is more in line with the nature of those assets and is consistent with the inclusion of these items in the parent's Statement of Cash Flows. In making the restatement, the Bank has refined the presentation of some items, but this refinement does not affect the total cash flow.

The comparable period was set up in the new structure without any impact on total cash flows.

4 Segment reporting

	Retail banking		Corporate banking		Investment banking		Other		Total	
(CZKm)	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net interest income	11,426	10,042	5,729	5,368	598	245	1,746	2,101	19,499	17,756
Net fee and commission income	3,730	3,855	1,932	1,911	(199)	(120)	122	56	5,585	5,702
Net profit/(loss) on financial operations	1,173	955	1,691	1,610	105	915	212	90	3,181	3,570
Dividend income	0	0	0	0	0	0	2,127	1,912	2,127	1,912
Other income	185	129	(14)	54	339	142	(195)	(49)	315	276
Net operating income	**16,514**	**14,981**	**9,338**	**8,943**	**843**	**1,182**	**4,012**	**4,110**	**30,707**	**29,216**

Given the specifics of banking activities, the Board of Directors of the Bank (the chief operating decision maker) is provided with information on income, recognition of allowances, write-offs and income tax only for selected segments rather than consistently for all segments. For this reason, this information is not reported for segments.

As most of the income of segments arises from interest, and, in assessing the performance of segments and deciding on allocation of resources for segments, the Board of Directors primarily refers to net interest income, the interest for segments is reported on a net basis (i.e. reduced by interest expense).

Transfer prices between operating segments are based on transfer interest rates representing actual market interest rate conditions, including a liquidity component reflecting the existing opportunities to acquire and invest financial resources.

The Bank's income is primarily – more than 98% (2017: more than 99%) – generated on the territory of the Czech Republic.

5 Net interest income

Net interest income comprises the following:

(CZKm)	2018	2017
Interest income	29,876	23,340
Interest expense	(10,377)	(5,584)
Net interest income	**19,499**	**17,756**
Of which net interest income from		
– Loans and advances at amortised cost	17,153	13,877
– Debt securities at amortised cost	1,667	
– Available-for-sale financial assets		594
– Other debt securities	428	
– Held-to-maturity investments		1,552
– Financial liabilities at amortised cost	(2,336)	(1,679)
– Hedging financial derivatives – income	10,628	7,317
– Hedging financial derivatives – expense	(8,041)	(3,905)

'Interest income' includes interest on Stage 3 loans due from customers of CZK 231 million (2017: CZK 239 million).

In both 2018 and 2017, the Bank recorded as part of *'Net interest income'* also negative interest income and expense from selected clients' deposits in selected currencies, from selected repo transactions, loro and nostro accounts, and margin accounts deposited at banks. The total amount recognised is not material.

6 Net fee and commission income

Net fee and commission income comprises the following:

(CZKm)	2018	2017
Deposit product fee and commission income	727	651
Loan fee and commission income	701	742
Transaction fee and commission income	2,963	3,031
Cross-selling fee income	857	855
Specialised financial services fee and commission income	864	984
Other fee and commission income	193	117
Total fee and commission income	**6,305**	**6,380**
Deposit product fee and commission expense	(112)	(116)
Loan fee and commission expense	(78)	(87)
Transaction fee and commission expense	(384)	(346)
Cross-selling fee expense	(13)	(12)
Specialised financial services fee and commission expense	(114)	(105)
Other fee and commission expense	(19)	(12)
Total fee and commission expenses	**(720)**	**(678)**
Total net fee and commission income	**5,585**	**5,702**

'Net fee and commission income' comprises fee income arising from trust and other fiduciary activities and depository services in the amount of CZK 182 million (2017: CZK 174 million) and fee expense for these services in the amount of CZK 35 million (2017: CZK 33 million).

7 Net profit/(loss) on financial operations

Net profit/(loss) on financial operations comprises the following:

(CZKm)	2018	2017
Net realised gains/(losses) on securities held for trading	1,974	272
Net unrealised gains/(losses) on securities held for trading	(109)	61
Net realised gains/(losses) on debt securities at fair value through OCI	0	0
Net realised gains/(losses) on disposal of debt securities at amortised cost	6	0
Net realised and unrealised gains/(losses) on security derivatives*	(1,775)	(276)
Net realised and unrealised gains/(losses) on interest rate derivatives	(102)	(288)
Net realised and unrealised gains/(losses) on trading commodity derivatives	30	18
Net realised and unrealised gains/(losses) on foreign exchange operations	2,348	2,590
Net realised gains/(losses) on foreign exchange from payments	809	1,193
Total net profit/(loss) on financial operations	**3,181**	**3,570**

* This line also includes impacts of derivative trades in emission allowances.

A gain of CZK 507 million (2017: loss of CZK 208 million) on the fair value of interest rate swaps for interest rate risk hedging is included in *'Net realised and unrealised gains/(losses) on interest rate derivatives'*. This amount matches the loss arising from revaluation of hedged loan receivables, debt securities, deposits or repos and issued mortgage bonds reported in the same line.

8 Dividend income

'Dividend income' includes dividends received from subsidiaries and associates of CZK 2,124 million (2017: CZK 1,910 million) and from equity instruments held in the *'Financial assets at fair value through other comprehensive income'* portfolio of CZK 3 million (2017: CZK 2 million). Income from hedging financial derivatives used to hedge cash flows from foreign exchange risk for dividends from subsidiaries and associates was CZK 8 million (2017: CZK 0 million).

9 Other income

The Bank reports *'Other income'* in the amount of CZK 315 million (2017: CZK 276 million). In both 2018 and 2017, *'Other income'* was predominantly composed of income from services provided to the Group's companies and the Société Générale Group entities as well as property rental income.

10 Personnel expenses

Personnel expenses comprise the following:

(CZKm)	2018	2017
Wages, salaries and bonuses	5,030	4,638
Social costs	1,932	1,857
Total personnel expenses	**6,962**	**6,495**
Physical number of employees at the end of the period*	7,481	7,722
Average recalculated number of employees during the period*	7,458	7,551
Average cost per employee (CZK)	**933,494**	**860,151**

* Calculation according to Czech Statistical Office methodology.

'Social costs' include costs of CZK 77 million (2017: CZK 82 million) paid by the Bank to the employees' retirement pension insurance scheme and costs of CZK 43 million (2017: CZK 43 million) incurred in contributing to the employees' capital life insurance scheme.

'Personnel expenses' include net expense of CZK 189 million (2017: CZK 0 million) due to provisions for restructuring created in relation to the transformation project "KB Change" in the amount of CZK 223 million (2017: CZK 0 million) and use in the amount of CZK 34 million (2017: CZK 0 million). Further information is presented in Note 30.

Indexed bonuses
In 2018, the total amount relating to bonuses indexed on the Komerční banka share price recognised in *'Personnel expenses'* was CZK 42 million (2017: CZK 39 million) and the total amount of CZK 60 million (2017: CZK 57 million) was recognised as a liability. These amounts do not include the costs of social and health insurance and retirement pension insurance paid by the Bank. Net profit from hedging indexed bonuses by fair value hedge and cash flow hedge derivatives was CZK 0 million (2017: net profit of CZK 3 million). The total number of Komerční banka shares according to which bonuses indexed on the Komerční banka share price are calculated is 109,224 shares (2017: 97,167 shares).

The changes in the numbers of Komerční banka shares were as follow:

(in shares)	2018	2017
Balance as of 1 January	**97,167**	**92,850**
Paid out during the period	(42,641)	(38,593)
Presumed number of newly guaranteed shares	54,698	42,910
Balance as of 31 December	**109,224**	**97,167**

Free and deferred share plans
For 2018, the total amount relating to the free shares programme and deferred share plans recognised in *'Personnel expenses'* was CZK 31 million (2017: CZK 29 million).

The changes in the numbers of Société Générale shares were as follow:

	2018		2017	
(in shares; EUR)	Number of shares	Average price	Number of shares	Average price
Balance as of 1 January	**104,067**	**35.38**	**120,555**	**31.62**
Granted during the year	23,601	39.18	23,384	41.05
Forfeited during the year	(2,972)	35.38	(1,687)	31.62
Exercised during the year	(23,266)	35.38	(38,185)	31.62
Balance as of 31 December	**101,430**	**35.61**	**104,067**	**35.38**

11 General and administrative expenses

General and administrative expenses comprise the following:

(CZKm)	2018	2017
Insurance	64	65
Marketing and representation	496	519
Sale and banking products expenses	277	284
Other employees expenses and travelling	130	132
Real estate expenses	1,223	1,191
IT support	869	909
Equipment and supplies	188	125
Telecommunications, postage and data transfer	184	211
External consultancy and other services	239	496
Resolution and similar funds	808	834
Other expenses	109	88
Total general and administrative expenses	**4,587**	**4,854**

'General administrative expenses' include net expense of CZK 41 million (2017: CZK 0 million) due to provisions for restructuring created in relation to the transformation project "KB Change" in the amount of CZK 71 million (2017: CZK 0 million) and use in the amount of CZK 30 million (2017: CZK 0 million). Further information is presented in Note 30.

12 Depreciation, amortisation and impairment of operating assets

Depreciation, amortisation and impairment of operating assets comprise the following:

(CZKm)	2018	2017
Tangible and intangible assets depreciation and amortisation (refer to Notes 24 and 25)	1,627	1,450
Impairment of operating assets	(21)	259
Total depreciation, amortisation and impairment of operating assets	**1,606**	**1,709**

The net gain from *'Impairment of operating assets'* in the total amount of CZK 21 million (2017: net loss of CZK 259 million) mainly includes a net gain from impairment reversal on internal projects (SW) and hardware.

13 Cost of risk

The net gain in *'Cost of risk'* totalling CZK 529 million (2017: CZK 281 million) includes a net gain from allowances and provisions in the amount of CZK 408 million (2017: CZK 58 million) and a net gain from loans and advances transferred and written off in the amount of CZK 121 million (2017: CZK 223 million).

The balances and movements of allowances and provisions for loans and advances and for debt securities as of 31 December 2018 were as follow:

(CZKm)	As of 1 Jan 2018	Increase due to origin	Decrease due to derecogni-tion	Change of credit risk (net)	Change of estimation (net)	Decrease due to write off	Other	As of 31 Dec 2018
Allowances for financial assets (Stage 1)	(865)	(411)	309	141	128	0	101	(597)
– Debt securities	(14)	0	0	6	0	0	0	(8)
– Loans and advances	(851)	(411)	309	135	128	0	101	(589)
Allowances for financial assets (Stage 2)	(865)	0	45	45	(162)	0	(49)	(986)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(865)	0	45	45	(162)	0	(49)	(986)
Allowances for financial assets (Stage 3)	(9,224)	0	932	(197)	145	130	(67)	(8,281)
– Debt securities	0	0	0	0	0	0	0	0
– Loans and advances	(9,224)	0	932	(197)	145	130	(67)	(8,281)
Total allowances for financial assets (refer to Notes 21 and 40)	**(10,954)**	**(411)**	**1,286**	**(11)**	**111**	**130**	**(15)**	**(9,864)**
Provisions for guarantees and other credit-related commitments (Stage 1)	(136)	(130)	316	(172)	23	0	0	(99)
Provisions for guarantees and other credit-related commitments (Stage 2)	(74)	0	98	(89)	(12)	0	0	(77)
Provisions for guarantees and other credit-related commitments (Stage 3)	(1,206)	0	442	(180)	0	0	(2)	(946)
Total provisions for guarantees and other credit-related commitments (refer to Note 30)	**(1,416)**	**(130)**	**856**	**(441)**	**11**	**0**	**(2)**	**(1,122)**

Due to first-time application of IFRS 9 Financial Instruments, comparative information is not presented.

14 Profit/(loss) on subsidiaries and associates

In February 2018, the Bank sold a 19% stake in the company Cataps, s.r.o., thereby reducing its ownership from 20% to 1%. As of end the of 2017, the ownership stake had been classified as *'Assets held for sale'*.

In March 2017, the Bank sold its subsidiary NP 33, s.r.o. to CRI NP 33, s.r.o., which is owned by Commerz Real Investmentgesellschaft mbH. NP 33, s.r.o. is sole owner of the Bank's headquarters building at Na Příkopě 33 in Prague. The sale constitutes part of the Bank's plan to centralise its headquarters into fewer premises.

15 Net profits on other assets

The net loss reported in *'Net profits on other assets'* totalling CZK 14 million (2017: net gain CZK 84 million) mainly includes a net gain from sale of buildings in the amount of CZK 11 million (2017: net loss CZK 7 million), a net loss from impairment on assets held for sale in the amount of CZK 13 million (2017: net gain CZK 77 million) and a net loss from disposal of assets (internal SW projects) in the amount of CZK 12 million (2017: CZK 0 million).

16 Income tax

The major components of corporate income tax expense are as follow:

(CZKm)	2018	2017
Tax payable – current year, reported in profit or loss	(2,881)	(2,789)
Tax paid – prior year	41	1
Deferred tax (refer to Note 31)	(218)	(19)
Total income tax	**(3,058)**	**(2,807)**

The items explaining the difference between the Bank's theoretical and effective tax rates are as follow:

(CZKm)	2018	2017
Profit before income tax	**18,296**	**17,721**
Theoretical tax calculated at a tax rate of 19% (2017: 19%)	3,476	3,367
Tax on pre-tax profit adjustments	33	(18)
Non-taxable income (tax effect)	(1,530)	(1,839)
Expenses not deductible for tax purposes (tax effect)	897	1,276
Tax allowance	(3)	(3)
Movement in deferred tax	218	19
Other	8	6
Income tax expense	**3,099**	**2,808**
Prior period tax expense	(41)	(1)
Total income tax	**3,058**	**2,807**
Effective tax rate	16.72%	15.84%

Non-taxable income primarily includes dividends, tax-exempt interest income and release of tax non-deductible allowances and provisions. Expenses not deductible for tax purposes include primarily the recognition of tax non-deductible allowances and provisions and tax non-deductible operating expenses. Tax on pre-tax profit adjustments primarily represents an adjustment of the IFRS result to Czech Accounting Standards (CAS).

The corporate tax rate for the year ended 31 December 2018 is 19% (2017: 19%). The Bank's tax liability is calculated based upon the accounting profit while taking into account tax non-deductible expenses and tax exempt income or income subject to a final withholding tax rate.

Further information about deferred tax is presented in Note 31.

17 Distribution of net profit

For the year ended 31 December 2018, the Bank generated a net profit of CZK 15,238 million (2017: CZK 14,914 million). The Bank's Board of Directors will propose to the Supervisory Board a dividend payment in the amount of CZK 51 per share (2017: CZK 47 per share), which means a total amount of CZK 9,693 million (2017: CZK 8,932 million). The proposal is subject to the Supervisory Board's approval and subsequently to the approval of the General Shareholders' Meeting.

In accordance with a resolution of the General Shareholders' Meeting held on 25 April 2018, the aggregate balance of the net profit of CZK 14,914 million for the year ended 31 December 2017 was allocated as follows: CZK 8,932 million was paid out in dividends and the remaining balance of the net profit was allocated to retained earnings. The dividends were paid out in Czech crowns.

18 Cash and current balances with central banks

Cash and current balances with central banks comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Cash and cash values	8,504	10,070
Current balances with central banks	14,000	22,453
Total cash and current balances with central banks (refer to Note 34)	**22,504**	**32,523**

Obligatory minimum reserves in the amount of CZK 8,763 million (2017: CZK 16,412 million) are included in *'Current balances with central banks'* and they bear interest. As of 31 December 2018, the interest rate was 1.75% (2017: 0.50%) in the Czech Republic and 0.00% (2017: 0.00%) in the Slovak Republic.

19 Financial assets and other assets at fair value through profit or loss

There is no impact from the adoption of IFRS 9 in this Note.

Financial assets and other assets at fair value through profit or loss comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Trading equity securities	0	0
Trading debt securities	3,248	1,633
Trading derivatives	19,787	16,740
Total financial assets at fair value through profit or loss	**23,035**	**18,373**
Emission allowances	245	996
Total other assets at fair value through profit or loss	**245**	**996**

As of 31 December 2018 and 2017, the *'Financial assets at fair value through profit or loss'* portfolio included only securities and positive fair values of derivative financial instruments held for trading. Upon initial recognition, the Bank has not designated any financial assets as *'Financial assets at fair value through profit or loss'*.

For detailed information on *'Trading debt securities'*, allocated by sector and currency, refer to Note 41(A).

For detailed information on derivative financial instruments included in the held for trading portfolio, refer to Note 41(C).

As of 31 December 2018, the portfolio of trading securities included securities at fair value of CZK 3,085 million (2017: CZK 1,439 million) that are publicly traded on stock exchanges and securities at fair value of CZK 163 million (2017: CZK 194 million) that are not publicly traded on stock exchanges (they are traded on the interbank market).

'Trading debt securities' include securities eligible for refinancing with the CNB of CZK 2,995 million (2017: CZK 1,352 million).

20 Financial assets at fair value through other comprehensive income

The following table reconciles the prior period's closing from IAS 39 to IFRS 9:

		Reclassifications			Remeasurement		
(CZKm)	IAS 39 as of 31 Dec 2017	Available-for-sale financial assets	Held-to-maturity investments	Loans and advances to banks	ECL	Other	IFRS 9 as of 1 Jan 2018
Equity instruments at FVOCI option	N/A	241					241
Debt securities at FVOCI	N/A	7,091	12,194	2,039		729	22,053
Total financial assets at fair value through other comprehensive income	**N/A**	**7,332**	**12,194**	**2,039**		**729**	**22,294**

Further information is presented in Note 3.6 Changes in accounting policies and Note 44 Comparative information according to IAS 39.

Financial assets at fair value through other comprehensive income comprise the following:

(CZKm)	31 Dec 2018	1 Jan 2018
Equity instruments at FVOCI option	351	240
Debt securities at FVOCI	23,225	22,054
Total financial assets at fair value through other comprehensive income	**23,576**	**22,294**

For detailed information on *'Debt securities'*, allocated by sector and currency, refer to Note 41(A).

As of 31 December 2018, the *'Financial assets at fair value through other comprehensive income'* portfolio included securities at fair value of CZK 23,576 million (1 Jan 2018: CZK 22,294 million) that are publicly traded on stock exchanges.

'Debt securities at FVOCI' include securities eligible for refinancing with the CNB of CZK 23,225 million (1 Jan 2018: CZK 22,054 million).

As of 31 December 2018, the *'Financial assets at fair value through other comprehensive income'* portfolio included bonds at fair value of CZK 1,224 million (1 Jan 2018: CZK 1,233 million) that are used as collateral for intraday facilities in central banks.

As of 31 December 2018, the *'Financial assets at fair value through other comprehensive income'* portfolio included bonds at fair value of CZK 1,092 million (1 Jan 2018: CZK 976 million) that are used as collateral for derivative deals with a central counterparty. The central counterparty is LCH.Clearnet SA. The Bank uses Société Générale Newedge UK Limited as related broker.

Reclassification of certain debt securities held in the portfolio of 'Available-for-sale financial assets'
During the first quarter of 2014, the Bank reviewed the accounting recognition of certain debt securities issued by State institutions held in the portfolio of *'Available-for-sale financial assets'* (hereafter only "AFS") on the basis of the Bank's changing its intention for their classification. The Bank concluded that all regulatory and accounting requirements, as well as internal limits, were satisfied for recognition of the debt securities in the nominal value of CZK 50,260 million in the portfolio of *'Held-to-maturity investments'* (hereafter only "HTM") and decided to reclassify the respective securities from AFS to HTM. The securities were reclassified at fair value. The corresponding unrealised gains and losses in equity of CZK 4,474 million as of the reclassification date are retained in Other Comprehensive Income. Such amounts are amortised over the remaining life of the security (refer to Note 40).

21 Financial assets at amortised cost

The following table reconciles the prior period's closing from IAS 39 to IFRS 9:

		Reclassifications					Remeasurement		
(CZKm)	IAS 39 as of 31 Dec 2017	Available-for-sale financial assets	Held-to-maturity investments	Loans and advances to banks	Loans and advances to customers	Financial assets at FVOCI	ECL	Other	IFRS 9 as of 1 Jan 2018
Loans and advances to banks	232,279			(806)		(2,039)	4		229,438
Loans and advances to customers	535,321				(3,635)		(601)		531,085
Debt securities	N/A	16,159	43,213	806	3,635		(11)	(334)	63,468
Total financial assets at amortised cost	**767,600**	**16,159**	**43,213**	**0**	**0**	**(2,039)**	**(608)**	**(334)**	**823,991**

Further information is presented in Note 3.6 Changes in accounting policies and Note 44 Comparative information according to IAS 39.

Financial assets at amortised cost comprise the following:

(CZKm)	31 Dec 2018	1 Jan 2018
Loans and advances to banks	270,281	229,438
Loans and advances to customers	553,888	531,085
Debt securities	64,454	63,468
Total financial assets at amortised cost	**888,623**	**823,991**

For detailed information on *'Debt securities'*, allocated by sector and currency, refer to Note 41(A).

As of 31 December 2018, the *'Financial assets at amortised cost'* portfolio includes debt securities of CZK 63,979 million (1 Jan 2018: CZK 62,937 million) that are publicly traded on stock exchanges and debt securities of CZK 475 million (1 Jan 2018: CZK 531 million) that are not publicly traded.

'Debt securities' include securities eligible for refinancing with the CNB of CZK 60 million (1 Jan 2018: CZK 60 million).

As of 31 December 2018, 'Financial assets at amortised cost' comprise the following, as broken down by Staging:

	Gross carrying value				Allowances				Carrying value
(CZKm)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Central banks	204,776	0	0	204,776	0	0	0	0	204,776
General governments	21,081	519	342	21,942	(14)	(1)	(33)	(48)	21,894
Credit institutions	64,548	889	71	65,508	(1)	(1)	0	(2)	65,506
Other financial corporations	63,835	344	49	64,228	(29)	0	(8)	(37)	64,191
Non-financial corporations	195,813	10,454	8,481	214,748	(339)	(341)	(5,224)	(5,904)	208,844
Households*	245,000	12,952	4,871	262,823	(206)	(643)	(3,016)	(3,865)	258,958
Total loans	**795,053**	**25,158**	**13,814**	**834,025**	**(589)**	**(986)**	**(8,281)**	**(9,856)**	**824,169**
Central banks	0	0	0	0	0	0	0	0	0
General governments	61,121	0	0	61,121	(6)	0	0	(6)	61,115
Credit institutions	100	0	0	100	0	0	0	0	100
Other financial corporations	350	0	0	350	0	0	0	0	350
Non-financial corporations	2,889	0	0	2,889	0	0	0	0	2,889
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**64,460**	**0**	**0**	**64,460**	**(6)**	**0**	**0**	**(6)**	**64,454**

* This item also includes loans granted to individual entrepreneurs.

As of 1 January 2018, 'Financial assets at amortised cost' comprise the following, as broken down by Staging:

	Gross carrying value				Allowances				Carrying value
(CZKm)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Central banks	178,021	0	0	178,021	0	0	0	0	178,021
General governments	23,317	19	508	23,844	(7)	(1)	(54)	(62)	23,782
Credit institutions	50,004	1,301	117	51,422	(3)	(3)	0	(6)	51,416
Other financial corporations	58,423	5	64	58,492	(62)	0	(10)	(72)	58,420
Non-financial corporations	188,391	5,543	8,241	202,175	(601)	(300)	(5,454)	(6,355)	195,820
Households*	243,546	8,140	5,823	257,509	(178)	(561)	(3,706)	(4,445)	253,064
Total loans	**741,702**	**15,008**	**14,753**	**771,463**	**(851)**	**(865)**	**(9,224)**	**(10,940)**	**760,523**
Central banks	0	0	0	0	0	0	0	0	0
General governments	59,811	0	0	59,811	(11)	0	0	(11)	59,800
Credit institutions	807	0	0	807	0	0	0	0	807
Other financial corporations	70	0	0	70	0	0	0	0	70
Non-financial corporations	2,791	0	0	2,791	0	0	0	0	2,791
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**63,479**	**0**	**0**	**63,479**	**(11)**	**0**	**0**	**(11)**	**63,468**

* This item also includes loans granted to individual entrepreneurs.

For the year ended 31 December 2018, the transfers between Stages were as follow:

(CZKm)	Gross carrying value From Stage 1 to Stage 2	From Stage 2 to Stage 1	From Stage 2 to Stage 3	From Stage 3 to Stage 2	From Stage 1 to Stage 3	From Stage 3 to Stage 1
Central banks	0	0	0	0	0	0
General governments	502	1	0	0	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	343	0	0	0	1	0
Non-financial corporations	6,889	768	378	67	1,236	46
Households*	8,152	2,282	539	383	607	52
Total loans	**15,886**	**3,051**	**917**	**450**	**1,844**	**98**
Central banks	0	0	0	0	0	0
General governments	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0
Other financial corporations	0	0	0	0	0	0
Non-financial corporations	0	0	0	0	0	0
Households*	0	0	0	0	0	0
Total debt securities	**0**	**0**	**0**	**0**	**0**	**0**
Total guarantees and other credit-related commitments	**3,123**	**1,660**	**161**	**51**	**191**	**16**

* This item also includes loans granted to individual entrepreneurs.

Due to first-time application of IFRS 9 Financial Instruments, comparative information is not presented.

Set out below is the breakdown of loans and advances to non-financial corporations by sector:

(CZKm)	31 Dec 2018	1 Jan 2018
Agriculture, forestry and fishing	9,352	9,003
Mining and quarrying	3,673	3,629
Manufacturing	55,632	52,462
Electricity, gas, steam and air conditioning supply	14,792	13,943
Water supply, sewerage, waste management and remediation activities	1,828	2,379
Construction	7,403	6,766
Wholesale and retail trade, repair of motor vehicles and motorcycles	40,038	36,691
Transportation and storage	8,743	6,907
Accommodation and food service activities	1,278	952
Information and communication	6,256	5,590
Real estate activities	45,335	41,761
Professional, scientific and technical activities	4,829	7,973
Administrative and support service activities	5,829	6,786
Public administration and defence, compulsory social security	2	53
Education	209	219
Human health and social work activities	1,424	1,466
Arts, entertainment and recreation	3,882	2,696
Other service activities	4,243	2,899
Total loans and advances to non-financial corporations	**214,748**	**202,175**

The majority of loans – more than 91% (1 Jan 2018: more than 90%) – were provided to entities on the territory of the Czech Republic.

As of 31 December 2018, loans and advances to customers included accrued interest of CZK 757 million (1 Jan 2018: CZK 742 million), of which CZK 234 million (1 Jan 2018: CZK 233 million) relates to interest from overdue advances.

The total amount of loans due from the CNB and other banks under reverse repurchase transactions was CZK 207,905 million (1 Jan 2018: CZK 180,054 million).

Loans due from the CNB and other banks under reverse repurchase transactions are collateralised by treasury bills issued by the CNB and other debt securities, the fair values of which are as follow:

(CZKm)	31 Dec 2018	1 Jan 2018
Treasury bills	201,516	177,003
Debt securities issued by state institutions	2,496	2,028
Emission allowances	784	0
Investment certificates	0	0
Total	**204,796**	**179,031**

As of 31 December 2018, loans provided to customers under reverse repurchase transactions in the amount of CZK 2,008 million (1 Jan 2018: CZK 1,256 million) are collateralised by securities with a fair value of CZK 4,051 million (1 Jan 2018: CZK 1,567 million).

Broken out below are the types of collateral held in support of loans and advances to customers as stated in the Statement of Financial Position as of 31 December 2018:

	Applied loans and advances to customers collateral value*				
(CZKm)	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Loans and advances to customers	**199,800**	**27,217**	**1,629**	**18,662**	**24,697**
of which:					
– Other financial corporations	54	324	256	3,177	6,988
– Non-financial corporations	1,968	23,345	1,099	14,990	12,298
– Households**	197,690	3,518	237	361	498

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.
** This item also includes loans granted to individual entrepreneurs.

Broken out below are the types of collateral held in support of loans and advances to customers as stated in the Statement of Financial Position as of 1 January 2018:

	Applied loans and advances to customers collateral value*				
(CZKm)	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Loans and advances to customers	**189,747**	**21,013**	**1,705**	**19,349**	**28,740**
of which:					
– Other financial corporations	66	114	0	4,184	7,806
– Non-financial corporations	1,643	17,457	1,217	14,363	11,221
– Households**	187,920	3,398	391	605	479

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.
** This item also includes loans granted to individual entrepreneurs.

Pledges on industrial real estate represent 9% of total pledges on real estate (1 Jan 2018: 9%).

Forborne loans and advances to customers

Forborne loans and advances to customers as of 31 December 2018:

(CZKm)	Neither past due nor impaired	Past due, not impaired	Impaired	Total forborne	Allowances	Collateral applied
Other financial corporations	0	0	0	0	0	0
Non-financial corporations	13	0	2,243	2,256	1,223	559
Households*	942	139	960	2,041	489	1,470
Total	**955**	**139**	**3,203**	**4,297**	**1,712**	**2,029**

* This item also includes loans granted to individual entrepreneurs.

Forborne loans and advances to customers as of 1 January 2018:

(CZKm)	Neither past due nor impaired	Past due, not impaired	Impaired	Total forborne	Allowances	Collateral applied
Other financial corporations	0	0	0	0	0	0
Non-financial corporations	268	0	2,428	2,696	1,460	686
Households*	945	134	966	2,045	456	1,391
Total	**1,213**	**134**	**3,394**	**4,741**	**1,916**	**2,077**

* This item also includes loans granted to individual entrepreneurs.

The carrying value of forborne assets in comparison with the Bank's loan portfolio (excluding Debt securities and Other amounts due from customers):

	31 Dec 2018			1 Jan 2018		
(CZKm)	Gross receivable	Forborne assets	Share in gross receivable	Gross receivable	Forborne assets	Share in gross receivable
Other financial corporations	64,228	0	0.00%	58,492	0	0.00%
Non-financial corporations	214,748	2,256	1.05%	202,175	2,696	1.33%
Households*	262,823	2,041	0.78%	257,509	2,045	0.79%
Total	**541,799**	**4,297**	**0.79%**	**518,176**	**4,741**	**0.91%**

* This item also includes loans granted to individual entrepreneurs.

22 Prepayments, accrued income and other assets

Prepayments, accrued income and other assets comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Prepayments and accrued income	557	548
Settlement balances	680	624
Receivables from securities trading	148	342
Other assets	2,642	2,409
Total prepayments, accrued income and other assets	**4,027**	**3,923**

'Other assets' include allowances for operating receivables for other debtors in the amount of CZK 215 million (2017: CZK 223 million), and in particular also advances provided and receivables for other debtors.

23 Investments in subsidiaries and associates

Investments in subsidiaries and associates comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Investments in subsidiary undertakings	16,961	19,091
Investments in associated undertakings	837	837
Total investments in subsidiaries and associates	**17,798**	**19,928**

Subsidiary undertakings

The following companies were subsidiary undertakings of the Bank as of 31 December 2018:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
Bastion European Investments S.A.	99.98	99.98	Financial services	Brussels	568	0	568
ESSOX s.r.o.	50.93	50.93	Consumer loans, leasing	České Budějovice	1,165	0	1,165
Factoring KB, a.s.	100	100	Factoring	Prague	1,190	0	1,190
KB Penzijní společnost, a.s.	100	100	Financial services	Prague	550	0	550
KB Real Estate, s.r.o.	100	100	Support services	Prague	511	0	511
Modrá pyramida stavební spořitelna, a.s.	100	100	Construction savings scheme	Prague	4,873	0	4,873
Protos, uzavřený investiční fond, a.s.	83.65	100	Financial services	Prague	5,032	0	5,032
SG Equipment Finance Czech Republic s.r.o.	50.1	50.1	Industry financing	Prague	1,850	0	1,850
STD2, s.r.o.	100	100	Support services	Prague	358	0	358
VN 42, s.r.o.	100	100	Support services	Prague	864	0	864
Total					**16,961**	**0**	**16,961**

Associated undertakings

The following companies were associated undertakings of the Bank as of 31 December 2018:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
CBCB – Czech Banking Credit Bureau, a.s.	20	20	Collection of data for evaluating credit risk	Prague	0*	0	0
Komerční pojišťovna, a.s.	49	49	Insurance activities	Prague	837	0	837
Total					**837**	**0**	**837**

* The cost of investment for CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.

Investments in subsidiaries and associates classified as assets held for sale

The following investments in subsidiaries and associates of the Bank were classified as assets held for sale as of 31 December 2018:

Company name	Direct holding %	Group holding %	Principal activity	Registered office	Cost of investment (CZKm)	Allowances (CZKm)	Carrying value (CZKm)
Cataps, s.r.o.	1	1	Financial services	Prague	0*	0	0
Total					**0**	**0**	**0**

* The cost of investment for Cataps, s.r.o. is CZK 418 thousand.

Set out below is an overview of year-on-year movements in investments, by issuer:

(CZKm)	Investment at cost as of 1 Jan 2018	Additions	Decreases	Reclassification	Investment at cost as of 31 Dec 2018
Bastion European Investments S.A.[4)]	2,873	0	(2,305)	0	568
ESSOX s.r.o.[1)]	1,165	0	0	0	1,165
Factoring KB, a.s.	1,190	0	0	0	1,190
KB Penzijní společnost, a.s.	550	0	0	0	550
KB Real Estate, s.r.o.	511	0	0	0	511
Modrá pyramida stavební spořitelna, a.s.	4,873	0	0	0	4,873
Protos, uzavřený investiční fond, a.s.	5,032	0	0	0	5,032
SG Equipment Finance Czech Republic s.r.o.	1,850	0	0	0	1,850
STD2, s.r.o.[3)]	183	175	0	0	358
VN 42, s.r.o.	864	0	0	0	864
Total subsidiaries	**19,091**	**175**	**(2,305)**	**0**	**16,961**
CBCB – Czech Banking Credit Bureau, a.s.	0*	0	0	0	0*
Komerční pojišťovna, a.s.	837	0	0	0	837
Total associates	**837**	**0**	**0**	**0**	**837**
Cataps, s.r.o.[2)]	8	0	(8)	0	0**
Total as assets held for sale	**8**	**0**	**(8)**	**0**	**0**

* The cost of investment for CBCB – Czech Banking Credit Bureau, a.s. is CZK 240 thousand.
** The cost of investment for Cataps, s.r.o. is CZK 418 thousand.

Changes in equity investments in subsidiaries and associates in 2018

1) As of the effective date 1 January 2018, ESSOX s.r.o. and PSA FINANCE CZECH REPUBLIC, s.r.o. were merged into ESSOX s.r.o. ESSOX s.r.o. is a subsidiary of the Bank and PSA FINANCE CZECH REPUBLIC, s.r.o. had been a subsidiary of ESSOX s.r.o.
2) In February 2018, the Bank sold a 19% stake in the company Cataps, s.r.o., thereby reducing its ownership from 20% to 1%. As of the end of 2017, the ownership stake had been classified as 'Assets held for sale'.
3) With effect from 1 June 2018, the company STD2 (the Bank's wholly owned subsidiary) changed its legal form from that of public-limited company to that of limited-liability company. The change in legal form has no impact on the consolidation method. In September 2018, the Bank increased the equity of this company by CZK 175 million in the form of a cash contribution of other funds not part of the registered capital.
4) In December 2018, the equity in Bastion European Investments S.A. was decreased by EUR 81 million (equivalent to CZK 2,305 million). The decrease was initiated solely by the Bank as the majority shareholder of Bastion European Investments S.A. The foreign exchange rate risk arising from the net investment in the subsidiary Bastion European Investments S.A. is hedged by foreign currency deposits. The hedging relationship was partially terminated in the context of reducing the company's equity.

24 Intangible assets

The movements in intangible assets were as follow:

(CZKm)	Internally generated assets*	Software	Other intangible assets	Acquisition of assets	Total
Cost					
As of 1 January 2017	11,714	1,832	14	1,012	14,572
Additions	1,152	71	0	1,716	2,939
Disposals/transfers	(249)	(4)	0	(1,222)	(1,475)
Foreign exchange rate difference	0	(1)	0	0	(1)
As of 31 December 2017	12,617	1,898	14	1,506	16,035
Additions	1,417	85	0	1,573	3,075
Disposals/transfers	(186)	(30)	0	(1,502)	(1,718)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2018	**13,848**	**1,953**	**14**	**1,577**	**17,392**
Accumulated amortisation and allowances					
As of 1 January 2017	(9,574)	(1,554)	(14)	(2)	(11,144)
Additions	(836)	(91)	0	0	(927)
Disposals	249	4	0	0	253
Impairment	(29)	0	0	0	(29)
Foreign exchange rate difference	0	1	0	0	1
As of 31 December 2017	(10,190)	(1,640)	(14)	(2)	(11,846)
Additions	(943)	(85)	0	0	(1,028)
Disposals	174	30	0	0	204
Impairment	11	2	0	2	15
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2018	**(10,948)**	**(1,693)**	**(14)**	**0**	**(12,655)**
Net book value					
As of 31 December 2017	2,427	258	0	1,504	4,189
As of 31 December 2018	**2,900**	**260**	**0**	**1,577**	**4,737**

* Internally generated assets comprise mainly software.

During the year ended 31 December 2018, the Bank spent CZK 152 million (2017: CZK 141 million) on research and development through a charge to *'Operating expenses'*. As of 31 December 2018, the Bank recognised allowances against intangible assets of CZK 17 million (2017: CZK 32 million). These allowances primarily included allowances charged in respect of internally generated assets (software).

25 Tangible assets

The movements in tangible assets were as follow:

(CZKm)	Land	Buildings	Machinery, furniture and fixtures and other	Acquisition of assets	Total
Cost					
As of 1 January 2017	111	7,130	4,426	737	12,404
Reallocation from/to assets held for sale	0	0	0	0	0
Additions	0	416	509	872	1,797
Disposals/transfers	0	(33)	(351)	(929)	(1,313)
Foreign exchange rate difference	0	(1)	(1)	0	(2)
As of 31 December 2017	111	7,512	4,583	680	12,886
Reallocation from/to assets held for sale	(16)	(191)	0	0	(207)
Additions	0	459	402	641	1,502
Disposals/transfers	0	(110)	(327)	(864)	(1,301)
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2018	**95**	**7,670**	**4,658**	**457**	**12,880**
Accumulated depreciation and allowances					
As of 1 January 2017	0	(4,131)	(3,609)	0	(7,740)
Reallocation of accumulated depreciation of assets held for sale	0	0	0	0	0
Additions	0	(251)	(272)	0	(523)
Disposals	0	33	337	0	370
Impairment	0	(241)	11	0	(230)
Foreign exchange rate difference	0	1	1	0	2
As of 31 December 2017	0	(4,589)	(3,532)	0	(8,121)
Reallocation of accumulated depreciation of assets held for sale	0	104	0	0	104
Additions	0	(292)	(307)	0	(599)
Disposals	0	109	311	0	420
Impairment	0	(3)	9	0	6
Foreign exchange rate difference	0	0	0	0	0
As of 31 December 2018	**0**	**(4,671)**	**(3,519)**	**0**	**(8,190)**
Net book value					
As of 31 December 2017	111	2,923	1,051	680	4,765
As of 31 December 2018	**95**	**2,999**	**1,139**	**457**	**4,690**

As of 31 December 2018, the Bank recognised allowances against tangible assets of CZK 244 million (2017: CZK 250 million). These allowances primarily included allowances charged in respect of Nonet building in the amount of CZK 244 million (2017: CZK 241 million) represented by the excess of net book value over recoverable amount determined as fair value less costs to sell (based on the Bank's headquarters optimisation strategy).

26 Assets held for sale

As of 31 December 2018, the Bank reported assets held for sale at a carrying amount of CZK 142 million (2017: CZK 127 million) comprising buildings and land owned by the Bank which the management of the Bank decided to sell as a component of a plan to optimise the distribution network. Depreciation of these assets has been discontinued since their classification as assets held for sale. As of 31 December 2018, the Bank recognised allowances against assets held for sale of CZK 142 million (2017: CZK 152 million).

As of 31 December 2018, *'Assets held for sale'* also included investments in subsidiaries and associates classified as assets held for sale at a carrying amount of CZK 0 million (2017: CZK 8 million). For detail, refer to Note 23.

27 Financial liabilities at fair value through profit or loss

There is no impact from the adoption of IFRS 9 in this Note.

As of 31 December 2018 and 2017, the *'Financial liabilities at fair value through profit or loss'* portfolio included only liabilities arising from short sales of securities and negative fair values of financial derivative instruments held for trading. Upon initial recognition, the Bank has not designated any financial liabilities as *'Financial liabilities at fair value through profit or loss'*.

(CZKm)	31 Dec 2018	31 Dec 2017
Short sales	2,244	1,673
Derivative financial instruments	19,995	18,161
Total financial liabilities at fair value through profit or loss	**22,239**	**19,834**

For detailed information on financial derivative instruments included in the portfolio for trading, refer to Note 41(C).

28 Financial liabilities at amortised cost

There is no impact from the adoption of IFRS 9 in this Note.

Financial liabilities at amortised cost comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Amounts due to banks	76,365	69,600
Amounts due to customers	755,039	702,053
Securities issued	30,341	35,338
Total financial liabilities at amortised cost	**861,745**	**806,991**

Total amount of loans from banks and customers received under repurchase transactions was CZK 23,659 million (2017: CZK 11,105 million).

The fair values of securities and treasury bills used as collateral for repurchase transactions are as follow:

	31 Dec 2018		31 Dec 2017	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets at fair value through profit or loss	0	0	51	51
Other assets at fair value through profit or loss	0	0	0	0
Financial assets at fair value through other comprehensive income	5,377	5,377	5,454	5,454
Financial assets at amortised cost	0	0	0	0
Securities received as collateral	18,362	18,362	6,018	6,018
Total	**23,739**	**23,739**	**11,523**	**11,523**

Amounts due to banks and customers, allocated by sector, comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Central banks	0	0
General governments	92,651	85,846
Credit institutions	76,365	69,600
Other financial corporations	68,944	55,121
Non-financial corporations	262,627	257,906
Households*	330,817	303,180
Total amounts due to banks and customers	**831,404**	**771,653**

* This item also includes amounts due to individual entrepreneurs.

Securities issued

Securities issued comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Mortgage bonds	28,809	33,268
Depository bills of exchange	1,532	2,070
Total securities issued	**30,341**	**35,338**

The Bank issues mortgage bonds to fund its mortgage activities.

The following table shows a summary of cash and non-cash changes in the balance of securities issued:

			Non-cash changes		
(CZKm)	1 Jan 2018	Cash flow*	Amortisation and accrued interest	Change of FV hedge of interest rate risk	31 Dec 2018
Mortgage bonds	33,268	(5,443)	916	68	28,809
Depository bills of exchange	2,070	(562)	24	0	1,532
Total securities issued	**35,338**	**(6,005)**	**940**	**68**	**30,341**

* The item includes the cash flow on principal and interest paid.

			Non-cash changes		
(CZKm)	1 Jan 2017	Cash flow*	Amortisation and accrued interest	Change of FV hedge of interest rate risk	31 Dec 2017
Mortgage bonds	43,362	(11,030)	1,252	(316)	33,268
Depository bills of exchange	2,393	(334)	11	0	2,070
Total securities issued	**45,755**	**(11,364)**	**1,263**	**(316)**	**35,338**

* The item includes the cash flow on principal and interest paid.

Mortgage bonds according to their remaining time to maturity break out as follows:

(CZKm)	31 Dec 2018	31 Dec 2017
In less than one year	1,022	1,753
In one to five years	3,849	5,910
In five to ten years	5,338	4,569
In ten to twenty years	18,600	21,036
More than twenty years	0	0
Total mortgage bonds	**28,809**	**33,268**

The securities issued detailed above include the following mortgage bonds issued by the Bank:

Name	Interest rate	Currency	Issue date	Maturity date	31 Dec 2018 CZKm	31 Dec 2017 CZKm
HZL Komerční banky, a.s., CZ0002001142	5.0%	CZK	16 Aug 2007	16 Aug 2019	1,022	2,052
HZL Komerční banky, a.s., CZ0002001324, CZ0002001332	5.06% for the first 12 annual interest periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	2,423	2,432
HZL Komerční banky, a.s., CZ0002001340, CZ0002001357	5.02% for the first 11 annual interest periods, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	0	1,732
HZL Komerční banky, a.s., CZ0002001365, CZ0002001373	4.23% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	16 Nov 2007	16 Nov 2037	1,923	1,902
HZL Komerční banky, a.s., CZ0002001431, CZ0002001449, CZ0002001456	4.14% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	30 Nov 2007	30 Nov 2037	3,454	3,417
HZL Komerční banky, a.s., CZ0002001506, CZ0002001514, CZ0002001522, CZ0002001530, CZ0002001548	4.29% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	7 Dec 2007	7 Dec 2037	5,055	5,036
HZL Komerční banky, a.s., CZ0002001555, CZ0002001563, CZ0002001571, CZ0002001589	4.33% for the first 3M interest period, afterwards the relevant reference rate* less 0.20%	CZK	12 Dec 2007	12 Dec 2037	4,962	4,992
HZL Komerční banky, a.s., CZ0002002801	2.55%	CZK	21 Dec 2012	21 Dec 2022	3,014	3,018
HZL Komerční banky, a.s., CZ0002003064	6M PRIBOR plus 50 bps	CZK	14 Mar 2013	14 Mar 2018	0	1,753
HZL Komerční banky, a.s., CZ0002003346	3.50%	CZK	31 Jan 2014	31 Jan 2026	863	868
HZL Komerční banky, a.s., CZ0002003353	3.50%	CZK	31 Jan 2014	31 Jan 2025	1,231	1,243
HZL Komerční banky, a.s., CZ0002003361	3.00%	CZK	30 Jan 2014	30 Jan 2024	944	948
HZL Komerční banky, a.s., CZ0002003379	3.00%	CZK	30 Jan 2014	30 Apr 2022	835	841
HZL Komerční banky, a.s., CZ0002003742	2.00%	CZK	18 Nov 2014	18 Nov 2026	759	753
HZL Komerční banky, a.s., CZ0002003759	2.10%	CZK	24 Nov 2014	24 Nov 2027	766	756
HZL Komerční banky, a.s., CZ0002003767	2.20%	CZK	20 Nov 2014	20 Nov 2028	775	762
HZL Komerční banky, a.s., CZ0002003775	2.30%	CZK	27 Nov 2014	27 Nov 2029	783	763
Total mortgage bonds					**28,809**	**33,268**

* The reference rate can be of the following type: 3M PRIBOR to 12M PRIBOR, the swap sale for 2 to 30 years.
Six-month PRIBOR as of 31 December 2018 was 207 bps (2017: 85 bps).
The value of the interest rate swap CZK sale average for 5 years as of 31 December 2018 was 182 bps (2017: 165 bps).
The value of the interest rate swap CZK sale average for 10 years as of 31 December 2018 was 176 bps (2017: 187 bps).

29 Accruals and other liabilities

Accruals and other liabilities comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Accruals and deferred income	130	200
Settlement balances and outstanding items	80	17
Payables from securities trading and issues of securities	3,810	4,613
Payables from payment transactions	3,359	7,780
Other liabilities	3,890	4,072
Total accruals and other liabilities	**11,269**	**16,682**

Deferred fees from banking guarantees are reported in 'Accruals and deferred income' in the amount of CZK 20 million (2017: CZK 18 million).

'Other liabilities' mainly include liabilities arising from the delivery of goods and services and relationships with employees (including estimated balances).

30 Provisions

The following table reconciles the prior period's closing from IAS 39 to IFRS 9:

		Remeasurement		
(CZKm)	IAS 39 as of 31 Dec 2017	ECL	Other	IFRS 9 as of 1 Jan 2018
Provisions for contracted commitments	505			505
Provisions for other credit commitments	1,393	23		1,416
Provisions for restructuring	0			0
Total provisions	**1,898**	**23**	**0**	**1,921**

Further information is presented in Note 3.6 Changes in accounting policies and Note 44 Comparative information according to IAS 39.

Provisions comprise the following:

(CZKm)	31 Dec 2018	1 Jan 2018
Provisions for contracted commitments (refer to Note 35)	464	505
Provisions for other credit commitments (refer to Notes 13 and 35)	1,122	1,416
Provisions for restructuring	230	0
Total provisions	**1,816**	**1,921**

The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, self-insurance and the retirement benefits plan.

In 2018, the Bank created provisions for restructuring related to the transformation project "KB Change" in the amount of CZK 294 million (2017: CZK 0 million) in accordance with estimated redundancy payments, consultancy costs and other costs necessary in order to implement the detailed restructuring plan of transformation. Provisions are reported in the Income Statement lines *'Personnel expenses'* (refer to Note 10) in the amount of CZK 223 million (2017: CZK 0 million) and *'General administrative expenses'* (refer to Note 11) in the amount of CZK 71 million (2017: CZK 0 million). Use of provisions for restructuring is reported in the Income Statement lines *'Personnel expenses'* (refer to Note 10) in the amount of CZK 34 million (2017: CZK 0 million) and *'General administrative expenses'* (refer to Note 11) in the amount of CZK 30 million (2017: CZK 0 million).

Movements in the provisions for contracted commitments and for restructuring were as follow:

(CZKm)	Retirement benefits plan	Other provisions for contracted commitments	Provisions for restructuring	Total
Balance as of 1 January 2017	322	138	0	460
Charge	21	78	0	99
Release	(11)	(36)	0	(47)
Use	0	(35)	0	(35)
Accrual	5	0	0	5
Remeasurement	28	0	0	28
Foreign exchange difference	0	(5)	0	(5)
Balance as of 1 January 2018	365	140	0	505
Charge	26	89	294	409
Release	(15)	(103)	0	(118)
Use	(12)	(6)	(64)	(82)
Accrual	6	0	0	6
Remeasurement	(27)	0	0	(27)
Foreign exchange difference	0	1	0	1
Balance as of 31 December 2018	**343**	**121**	**230**	**694**

31 Deferred tax

Deferred tax is calculated from temporary differences between the tax bases and carrying values using tax rates effective in the periods in which the temporary tax differences are expected to be utilised. The Bank offsets deferred income tax assets and deferred income tax liabilities, then reports deferred tax in relation to taxes levied by the taxation authorities in the Czech Republic and Slovakia.

Net deferred tax assets are as follow:

(CZKm)	31 Dec 2018	1 Jan 2018
Banking provisions and allowances	0	398
Allowances for assets	0	83
Non-banking provisions and allowances	18	21
Difference between accounting and tax net book value of assets	1	(323)
Remeasurement of retirement benefits plan – equity impact (refer to Note 37)	0	36
Revaluation of equity securities at FVOCI option – equity impact (refer to Note 38)	0	(18)
Revaluation of hedging derivatives – equity impact (refer to Note 39)	0	(43)
Revaluation of debt securities at FVOCI – equity impact (refer to Note 40)	0	(192)
Other temporary differences	0	142
Net deferred tax assets	**19**	**104**

Net deferred tax liabilities are as follow:

(CZKm)	31 Dec 2018	1 Jan 2018
Banking provisions and allowances	144	0
Allowances for assets	78	0
Non-banking provisions and allowances	49	0
Difference between accounting and tax net book value of assets	(364)	0
Remeasurement of retirement benefits plan – equity impact (refer to Note 37)	31	0
Revaluation of equity securities at FVOCI option – equity impact (refer to Note 38)	(36)	0
Revaluation of hedging derivatives – equity impact (refer to Note 39)	5	0
Revaluation of debt securities at FVOCI – equity impact (refer to Note 40)	(108)	0
Other temporary differences	177	0
Net deferred tax liabilities	**(24)**	**0**

Since 2007, the Bank has not reported any deferred tax arising from the revaluation of a foreign net investment.

Movements in the net deferred tax assets/(liabilities) were as follow:

(CZKm)	2018	2017
Changes in accounting policies	**351**	**N/A**
Balance as of the beginning of the period	104	(3,034)
Movement in the net deferred tax – profit and loss impact (refer to Note 16)	(218)	(19)
Movement in the net deferred tax – equity impact (refer to Notes 37, 38, 39 and 40)	109	2,806
Balance as of the end of the period	**(5)**	**(247)**

32 Subordinated debt

As of 31 December 2018, the Bank reports subordinated debt of CZK 2,578 million (2017: CZK 2,560 million). The subordinated debt was received by the Bank in October 2017 and is part of Tier 2 regulatory capital. The nominal value of the subordinated debt is EUR 100 million. The subordinated debt is euro-denominated in order to better align the currency structure of the Bank's regulatory capital and risk-weighted assets. The subordinated debt was issued by the parent company of the Bank, Société Générale S.A. The subordinated debt bears an interest rate of 3-month EURIBOR plus 1.26%. It has a 10-year maturity but with the Bank having an option for early repayment after 5 years.

33 Share capital

The Bank's share capital, entered in the Register of Companies on 11 February 2000, amounts to CZK 19,004,926,000 and consists of 190,049,260 ordinary bearer shares issued as uncertificated securities with a nominal value of CZK 100 each (ISIN: CZ0008019106). The number of shares authorised is the same as the number of shares issued. The share capital is fully paid up.

The Bank's shares are publicly traded on stock markets in the Czech Republic managed by the market organisers Burza cenných papírů Praha, a.s. (the Prague Stock Exchange) and RM-SYSTÉM, česká burza cenných papírů a.s. (the Czech Stock Exchange). Their transferability is not restricted.

Rights are attached to the ordinary shares in accordance with Act No. 90/2012 Coll., on Business Corporations and Co-operatives. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. The voting rights can only be eliminated on statutory grounds. The Bank cannot exercise voting rights attached to its own shares.

Shareholders are entitled to share in the Bank's profit (dividend) approved for distribution by the Annual General Meeting based on the Bank's financial results and in accordance with the conditions stipulated by generally binding legal regulations.

The right to payment of the dividend is time-barred from 3 years after its declared payment date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not plead the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment. After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to plead the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

In the event of a shareholder's death, his or her legal heir shall be entitled to exercise all rights attached to the shares. Upon the Bank's liquidation and dissolution, the means of liquidation are governed by the relevant generally binding legal regulations. The proposal for the distribution of the liquidation balance among shareholders is approved by the Annual General Meeting in proportion to the nominal values of the shares held by the Bank's shareholders.

Set out below is a summary of the entities that hold more than 1% of the Bank's issued share capital as of 31 December 2018:

Name of the entity	Ownership percentage
SOCIÉTÉ GÉNÉRALE SA	60.35%
Chase Nominees Limited	4.88%
Nortrust Nominees Limited	3.87%
CLEARSTREAM BANKING, s.a.	2.46%
STATE STREET BANK AND TRUST COMPANY	1.98%
GIC PRIVATE LIMITED	1.74%
Brown Brothers Harriman CO.	1.57%

Société Générale S.A., being the only entity with a qualified holding in the Bank, and moreover as the parent company, is a French company limited by shares incorporated by a Deed approved through the issuance of a Decree on 4 May 1864 and is licensed as a bank. Under the legislative and regulatory provisions relating to financial institutions, notably the articles of the Monetary and Financial Code, the Company is subject to commercial laws, in particular Articles 210-1 et seq. of the French Commercial Code, as well as its Articles of Association.

As of 31 December 2018, the Bank held 1,193,360 of its own shares in treasury at a cost of CZK 726 million (2017: 1,193,360 treasury shares at a cost of CZK 726 million).

Capital management

The Basel III rules valid for capital regulation did not change the process for managing the Bank's regulatory capital adequacy, but they naturally were taken into account in setting the parameters for this process, in particular with regard to application of the combined capital buffer and additional Pillar 2 buffer above and beyond the minimum required capital ratio of 8.0%. The regulatory methodology was substantially stabilised in 2016 (in particular, the stacking order of capital buffers) and consequently an additional Pillar 2 buffer of 1.5% was applied to the Bank on top of the minimum required capital ratio of 8.0% in 2018. That means the total SREP (Supervisory Review and Evaluation Process) capital requirement (TSCR) was 9.5% for the year 2018. A combined capital buffer of 6.5% was applied on top of the TSCR capital ratio, thus resulting in the required overall capital ratio (OCR) of 16.0% for the year 2018 (an increase of 0.6% in comparison with the previous year, mainly due to an increase in the countercyclical capital buffer). The combined capital buffer consists of the capital conservation buffer of 2.5%, the systemic risk buffer of 3.0% and the countercyclical buffer which reached 1.0% in 2018 for the exposures in the Czech Republic. As its capital ratio stands well above the minimum required level, the Bank meets the required level of the overall capital ratio with an adequate reserve.

The Bank manages its capital adequacy to ensure its sufficient level in an environment of changing regulatory requirements while allowing organic business growth and for potentially adverse macroeconomic development. Under the Basel III capital adequacy regulation, in addition to the usual reporting of the capital ratio (Pillar 1), the Bank must meet the requirements for evaluating required economic capital, stress testing and capital planning (Pillar 2). To determine the required economic capital, the Bank has selected methods close to the regulatory procedures applied for Pillar 1. Consequently, the necessary levels of economic and regulatory capital are very similar.

The Bank regularly simulates future developments under Pillar 2 based on the assumption of possible adverse external macroeconomic conditions that may either directly affect the Bank's profit or have implications resulting in deterioration in the Bank's transaction risk profile.

The Bank compiles hypothetical macroeconomic scenarios on the basis of which it estimates medium-term impacts on earnings and on transaction risk profiles. On this basis, the Bank acquires views concerning the changing volume of the risk-weighted assets (i.e. capital requirements) and the financial results while also taking into account the outlook for dividend payments and the level of the Bank's capital adequacy ratio.

The results of such stress testing are among those factors considered in determining the Bank's dividend policy, which is the primary tool for capital adequacy management in such situation that the Bank's capital is largely classified as Common Equity Tier 1 capital.

The Bank's capital consists principally of the following balances: share capital, reserve funds, retained earnings and Tier 2 subordinated debt (which was taken on by the Bank in 2017).

The Bank did not purchase its own shares into treasury during 2018. As of 31 December 2018, the Bank held in total 1,193,360 treasury shares at a total cost of CZK 726 million purchased in previous years (2017: 1,193,360 treasury shares at a total cost of CZK 726 million). The acquisition of treasury shares had been approved by the Bank's General Meeting especially for the purpose of managing the Bank's capital adequacy.

In view of the facts that the capital requirements under Basel III regulation (the capital buffers in particular, typically the countercyclical buffer) can vary over time and a part of the implementing regulatory rules and the regulation itself are still being developed, the Bank is continuously monitoring and evaluating the forthcoming changes in regulatory requirements affecting the capital and capital adequacy. It analyses their potential impacts as part of the Bank's capital planning process.

The CNB, as the local regulatory authority, oversees the Bank's capital adequacy compliance on both separate and consolidated bases. During the past year, the Bank was in compliance with all regulatory requirements. The Bank also regularly prepares the regulatory report on Pillar 2 (i.e. internal capital adequacy assessment process) and submits it to the CNB.

34 Composition of cash and cash equivalents as reported in the Statement of Cash Flows

(CZKm)	31 Dec 2018	31 Dec 2017	Change in the year
Cash and current balances with central banks (refer to Note 18)	22,504	32,523	(10,019)
Loans and advances to banks – current accounts with other banks	1,292	295	997
Amounts due to central banks	(1)	(1)	0
Amounts due to banks – current accounts	(2,986)	(8,842)	5,856
Cash and cash equivalents at the end of the year	**20,809**	**23,975**	**(3,166)**

35 Commitments and contingent liabilities

Legal disputes
The Bank conducted a review of legal proceedings outstanding against it as of 31 December 2018. Pursuant to the review of significant litigation matters in terms of the risk of losses and litigated amounts, the Bank has recorded a provision of CZK 5 million (2017: CZK 16 million) for these legal disputes (refer to Note 30). The Bank has also recorded a provision of CZK 3 million (2017: CZK 5 million) for costs associated with a potential payment of appurtenances on the pursued claims.

As of 31 December 2018, the Bank conducted a review of legal proceedings it had filed against other entities. The Bank has been notified that certain parties against which it is taking legal action may file counterclaims against it. The Bank will contest any such claims and, taking into consideration the opinion of its internal and external legal counsel, believes that any asserted claims made will not materially affect its financial position. No provision has been made in respect of these matters.

Commitments arising from the issuance of guarantees
Commitments from guarantees represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to the third parties. These assurances carry the same credit risk as do loans, and therefore the Bank makes provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

Capital commitments
As of 31 December 2018, the Bank had capital commitments of CZK 704 million (2017: CZK 888 million), which include capital commitments in respect of current capital investment projects in the amount of CZK 597 million (2017: CZK 624 million).

Commitments arising from the issuance of letters of credit
Documentary letters of credit are written, irrevocable commitments by the Bank on behalf of a customer (the mandatory) authorising a third party (the beneficiary) to draw drafts on the Bank up to a stipulated amount under specific terms and conditions. The Bank records provisions for these instruments (according to a customer's creditworthiness) on the same basis as is applicable to loans.

Commitments to extend credit, undrawn loan commitments, and overdrafts and approved overdraft loans
Principal off-balance sheet exposures include undrawn limits under framework agreements to provide financial services, approved overdraft loans, undrawn loan commitments, issued commitments to extend credit and unutilised facilities. The primary purpose of commitments to extend credit and framework agreements is to ensure that funds are available to a customer as required. Commitments to extend credit represent unused portions of authorisations to extend credit in the forms of loans or guarantees. In accordance with the IFRS definition of a conditional commitment, the Bank distinguishes between irrevocable and revocable commitments to extend credit and framework agreements. The irrevocability of commitments, framework agreements of undrawn loan commitments, unutilised overdrafts and approved overdraft loans results from contractual terms and conditions of the credit agreements (i.e. their use is not contingent upon customers' maintaining other specific credit standards). For irrevocable commitments or framework agreements, undrawn loan commitments, unutilised overdrafts and approved overdraft loans, the Bank recognises a provision when required (according to a customer's creditworthiness) in accordance with the same algorithm as for loans.

As of 31 December 2018, the financial commitments and contingencies of the Bank were comprised of the following, as broken down by classification:

	Carrying value				Provisions			
(CZKm)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Central banks	0	0	0	0	0	0	0	0
General governments	13,872	663	0	14,535	5	0	0	5
Credit institutions	2,691	0	0	2,691	1	0	0	1
Other financial corporations	6,894	108	2	7,004	5	0	0	5
Non-financial corporations	97,294	3,151	1,579	102,024	72	60	932	1,064
Households*	28,944	616	25	29,585	16	17	14	47
Total commitments and contingencies	**149,695**	**4,538**	**1,606**	**155,839**	**99**	**77**	**946**	**1,122**

* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

As of 1 January 2018, the financial commitments and contingencies of the Bank were comprised of the following, as broken down by classification:

	Carrying value				Provisions			
(CZKm)	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Central banks	0	0	0	0	0	0	0	0
General governments	10,522	0	0	10,522	3	0	0	3
Credit institutions	875	29	0	904	28	0	0	28
Other financial corporations	3,981	1	2	3,984	5	0	0	5
Non-financial corporations	93,188	4,102	1,705	98,995	85	61	1,195	1,341
Households*	29,042	350	13	29,405	15	13	11	39
Total commitments and contingencies	**137,608**	**4,482**	**1,720**	**143,810**	**136**	**74**	**1,206**	**1,416**

* This item also includes financial commitments and contingencies granted to individual entrepreneurs.

Financial commitments and contingencies comprise the following:

(CZKm)	31 Dec 2018	31 Dec 2017
Non-payment guarantees including commitments to issued non-payment guarantees	34,921	34,461
Payment guarantees including commitments to issued payment guarantees	17,337	16,643
Committed facilities and unutilised overdrafts	7,330	8,227
Undrawn credit commitments	67,440	60,303
Unutilised overdrafts and approved overdraft loans	15,756	13,673
Unutilised limits under framework agreements to provide financial services	7,930	7,787
Open customer/import letters of credit not covered	426	898
Standby letters of credit not covered	3,616	1,024
Confirmed supplier/export letters of credit	1,083	794
Total commitments and contingencies	**155,839**	**143,810**

The risk associated with off-balance sheet credit commitments and contingent liabilities is assessed on the same basis as is that of loans to customers, taking into account the financial position and activities of the entity to which the Bank issued a given guarantee and the collateral obtained. As of 31 December 2018, the Bank recorded provisions for these risks in the amount of CZK 1,122 million (1 Jan 2018: CZK 1,416 million). Refer to Note 30.

Set out below is a breakdown of financial commitments and contingencies to non-financial corporations by sector:

(CZKm)	31 Dec 2018	31 Dec 2017
Agriculture, forestry and fishing	2,688	2,569
Mining and quarrying	408	456
Manufacturing	24,916	26,323
Electricity, gas, steam and air conditioning supply	5,318	5,418
Water supply, sewerage, waste management and remediation activities	835	771
Construction	29,839	29,377
Wholesale and retail trade, repair of motor vehicles and motorcycles	9,935	10,706
Transportation and storage	4,811	3,854
Accommodation and food service activities	219	241
Information and communication	3,256	2,697
Real estate activities	8,069	4,704
Professional, scientific and technical activities	8,640	8,796
Administrative and support service activities	754	607
Public administration and defence, compulsory social security	252	252
Education	467	51
Human health and social work activities	312	189
Arts, entertainment and recreation	1,221	1,862
Other service activities	84	122
Total commitments and contingencies to non-financial corporations	**102,024**	**98,995**

The majority of commitments and contingencies originate on the territory of the Czech Republic.

The collateral held in support of financial commitments and contingencies is broken out below by type as of 31 December 2018:

	Applied commitments and contingencies collateral value*				
(CZKm)	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Commitments and contingencies	**6,250**	**3,281**	**2,103**	**9,694**	**6,958**
of which:					
– Other financial corporations	8	3	5	501	1,283
– Non-financial corporations	732	3,189	2,079	8,820	2,283
– Households**	5,510	89	19	87	35

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

** This item also includes financial commitments and contingencies granted to individual entrepreneurs.

The collateral held in support of financial commitments and contingencies is broken out below by type as of 31 December 2017:

	Applied commitments and contingencies collateral value*				
(CZKm)	Loans collateralised by residential property	Loans collateralised by commercial property	Other loans collateralised by cash instruments	Other loans collateralised by other collaterals	Financial guarantees received
Commitments and contingencies	**5,436**	**2,819**	**1,957**	**10,782**	**5,950**
of which:					
– Other financial corporations	5	0	0	15	498
– Non-financial corporations	258	2,761	1,941	10,197	2,268
– Households**	5,173	58	16	53	40

* The amount of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc. and reduced to the actual balance of the collateralised exposure.

** This item also includes financial commitments and contingencies granted to individual entrepreneurs.

In accordance with Act No. 427/2011 Coll., on Supplementary Pension Saving, and in accordance with the statutes of the Transformovaný fond KB Penzijní společnost, a.s. (hereafter only the "Fund") created after 1 January 2013, KB Penzijní společnost, a.s. guarantees at least a zero return for clients on an annual basis and must ensure that the value of assets in the Fund is always equal to or greater than the value of liabilities. Otherwise, KB Penzijní společnost, a.s. is required to contribute to the Fund assets necessary to make up the difference at latest within 30 days after the end of the quarter in which such circumstance was identified. These transferred assets constitute a special capital fund of the Fund and are primarily used to cover losses of the current year or accumulated losses from prior periods.

As a result of the development on the capital markets, the value of assets in the Fund became lower than the value of liabilities. Consequently, in 2018, KB Penzijní společnost, a.s. contributed to the Fund assets to offset the excess of the value of liabilities over the value of assets. The excess is caused by negative revaluation differences of bonds classified by the Fund in the Available-for-sale portfolio. The classification of bonds as Available-for-sale financial assets measured at fair value with changes being recognised in other comprehensive income, results from legal requirements (Act No. 427/2011 Coll.) limiting the volume in the Held-to-maturity portfolio to no more than 35% of all investments. Given the fact that the Fund can demonstrate the ability to hold the investments until maturity, the negative revaluation differences are considered as temporary and will be fully offset no later than upon the maturity of the bonds.

36 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. As of 31 December 2018, the Bank was controlled by Société Générale S.A., which owns 60.35% of its issued share capital.

A number of banking transactions are entered into with related parties in the normal course of business. These specifically include loans, deposits, transactions with derivative financial instruments and other types of transactions. These transactions are carried out on an arm's length basis.

Amounts due to and from the Group subsidiaries

The following table summarises loans issued to the Group subsidiaries and their deposits with the Bank:

(CZKm)	31 Dec 2018	31 Dec 2017
Bastion European Investments S.A.	2,701	2,790
ESSOX s.r.o.	12,439	10,732
ESSOX FINANCE, s.r.o.	2,104	1,987
Factoring KB, a.s.	6,833	5,382
KB Real Estate, s.r.o.	422	452
Modrá pyramida stavební spořitelna, a.s.	14,973	14,411
SG Equipment Finance Czech Republic s.r.o.	10,071	9,559
STD2, s.r.o.	377	383
Total loans	**49,920**	**45,696**
Bastion European Investment S.A.	530	0
ESSOX s.r.o.	990	963
ESSOX FINANCE, s.r.o.	2	0
Factoring KB, a.s.	30	1
KB Penzijní společnost, a.s.	439	461
KB Real Estate, s.r.o.	47	57
Modrá pyramida stavební spořitelna, a.s.	2	4
NP 33, s.r.o.	0	0
Protos, uzavřený investiční fond, a.s.	1,684	63
SG Equipment Finance Czech Republic s.r.o.	1,463	2,100
STD2, s.r.o.	0	1
VN 42, s.r.o.	194	407
Total deposits	**5,381**	**4,057**

The following table summarises the fair value of financial derivatives to which the Bank is a party and in relation to the Group subsidiaries:

(CZKm)	31 Dec 2018	31 Dec 2017
Modrá pyramida stavební spořitelna, a.s.	215	139
Protos, uzavřený investiční fond, a.s.	0	0
SG Equipment Finance Czech Republic s.r.o.	0	0
Total positive fair value of financial derivatives	**215**	**139**
Modrá pyramida stavební spořitelna, a.s.	431	344
Protos, uzavřený investiční fond, a.s.	20	46
SG Equipment Finance Czech Republic s.r.o.	1	1
Total negative fair value of financial derivatives	**452**	**391**

Modrá pyramida stavební spořitelna, a.s. owns mortgage bonds in a nominal value of CZK 26,600 million (2017: CZK 29,300 million) issued by the Bank. ESSOX s.r.o. owns mortgage bonds issued by the Bank in the nominal value of CZK 500 million (2017: CZK 500 million). KB Penzijní společnost, a.s. owns mortgage bonds issued by the Bank in the nominal value of CZK 417 million (2017: CZK 417 million).

As of 31 December 2018 and 2017, other amounts due to and from the Group subsidiaries were not significant.

Interest income from loans granted to the Group subsidiaries:

(CZKm)	2018	2017
Bastion European Investments S.A.	106	113
ESSOX s.r.o.	118	59
ESSOX FINANCE, s.r.o.	9	7
Factoring KB, a.s.	49	24
KB Real Estate, s.r.o.	14	15
Modrá pyramida stavební spořitelna, a.s.	158	23
SG Equipment Finance Czech Republic s.r.o.	93	101
STD2, s.r.o.	3	0
Total interest from loans granted by the Bank	**550**	**342**

In addition to interest on loans to the Bank's Group subsidiaries, other income in the year ended 31 December 2018 amounted to CZK 359 million (2017: CZK 958 million) and total expenses amounted to CZK 1,507 million (2017: CZK 1,728 million), mainly represented by financial derivatives transactions.

As of 31 December 2018, the Bank reported guarantees granted and undrawn credit commitments to the Group subsidiaries totalling CZK 847 million (2017: CZK 578 million).

Amounts due to and from the Société Générale Group entities

Principal balances due from the Société Générale Group entities include the following:

	31 Dec 2018		31 Dec 2017	
(CZKm)	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o. (Czech Republic)	7,100	0	6,185	0
ALD Automotive s.r.o. (Slovak Republic)	74	0	160	0
BRD – GROUPE Société Générale	17	0	22	0
Komerční pojišťovna, a.s.	911	837	615	559
PJSC Rosbank	193	0	205	0
SG Expressbank	48	0	56	0
SG Marocaine de Banques	6	0	0	0
SG Zurich	228	0	175	0
SKB Banka D.D. Ljubljana	1	0	1	0
Société Générale – Banka Srbija	0	0	1	0
Société Générale China	41	0	1	0
Société Générale International	2,210	0	2,572	0
Société Générale Paris	13,488	5,733	7,674	4,633
Société Générale oddzial w Polsce	0	0	1	0
Total	**24,317**	**6,570**	**17,668**	**5,192**

Principal balances owed to the Société Générale Group entities include the following:

	31 Dec 2018		31 Dec 2017	
(CZKm)	Total	Of which derivatives	Total	Of which derivatives
ALD Automotive s.r.o. (Czech Republic)	389	0	368	0
ALD Automotive s.r.o. (Slovak Republic)	0	0	27	0
BRD – GROUPE Société Générale	8	0	79	0
Crédit du Nord	5	0	12	0
Komerční pojišťovna, a.s.	2,357	210	2,184	439
PEMA Praha, spol. s r.o.	26	0	70	0
PJSC ROSBANK	0	0	1	0
SG Amsterdam	68	0	23	0
SG Banques au Liban	2	0	2	0
SG Bruxelles	9	0	0	0
SG Express Bank	54	0	2	0
SG ISSUER	1	0	1	0
SG Frankfurt	45	0	41	0
SG London	88	0	78	0
SG Milan	2	0	0	0
SG New York	8	0	16	0
SG Option Europe	0	0	1	0
SG Private Banking (Suisse)	143	0	67	0
SG Zurich	53	0	1	0
SGSS Nantes	2	0	11	0
Société Générale Bank & Trust	627	0	72	0
Société Générale Factoring	21	0	0	0
Société Générale Paris	49,663	8,486	38,729	6,988
Société Générale oddzial w Polsce	2	0	98	0
SOGEPROM Česká republika, s.r.o.	5	0	5	0
Total	**53,578**	**8,696**	**41,888**	**7,427**

Amounts due to and from the Société Générale Group entities principally comprise balances of current and overdraft accounts, nostro and loro accounts, issued loans, interbank market loans and placements, deposited margins in favour of the counterparty and fair values of derivatives.

As of 31 December 2018, the Bank also carried off-balance sheet exposures to the Société Générale Group entities, of which off-balance sheet nominal assets and liabilities amounted to CZK 524,031 million (2017: CZK 486,612 million) and CZK 479,410 million (2017: CZK 447,122 million), respectively. These amounts principally relate to currency spots and forwards, interest rate forwards and swaps, options, commodity derivatives, emission allowances and guarantees for credit exposures.

As of 31 December 2018 and 2017, the Bank also recorded other accounts receivable and payable from and to Société Générale Group entities the amounts of which are not significant.

During the year ended 31 December 2018, the Bank had total income of CZK 40,228 million (2017: CZK 33,686 million) and total expenses of CZK 38,259 million (2017: CZK 33,358 million) in relation to Société Générale Group entities. That income includes income from interbank deposits, fees from transactions with securities, profit from financial operations and interest income on hedging derivatives. Expenses comprise those of interbank deposits and subordinated debt, a loss from financial operations, interest expense on hedging derivatives and expenses related to the provision of management, consultancy and software services.

Remuneration and amounts due from members of the Board of Directors and Supervisory Board

Remuneration paid to the members of the Board of Directors and Supervisory Board during the years was as follows:

(CZKm)	2018	2017
Remuneration to members of the Board of Directors*	64	56
Remuneration to members of the Supervisory Board**	5	5
Total	**69**	**61**

* **Remuneration to members of the Board of Directors** includes wages paid and other compensation and benefits provided during the year ended 31 December 2018 to current and former directors for the duration of their membership. It also includes a part of bonuses awarded in 2018. The remuneration includes as well benefits arising to the Bank's employees under the collective agreement. Development of remuneration to members of the Board of Directors was influenced by exceptional items related to the transformation of the Bank, in particular by payments related to application of non competition clauses to departing members of the Board of Directors.

** **Remuneration to members of the Supervisory Board** includes amounts paid during the year ended 31 December 2018 to current and former members of the Supervisory Board for the duration of their membership. Amounts for members of the Supervisory Board elected by employees additionally include income paid to them under their employment arrangements with the Bank for the duration of their membership. The remuneration also includes benefits arising to the Bank's employees under the collective agreement.

	31 Dec 2018	31 Dec 2017
Number of the Board of Directors members at the end of the period	5*	6
Number of the Supervisory Board members at the end of the period	8	9

* During 2018, a total 8 members served on the Board of Directors. According to the Articles of Association, the Board of Directors is to have 6 members. One position on the Board of Directors was vacant for a part of 2018.

In respect of loans and guarantees as of 31 December 2018, the Bank recorded receivables from loans granted to members of the Board of Directors and Supervisory Board totalling CZK 19 million (2017: CZK 12 million). During 2018, draw-downs of CZK 1 million (2017: CZK 0 million) were made under the loans granted. Loan repayments during 2018 amounted to CZK 1 million (2017: CZK 1 million). The increase of loans in 2018 is affected by new members already having loans in the amount of CZK 12 million. Loans to resigning members amounted to CZK 5 million as of 31 December 2017.

37 Movements in the remeasurement of retirement benefits plan in the equity

(CZKm)	2018	2017
Remeasurement of retirement benefits plan as of 1 January	(190)	(162)
Deferred tax asset/(liability) as of 1 January	36	31
Balance as of 1 January	**(154)**	**(131)**
Movements during the year		
Gains/(losses) from remeasurement of retirement benefits plan	27	(28)
Deferred tax	(5)	5
	22	**(23)**
Remeasurement of retirement benefits plan as of 31 December	(163)	(190)
Deferred tax asset/(liability) as of 31 December (refer to Note 31)	31	36
Balance as of 31 December	**(132)**	**(154)**

38 Movements in the revaluation of equity securities at FVOCI option in the equity

(CZKm)	2018	2017
Revaluation of equity securities at FVOCI option as of 1 January	95	7
Deferred tax asset/(liability) as of 1 January	(18)	(1)
Balance as of 1 January	**77**	**6**
Movements during the year		
Gains/(losses) from changes in fair value	96	88
Deferred tax	(18)	(17)
	78	**71**
Revaluation of equity securities at FVOCI option as of 31 December	191	95
Deferred tax asset/(liability) as of 31 December (refer to Note 31)	(36)	(18)
Balance as of 31 December	**155**	**77**

39 Movements in the revaluation of hedging instruments in the equity

In accordance with IAS 39, certain derivatives were designated as hedges. The changes in fair values of cash flow hedges are recorded in a separate line of equity in the hedging reserve.

(CZKm)	2018	2017
Cash flow hedge fair value as of 1 January	531	14,206
Deferred tax asset/(liability) as of 1 January	(43)	(2,667)
Balance as of 1 January	**488**	**11,539**
Movements during the year		
Gains/(losses) from changes in fair value (refer to Note 41(C))	(56)	(10,509)
Deferred tax	11	1,996
	(45)	**(8,513)**
Transferred to interest income/expense	(185)	(3,305)
Deferred tax	35	627
	(150)	**(2,678)**
Transferred to net profit/loss on financial operations	(8)	0
Deferred tax	2	0
	(6)	**0**
Transferred to personnel expenses	0	(3)
Deferred tax	0	1
	0	**(2)**
Change in the hedge of foreign currency risk of foreign net investment	(240)	142
	(240)	**142**
Cash flow hedge fair value as of 31 December	42	531
Deferred tax asset/(liability) as of 31 December (refer to Note 31)	5	(43)
Balance as of 31 December	**47**	**488**

40 Movements in the revaluation of debt securities at FVOCI in the equity

(CZKm)	2018	2017
Changes in accounting policies	(1,069)	N/A
Reserve from fair value revaluation as of 1 January	1,010	3,354
Deferred tax asset/(liability) as of 1 January	(192)	(638)
Impairment as of 1 January	3	0
Balance as of 1 January	**821**	**2,716**
Movements during the year		
Gains/(losses) from changes in fair value	(442)	(403)
Deferred tax	84	78
	(358)	**(325)**
(Gains)/losses from reclassified financial assets (refer to Note 20)	0	(618)
Deferred tax	0	117
	0	**(501)**
(Gains)/losses from sale	0	0
Deferred tax	0	0
	0	**0**
Impairment	(1)	0
	(1)	**0**
Reserve from fair value revaluation as of 31 December	568	2,333
Deferred tax asset/(liability) as of 31 December (refer to Note 31)	(108)	(443)
Impairment as of 31 December	2	0
Balance as of 31 December	**462**	**1,890**

41 Risk management and financial instruments

(A) Credit risk

Assessment of borrower's credit rating
The assessment of credit risk is based on quantitative and qualitative criteria and leads to a rating assignment. The Bank uses several types of rating models, depending on the type and profile of the counterparty and the types of transactions. As a result, individual ratings are assigned to both the Bank's clients and to specific client transactions. The same process of rating assignment is applied in relevant cases to respective guarantors and sub-debtors, which enables better assessment of the quality of accepted guarantees and collaterals.

In 2018, the Bank focused on updating selected credit risk models in order optimally to reflect the current macroeconomic situation and goals set by the Bank as well as on increasing effectiveness in monitoring the risk profiles of individual client portfolios and the quality of tools and models for credit risk management. The Bank also continued in harmonising governance, usage of rating models and the monitoring process within the Group.

As in previous years, the results of regular stress testing played an important role, allowing more precise estimates of the expected intensity of credit risk for the ensuing periods and thus optimisation of the Bank's credit risk management tools and more accurate estimation of expected future losses.

(a) Business clients and municipalities
For entrepreneurs, corporate clients and municipalities, the Bank uses the obligor rating (expressed on the 22 grade Société Générale rating master scale) with the aim to evaluate the counterparty's Probability of Default (PD) and the Loss Given Default (LGD) rating, and thereby to assess the quality of available guarantees and collaterals and to evaluate the potential loss from counterparty transactions. These models are also used for regular updates of expected loss and unexpected loss for all client exposures reported in accordance with the Basel III requirements.

For large and medium-sized clients, the obligor rating is a combination of the financial rating based primarily on data in the financial statements and an economic rating obtained through the evaluation of non-financial information relating to a particular client.

In the entrepreneurs and small companies segment, the client's obligor rating is a combination of financial, non financial and personal data, data on client behaviour within the Bank and information from external credit bureaus. When clients are funded via simple products, the setting of the rating is alternatively limited to the evaluation of data on clients' behaviour within the Bank (behavioural rating).

In the municipalities segment, the obligor rating is a combination of the financial rating based on data in the financial statements and of an economic rating acquired through the assessment of non-financial information relating to a specific municipality.

The Bank is also using a dedicated rating model for housing co-operatives and associations of owners. A special model for real estate developers and investors is currently in the validation phase.

(b) Ratings for banks and sovereigns
For banks, other financial corporations (namely insurance companies, brokers and funds) and for sovereigns (central banks and central governments), the Bank uses economic rating models developed by Société Générale.

(c) Ratings for individual clients
The Bank uses two types of ratings with the aim of evaluating default risk for individuals: (1) the application rating, which results from an evaluation of clients' personal data, data on the behaviour within the Bank, and data available from external credit bureaus; and (2) a behavioural rating which is based on evaluating information on the clients' behaviour within the Bank. The application rating is primarily used for active applications of clients for funding, while the behavioural rating (which includes the calculation of indicative limits for simple products with low exposure) is used for active offers of funding by the Bank. The behavioural rating of clients is concurrently used as an input for regular updates of the probability of default of all client exposures reported in accordance with the Basel III requirements.

(d) Internal register of negative information
The Bank maintains an internal register of negative information. The register integrates the maximum quantity of available internal and external negative information on subjects related to the credit process. It includes algorithms for evaluating the negative information and contributes substantially to protecting the Bank from risky entities.

(e) Credit bureaus
The evaluation of data from credit bureaus is one of the principal factors influencing the assessment of applications for client funding, and especially so in the retail client segments (individuals and small businesses).

(f) Credit fraud prevention

The Bank uses an automated system for the detection of credit frauds and also for co-ordinated reactions to credit fraud attacks. The system is fully integrated with the Bank's main applications. The system is regularly updated to reflect current market trends. Controls preventing credit frauds in the small business segment were implemented in 2018. This activity will continue through 2019 and will be further extended to the Corporate segment.

(g) Granting process

Through 2018, the Bank focused on simplification of its processes and increasing rapidity in credit granting to corporate clients. This activity will continue through 2019, with implementation of enhanced scoring models and a decision engine for automated risk assessment and credit approval.

In the retail lending area, the Bank was working to reflect the latest CNB Mortgage Loans Recommendation in relation to solvency ratios.

Credit concentration risk

Credit concentration risk is actively managed as a part of overall credit risk management utilising standard tools: credit risk assessment, setting of internal limits, use of risk mitigation techniques, regular reporting, producing of sector analyses and stress testing. The Bank maintains its objective not to take on any excessive credit concentration risk. Credit concentration risk management procedures cover individual counterparties as well as economically connected groups, countries, selected industry sectors and collateral providers. The system of internal limits is established so that the Bank complies with the regulatory limits set by legislation in respect of concentration risk. Refer to Notes 21 and 35 for quantitative information about this type of risk.

The Bank's maximum credit exposure as of 31 December 2018:

	Total exposure			Collateral applied		
(CZKm)	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
Current balances with central banks	**14,000**	**x**	**14,000**	**0**	**x**	**0**
Financial assets and other assets at fair value through profit or loss	**23,280**	**x**	**23,280**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**12,108**	**x**	**12,108**	**0**	**x**	**0**
Financial assets at fair value through other comprehensive income	**23,576**	**x**	**23,576**	**0**	**x**	**0**
Financial assets at amortised cost	**898,485**	**155,839**	**1,054,324**	**272,005**	**28,286**	**300,291**
of which:						
– Other financial corporations	64,578	7,004	71,582	10,800	1,800	12,600
– Non-financial corporations	217,637	102,070	319,707	53,700	17,103	70,803
– Households**	262,823	29,585	292,408	202,303	5,740	208,043
Revaluation differences on portfolios hedge items	**0**	**x**	**0**	**0**	**x**	**0**
Total	**971,449**	**155,839**	**1,127,288**	**272,005**	**28,286**	**300,291**

* Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis (i.e. without the impact of allowances).

The Bank's maximum credit exposure as of 1 January 2018:

(CZKm)	Total exposure: Statement of financial position	Total exposure: Off-balance sheet*	Total exposure: Total credit exposure	Collateral applied: Statement of financial position	Collateral applied: Off-balance sheet*	Collateral applied: Total collateral
Current balances with central banks	**22,453**	**x**	**22,453**	**0**	**x**	**0**
Financial assets and other assets at fair value through profit or loss	**19,369**	**x**	**19,369**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**13,017**	**x**	**13,017**	**0**	**x**	**0**
Financial assets at fair value through other comprehensive income	**22,294**	**x**	**22,294**	**0**	**x**	**0**
Financial assets at amortised cost	**834,942**	**143,810**	**978,752**	**260,553**	**26,944**	**287,497**
of which:						
– Other financial corporations	58,562	3,984	62,546	12,170	518	12,688
– Non-financial corporations	204,966	99,042	304,008	45,902	17,425	63,327
– Households**	257,509	29,405	286,914	192,791	5,340	198,131
Revaluation differences on portfolios hedge items	**0**	**x**	**0**	**0**	**x**	**0**
Total	**912,075**	**143,810**	**1,055,885**	**260,553**	**26,944**	**287,497**

* Undrawn amounts, commitments, guarantees, etc.
** This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis (i.e. without the impact of allowances).

The Bank's debt securities, allocated by sector and currency, comprised the following as of 31 December 2018:

	Fair value through profit or loss			Fair value through other comprehensive income			Amortised cost		
(CZKm)	CZK	Other	Total	CZK	Other	Total	CZK	Other	Total
Central banks	0	0	0	0	0	0	0	0	0
General governments	3,144	14	3,158	5,402	15,782	21,184	61,104	11	61,115
Credit institutions	77	0	77	0	2,041	2,041	100	0	100
Other financial corporations	0	0	0	0	0	0	350	0	350
Non-financial corporations	13	0	13	0	0	0	2,437	452	2,889
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**3,234**	**14**	**3,248**	**5,402**	**17,823**	**23,225**	**63,991**	**463**	**64,454**

* This item also includes individual entrepreneurs.

The Bank's debt securities, allocated by sector and currency, comprised the following as of 1 January 2018:

	Fair value through profit or loss			Fair value through other comprehensive income			Amortised cost		
(CZKm)	CZK	Other	Total	CZK	Other	Total	CZK	Other	Total
Central banks	0	0	0	0	0	0	0	0	0
General governments	1,346	170	1,516	0	17,462	17,462	59,786	14	59,800
Credit institutions	64	52	116	0	4,592	4,592	807	0	807
Other financial corporations	0	0	0	0	0	0	69	1	70
Non-financial corporations	1	0	1	0	0	0	2,361	430	2,791
Households*	0	0	0	0	0	0	0	0	0
Total debt securities	**1,411**	**222**	**1,633**	**0**	**22,054**	**22,054**	**63,023**	**445**	**63,468**

* This item also includes individual entrepreneurs.

Staging of loans and advances
The Bank classifies its loans and advances arising from financial activities into three categories (Stages 1, 2 and 3) in accordance with the IFRS 9 standard. Stages 1 and 2 represent non-default (performing) while Stage 3 represents default (non-performing). The staging reflects both quantitative criteria (payment discipline, financial data) and qualitative criteria (e.g. in-depth client knowledge). The staging of individuals also reflects the default sharing principle for co-debtors and guarantors of defaulted loans and advances in accordance with the Basel III principles.

The structure of the credit portfolio according to the staging is regularly reported to the CNB and to investors.

When forbearance measures are granted, the forborne exposures are given default status (i.e. are classified as Stage 3). The forbearance classification is discontinued after fulfilment of the following pre-defined conditions:

I. After 12 months, reclassification of the forborne exposures to performing (to Stage 2), and it is possible after an additional 12 months (to Stage 1) based on an analysis of the debtor's financial condition;
II. After exit from default (possible only after 12 months from granting of forbearance measures), there follows a minimum 2-year probation period. Proper payment must be made throughout the probation period (i.e. the material days past due, with materiality being set identically as for defaulted loans and advances, must not exceed 30 days). Otherwise, the exposure is downgraded back to Stage 3 (default status).

Characteristics of financial assets at amortised costs that are not classified
Pursuant to the regulation issued by the CNB, the Bank does not classify other amounts due from customers. These amounts consist of non-credit receivables that principally originated from the payment system, fraudulent withdrawals, bank cheques, receivables associated with purchases of securities (on behalf of clients) that have not been settled, and receivables that arise from business arrangements that do not represent financial activities, specifically receivables arising from outstanding rental payments on non-residential premises, sale of real estate and prepayments made.

Allowances for loans and advances
In 2018, the Bank started to apply the IFRS 9 standard in the area of allowances for loans and advances. Depending on the client segment, materiality, risk profile and characteristics of the loans and advances, allowances are created either: (i) individually (for non-performing clients, exceptionally for performing clients) while taking into account the present value of expected future cash flows and considering all available information, including the estimated value of collateral foreclosure and the expected duration of the recovery process; or (ii) using expected credit loss statistical models based on observed history of defaults and losses and forward looking adjustments. In 2018, the Bank updated models used for allowances of both the performing and non-performing portfolios, taking into account (i) the latest observed history of defaults and losses; (ii) a new macroeconomic forecast; and (iii) expected changes in the legal environment. As a part of this update, the Bank also enhanced its methodology used for allowances relating to the performing portfolio that were applied on 1 January 2018 in the context of the transition to IFRS 9. The Bank updated its methodology to achieve full alignment with Société Générale and further improved the transfer criteria for identification of significant increase in credit risk, which resulted in the transfer of part of the portfolio exposure from Stage 1 to Stage 2.

The following table breaks out impaired loans and advances to banks and customers (Stage 3) according to manner of loss estimation:

	31 Dec 2018		1 Jan 2018	
(CZKm)	**Individually**	**Statistical model**	**Individually**	**Statistical model**
Central banks	0	0	0	0
General governments	340	2	505	3
Credit institutions	71	0	117	0
Other financial corporations	48	1	64	0
Non-financial corporations	6,548	1,933	6,162	2,079
Households*	0	4,871	21	5,801
Total	**7,007**	**6,807**	**6,869**	**7,883**

* This item also includes loans granted to individual entrepreneurs.

Loans and advances collateral

The Bank uses collateralisation as one of its techniques for mitigating credit risk. The risk management related to collateralisation is performed by departments within the Risk Management Arm independently of the Bank's business lines.

The Bank has fully implemented within its internal system the rules for assessing collateral's eligibility according to CNB Regulation No. 163/2014. In compliance with the CNB validation, the Bank uses the Advanced Internal Ratings-Based (A-IRB) approach. For clients of the Slovak branch, the Bank uses the Standardised (STD) approach for assessing collateral eligibility.

The recognised value of collateral is set based on the Bank's internal rules for collateral valuation and discounting. The methods used in defining values and discounts take into account all relevant risks, the expected cost of collateral sale, length of sales process, historical experience of the Bank, as well as collateral eligibility according to the CNB regulation, bankruptcy/insolvency rules and other regulations. Specifically, for all real estate collateral, which is the most common type of collateral, the Bank uses independent valuations performed or supervised by the Bank's dedicated specialised internal department. Collateral values reflected in the calculation of capital requirements and other processes (regulatory exposure management, granting process, creation of provisions and reserves) involve the fulfilment of collateral eligibility according to CNB Regulation No. 163/2014.

The Bank (except for the Slovak branch) uses online connection to the Land Register for reviewing and acquiring data on pledged real estates in granting mortgages or other loans secured by real estates and for regular monitoring of selected events that may put the Bank's pledge right to real estate at risk.

Real estate collateral valuation

Activities related to the valuation of real estates obtained as collaterals for corporate and retail loans and advances are independent from the Bank's business processes. The valuation process is managed and controlled by a specialised internal department that co-operates with various external valuation experts.

In 2018, together with the principal activity involving real estate valuation, the Bank focused mainly upon ongoing monitoring of the real estate market with the aim to promptly identify any adverse development and to take appropriate measures as required. The Bank monitors both the residential and commercial real estate markets. An integral component of that monitoring is the revaluation of selected real estate depending on the Basel III requirements. As a result of the statistical monitoring of market prices for residential real estates, adjustment is performed regularly.

Recovery of loans and advances from borrowers

The Bank responded progressively to the changing legal environment and its influence on the collection of loans and advances. Given the size of the portfolio in recovery, the Bank continued improving the efficiency of the recovery process. These efforts also involved improving efficiency in using external recovery capacities. During 2018, the Bank continued in regular sales of uncollateralised and collateralised retail loans and advances to selected qualified investors so that the maximum achievable recovery rate is obtained.

The Bank was increasingly attentive to utilising the Insolvency Act in the process of collecting loans and advances from both retail and corporate clients. The Bank plays an active role in the insolvency process, from the position of secured creditor, member of the creditors committee or representative of creditors, whether in bankruptcy proceedings or in reorganisations, both of which are used by the Bank depending on the given debtor's circumstances and the attitudes of other creditors.

Credit risk hedging instruments

The Bank has not entered into any credit derivative transactions to hedge or reallocate its credit exposures.

Credit risk of financial derivatives

The daily calculation of counterparty risk associated with financial derivatives is based on the Credit Value at Risk (CVaR) indicator. This indicator projects the potential adverse development of the market value of a derivative and the potential loss that the Bank may incur if a counterparty fails to fulfil its obligations. The maximum potential exposure is calculated at the 99% probability level and depends on the current market value and type of derivative product, the time remaining until maturity of the derivative transaction, as well as the nominal value and volatility of the underlying assets.

As of 31 December 2018, the Bank was exposed to credit exposure of CZK 198,929 million (2017: CZK 113,370 million) on financial derivative instruments and repo operations, including those with the central banks (expressed in CVaR). This amount represents the gross replacement cost at market rates as of 31 December 2018 for all outstanding agreements. The netting agreement and parameters of collateral agreement are taken into account where applicable.

The Bank puts limits on exposures to counterparties from financial derivatives in order to avoid excessive credit exposures to each client that could arise from movements in market prices. On a daily basis, the Bank monitors compliance with limits. If these are exceeded, an appropriate alert is triggered and action is taken when relevant. In the event that a limit breach is triggered by the deliberate action of a dealer (“active limit breach”), such behaviour is penalised. The Board of Directors is informed about active limit breaches on a regular basis.

(B) Market risk

Segmentation of the Bank's financial operations
For market risk management purposes, the Bank's activities are internally separated into two books: the Market Book and the Structural Book. The Market Book consists of transactions initiated by investment banking activities and the treasury desk (interbank and individually priced deposits/loans, repos/reverse repos, securities classified as held for trading, derivatives originated by investment banking). The Structural Book consists principally of business transactions (lending, accepting deposits, amounts due to and from customers), hedging transactions relevant to the Structural Book, and other transactions not included in the Market Book.

Products generating market risk
Products that are traded by the Bank and generate market risk include interbank loans and deposits, currency transactions (spots, swaps, forwards), interest rate instruments (interest rate swaps, cross currency swaps, forward rate agreements, interest rate futures and futures on debt securities), government and corporate bonds, bills of exchange programmes and cash and carry exposure in emission allowances.

More complex derivatives (options, commodity derivatives, structured derivatives) which are being sold to clients are immediately offset on the market by doing "back-to-back" trades in the interbank market, mostly with Société Générale. This ensures that the Bank is not exposed to market risks associated with these derivatives (e.g. volatility risk, correlation risk, etc.).

Market risk in the Market Book
The Bank has developed a system of market risk limits with the objective of limiting potential losses due to movements in market prices by limiting the size of the risk exposure.

Since 2016, in addition to measuring and limiting market risk at the level of the Market Book as a whole, the Bank has been measuring and limiting the market risks for the trading and treasury activities separately.

The Bank monitors compliance with all limits on a daily basis, and if these are exceeded the Bank takes corrective action to reduce the risk exposure. The Board of Directors is informed on a monthly basis about developments in the exposure to market risk.

In order to measure the extent of market risk inherent in the activities of the Market Book, the Bank uses the one-day historical 99% Value-at-Risk (hereafter only "VaR") concept. VaR is calculated using full revaluation of the position by means of historical market price scenarios. This method reflects correlations between various financial markets and underlying instruments on a non-parametric basis, inasmuch as it uses scenarios simulating one-day variations of relevant market parameters over a period of time limited to the past 260 business days. The resulting 99% VaR indicator captures the loss that would be incurred after eliminating the 1% of the most unfavourable occurrences. This estimate is calculated as the average of the second and third largest potential losses out of the 260 considered scenarios.

The VaR for a one-day horizon with a confidence level of 99% was CZK -33 million as of 31 December 2018 (2017: CZK -20 million). The average VaR was CZK -22 million in 2018 (2017: CZK -16 million).

The accuracy of the VaR model is validated through a back-testing calculation, whereby actual trading results and hypothetical results (i.e. results excluding deals closed during the day) are compared with the VaR results. Actual results should not exceed VaR more frequently than on 1% of the days within a given period.

In addition, the Bank performs stress tests on a daily basis which capture losses potentially generated by larger shocks. These stress events have a lower probability of occurrence than do VaR scenarios, and they measure potential losses relevant to the risk exposure in the Market Book. Several types of stress tests for foreign exchange, interest rate and CO_2 allowance cash and carry exposures are used. These are developed either based on actual crisis situations in the past (such as the Lehman bankruptcy in 2008) or from a hypothetical crisis that could negatively influence the performance of the Market Book.

Such additional specific metrics as sensitivities to market parameters or size of exposure are used to obtain a detailed picture of risks and strategies.

The Bank complies with Société Générale Group's VaR and stress tests methodology and uses the Group's software for market risk management.

Market risk in the Structural Book
The Bank manages foreign exchange risk so as to minimise risk exposures. In order to achieve this, the foreign exchange position of the Structural Book is measured on a daily basis and subsequently hedged according to established rules. For the purpose of hedging foreign exchange positions within the Structural Book, the Bank uses standard currency instruments in the interbank market, such as currency spots and forwards.

Interest rate risk within the Structural Book is monitored and measured using a static gap analysis, sensitivity of net present value to a parallel shift of the yield curve, and sensitivity of net interest income to a parallel shift of the yield curve.

The indicators are monitored separately for CZK, USD, EUR, and the sum of other foreign currencies.

The indicator of the Bank's sensitivity to a change in market interest rates is measured based upon the assumption of an instantaneous, one-off and adverse parallel shift of the market yield curve by 0.1% p.a. (in previous years, a parallel shift of the market yield curve by 1% p.a. was assumed). It is determined as the present value of the costs of closing out the Bank's open interest rate position after the adverse change of interest rates has occurred. As of 31 December 2018, for the hypothetical assumption of a 0.1% change in market interest rates the CZK interest rate risk sensitivity was CZK 21 million (2017: the sensitivity of a 1% shift was CZK 403 million), the EUR sensitivity was CZK 72 million (2017: the sensitivity of a 1% shift was CZK -3 million), the USD sensitivity was CZK 1 million (2017: the sensitivity of a 1% shift was CZK 9 million), and for other currencies it was CZK 0.1 million (2017: the sensitivity of a 1% shift was CZK -6 million).

In order to hedge against interest rate risk within the Structural Book, the Bank uses both standard derivative instruments available in the interbank market (such as forward rate agreements and interest rate swaps) and appropriate investments into securities or a favourable selection of interest rate parameters for other assets and liabilities.

(C) Financial derivatives

The Bank operates a system of market risk and counterparty limits designed to restrict disproportionate exposures due to movements in market prices and counterparty concentrations. The Bank also monitors adherence to all limits on a daily basis. It follows up on any breaches of these limits and takes corrective action to reduce the risk exposure.

The following tables set out nominal and fair values of financial derivative instruments categorised as held for trading and hedging.

Financial derivative instruments designated as held for trading are as follow:

	31 Dec 2018 Nominal value		31 Dec 2017 Nominal value		31 Dec 2018 Fair value		31 Dec 2017 Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate instruments								
Interest rate swaps	1,025,331	1,025,331	875,881	875,881	8,315	8,848	7,775	8,591
Interest rate forwards and futures*	24,163	24,163	84,251	84,251	2	14	1	9
Interest rate options	40,772	40,772	27,209	27,209	122	122	50	50
Total interest rate instruments	**1,090,266**	**1,090,266**	**987,341**	**987,341**	**8,439**	**8,984**	**7,826**	**8,650**
Foreign currency instruments								
Currency swaps	365,194	365,141	323,477	322,592	1,510	1,471	2,390	1,536
Cross currency swaps	177,743	177,725	153,535	153,729	4,595	4,221	3,940	3,562
Currency forwards	112,909	114,484	91,681	93,698	955	922	511	2,161
Purchased options	66,963	66,780	61,066	61,322	1,418	0	1,283	0
Sold options	66,780	66,963	61,321	61,065	0	1,418	0	1,283
Total currency instruments	**789,589**	**791,093**	**691,080**	**692,406**	**8,478**	**8,032**	**8,124**	**8,542**
Other instruments								
Forwards on emission allowances	11,058	11,184	3,646	3,836	1,842	1,969	217	407
Commodity forwards	4,420	4,420	3,661	3,661	69	65	109	106
Commodity swaps	15,891	15,891	10,784	10,784	933	919	464	456
Purchased commodity options	377	377	36	36	26	0	0	0
Sold commodity options	377	377	36	36	0	26	0	0
Total other instruments	**32,123**	**32,249**	**18,163**	**18,353**	**2,870**	**2,979**	**790**	**969**
Total	**1,911,978**	**1,913,608**	**1,696,584**	**1,698,100**	**19,787**	**19,995**	**16,740**	**18,161**

* Fair values include only forwards. Regarding futures, the Bank places funds on a margin account that is used on a daily basis to settle fair value changes. Receivables arising from these margin accounts are reported within other assets.

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as of 31 December 2018:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	170,764	567,039	287,528	1,025,331
Interest rate forwards and futures*	23,663	500	0	24,163
Interest rate options	663	26,115	13,994	40,772
Total interest rate instruments	**195,090**	**593,654**	**301,522**	**1,090,266**
Foreign currency instruments				
Currency swaps	355,782	9,412	0	365,194
Cross currency swaps	31,536	93,448	52,759	177,743
Currency forwards	73,342	39,567	0	112,909
Purchased options	26,235	40,728	0	66,963
Sold options	26,435	40,345	0	66,780
Total currency instruments	**513,330**	**223,500**	**52,759**	**789,589**
Other instruments				
Forwards on emission allowances	8,858	2,200	0	11,058
Commodity forwards	4,420	0	0	4,420
Commodity swaps	12,265	3,626	0	15,891
Purchased commodity options	371	6	0	377
Sold commodity options	371	6	0	377
Total other instruments	**26,285**	**5,838**	**0**	**32,123**
Total	**734,705**	**822,992**	**354,281**	**1,911,978**

* The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as held for trading are shown below at nominal values by remaining contractual maturity as of 31 December 2017:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate instruments				
Interest rate swaps	105,601	507,794	262,486	875,881
Interest rate forwards and futures*	73,869	10,382	0	84,251
Interest rate options	2,341	23,071	1,797	27,209
Total interest rate instruments	**181,811**	**541,247**	**264,283**	**987,341**
Foreign currency instruments				
Currency swaps	311,991	11,486	0	323,477
Cross currency swaps	26,422	80,098	47,015	153,535
Currency forwards	52,095	37,266	2,320	91,681
Purchased options	36,601	24,465	0	61,066
Sold options	36,672	24,649	0	61,321
Total currency instruments	**463,781**	**177,964**	**49,335**	**691,080**
Other instruments				
Forwards on emission allowances	2,929	717	0	3,646
Commodity forwards	3,661	0	0	3,661
Commodity swaps	9,219	1,565	0	10,784
Purchased commodity options	36	0	0	36
Sold commodity options	36	0	0	36
Total other instruments	**15,881**	**2,282**	**0**	**18,163**
Total	**661,473**	**721,493**	**313,618**	**1,696,584**

* The remaining contractual maturity of forward rate agreements (FRA) and futures covers the period to the fixing date when off-balance sheet exposures are reversed.

Financial derivative instruments designated as hedging are as follow:

	31 Dec 2018 Nominal value		31 Dec 2017 Nominal value		31 Dec 2018 Fair value		31 Dec 2017 Fair value	
(CZKm)	Assets	Liabilities	Assets	Liabilities	Positive	Negative	Positive	Negative
Interest rate swaps for fair value hedging	910,923	910,923	697,928	697,928	10,538	9,277	10,697	10,078
Cross currency swaps for cash flows hedging	43,131	41,514	52,456	50,145	1,569	177	2,318	111
Forwards on stocks for cash flow hedging	53	54	52	52	1	0	2	0
Total	**954,107**	**952,491**	**750,436**	**748,125**	**12,108**	**9,454**	**13,017**	**10,189**

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2018:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for fair value hedging	103,330	422,717	384,876	910,923
Cross currency swaps for cash flow hedging	11,559	27,773	3,799	43,131
Forwards on stocks for cash flow hedging	21	32	0	53
Total	**114,910**	**450,522**	**388,675**	**954,107**

Remaining contractual maturities of derivatives designated as hedging are shown below as of 31 December 2017:

(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Total
Interest rate swaps for fair value hedging	112,224	325,255	260,449	697,928
Cross currency swaps for cash flow hedging	9,348	29,769	13,339	52,456
Forwards on stocks for cash flow hedging	20	32	0	52
Total	**121,592**	**355,056**	**273,788**	**750,436**

Shown below are the undiscounted cash flows from derivatives designated for cash flow hedging according to the periods within which they are expected to affect profit or loss:

	31 Dec 2018			31 Dec 2017		
(CZKm)	Up to 1 year	1 to 5 years	Over 5 years	Up to 1 year	1 to 5 years	Over 5 years
Floating cash flows from cash flow hedging derivatives	442	988	18	35	68	17

The Bank treats as hedges only those contracts for which it is able to demonstrate that all criteria set out in IAS 39 for recognising the transactions as hedges have been met. The Bank's strategy remains unchanged in line with IAS 39.

In November 2017, the Bank decided to change the hedging relationships of the interest rate swaps from the cash flow hedges (CFH) portfolio to the fair value hedges (FVH) portfolio for interest rate risk in order to unify and harmonise hedging strategy within Société Générale Group. At the date of reclassification, the associated gains that were recognised for the CFH portfolio in other comprehensive income as effective hedge were insignificant.

During 2018, the Bank recorded the following hedges:

1. Interest rate risk hedging:
   a. The fair values of long-term loans provided and of investments into long-term government securities classified into the "Hold to collect contractual cash flows and sell" business model and investments into long-term securities classified into the "Hold to collect contractual cash flows" business model are hedged by interest rate swaps and cross currency swaps, respectively;
   b. The fair values of issued long-term mortgage bonds classified into the 'Securities issued' portfolio are hedged by interest rate swaps;
   c. The fair values of fixed rate deposits, loans taken or repos are hedged by interest rate swaps;
   d. Future cash flows from a portfolio of current assets traded on the interbank market and from loans to clients are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's Statement of Income on an ongoing basis);
   e. Future cash flows from a portfolio of short-term liabilities traded on the interbank market and liabilities to clients are hedged by a portfolio of interest rate swaps or cross currency swaps (cash flows will materialise on an ongoing basis and will also affect the Bank's Statement of Income on an ongoing basis);
   f. The fair values of a portfolio of current accounts from clients are hedged by a portfolio of interest rate swaps.

2. Foreign exchange risk hedging:
   a. In selected material cases, the Bank hedges the future cash flows of firm commitments arising from the Bank's contractual obligations (e.g. contractual payments to third parties in a foreign currency) or receivables of the Bank (e.g. dividends). The hedging instrument consists of foreign currency assets (e.g. short-term loans on the interbank market) or foreign currency liabilities (e.g. short-term client liabilities), respectively;
   b. The Bank hedges the fair value of Visa Inc. preferred shares. Hedging instruments are foreign currency liabilities (short-term client liabilities).

3. Share price risk hedging:
   a. A portion of the bonus of selected Bank employees is paid in cash equivalents of the Komerční banka, a.s. share price. The Bank hedges the risk of change in the Komerční banka, a.s. share price. Hedging instruments are forwards on stocks.

4. Hedging of an investment in foreign subsidiaries:
   a. The foreign exchange risk associated with investments in subsidiaries is hedged by selected foreign currency liabilities (e.g. short-term client liabilities);

The Bank does not report any instance of hedge accounting being applied to a highly probable forecasted transaction that is no longer anticipated to be effected.

In 2018, the loss from ineffectiveness of hedging relationships was in the amount of CZK 0 million (2017: CZK 5 million).

Further information on hedges is provided in Notes 3, 5 and 7 to these Financial Statements.

(D) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent that instrument is exposed to interest rate risk. Market developments have led to a situation where interest rates are negative in certain currencies. This fact does not change the essence of interest rate risk measurement and management because the principle of recognising changes in interest rates over time remains unchanged just as the concept of hedging against interest rate risk by matching volumes with changing values within the given period remains valid. Due to legal and technical limitations, methods to prevent negative rates from being applied at the client's level can be applied with the objective of maintaining accordance between a transaction's contractual and economic natures. With respect to ongoing market practice, client deposits are seeing the introduction of deposit fees, which constitute a specific response to the existence of negative market interest rates and which also comply with the requirements given by limitations ensuing from the existing legal framework.

The Bank uses internal models for managing interest rate risk. The objective of these models is to describe the expected economic behaviour of the Bank's clients when market interest rates fluctuate. It is the policy of the Bank's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through a gap analysis of assets and liabilities in individual groups. Further information about interest rate risk management is provided in Section (B) of this Note.

The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity or a repricing date were grouped into the *'Undefined'* category. The table includes a breakout of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	22,504	0	0	0	0	22,504
Financial assets and other assets at fair value through profit or loss	1,711	0	0	0	21,569	23,280
Positive fair values of hedging financial derivatives	0	0	0	0	12,108	12,108
Financial assets at fair value through other comprehensive income	6,648	412	4,275	11,890	351	23,576
Financial assets at amortised cost	490,047	83,697	241,765	73,114	0	888,623
– of which: Loans and advances to customers	230,876	65,943	214,338	42,731	0	553,888
Current tax assets	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	19	19
Prepayments, accrued income and other assets	0	0	0	0	4,027	4,027
Investments in subsidiaries and associates	0	0	0	0	17,798	17,798
Intangible assets	0	0	0	0	4,737	4,737
Tangible assets	0	0	0	0	4,690	4,690
Assets held for sale	0	0	0	0	142	142
Total assets	**520,910**	**84,109**	**246,040**	**85,004**	**65,441**	**1,001,504**
Liabilities						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities through profit or loss	2,250	0	0	0	19,989	22,239
Negative fair values of hedging financial derivatives	0	0	0	0	9,454	9,454
Financial liabilities at amortised cost	120,685	35,212	21,845	7,817	676,186	861,745
– of which: Amounts due to customers	63,101	15,580	172	0	676,186*	755,039
Revaluation differences on portfolios hedge items	0	0	0	0	(449)	(449)
Current tax liabilities	0	0	0	0	106	106
Deferred tax liabilities	0	0	0	0	24	24
Accruals and other liabilities	0	0	0	0	11,269	11,269
Provisions	0	0	0	0	1,816	1,816
Subordinated debt	2,578	0	0	0	0	2,578
Total liabilities	**125,514**	**35,212**	**21,845**	**7,817**	**718,395**	**908,783**
Statement of Financial Position interest rate gap as of 31 December 2018	**395,396**	**48,897**	**224,195**	**77,187**	**(652,954)**	**92,721**
Nominal value of derivatives**	902,747	326,187	529,755	463,374	0	2,222,063
Total off-balance sheet assets	**902,747**	**326,187**	**529,755**	**463,374**	**0**	**2,222,063**
Nominal value of derivatives**	1,024,276	355,722	562,729	277,701	0	2,220,428
Undrawn portion of loans***	(8,504)	(10,780)	8,771	10,513	0	0
Undrawn portion of revolving loans***	(689)	689	0	0	0	0
Total off-balance sheet liabilities	**1,015,083**	**345,631**	**571,500**	**288,214**	**0**	**2,220,428**
Net off-balance sheet interest rate gap as of 31 December 2018	**(112,336)**	**(19,444)**	**(41,745)**	**175,160**	**0**	**1,635**
Cumulative interest rate gap as of 31 December 2018	**283,060**	**312,513**	**494,963**	**747,310**	**94,356**	**x**

* This item principally includes client deposits for which there is not information about contractual maturity or repricing date.
** Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.
*** Undrawn loans and revolving loans are reported on a net basis, i.e. the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	32,523	0	0	0	0	32,523
Financial assets and other assets at fair value through profit or loss	1,633	0	0	0	17,736	19,369
Positive fair values of hedging financial derivatives	0	0	0	0	13,017	13,017
Financial assets at fair value through other comprehensive income	2,034	3,987	3,651	12,382	240	22,294
Financial assets at amortised cost	439,526	76,424	244,955	63,086	0	823,991
– of which: Loans and advances to customers	220,144	68,427	206,090	36,424	0	531,085
Current tax assets	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	104	104
Prepayments, accrued income and other assets	0	0	0	0	3,923	3,923
Investments in subsidiaries and associates	0	0	0	0	19,928	19,928
Intangible assets	0	0	0	0	4,189	4,189
Tangible assets	0	0	0	0	4,765	4,765
Assets held for sale	0	0	0	0	127	127
Total assets	**475,716**	**80,411**	**248,606**	**75,468**	**64,029**	**944,230**
Liabilities						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities through profit or loss	1,673	0	0	0	18,161	19,834
Negative fair values of hedging financial derivatives	0	0	0	0	10,189	10,189
Financial liabilities at amortised cost	85,935	24,469	19,656	11,017	665,914	806,991
– of which: Amounts due to customers	21,529	14,370	240	0	665,914*	702,053
Revaluation differences on portfolios hedge items	0	0	0	0	(1,206)	(1,206)
Current tax liabilities	0	0	0	0	254	254
Deferred tax liabilities	0	0	0	0	0	0
Accruals and other liabilities	0	0	0	0	16,682	16,682
Provisions	0	0	0	0	1,921	1,921
Subordinated debt	2,560	0	0	0	0	2,560
Total liabilities	**90,169**	**24,469**	**19,656**	**11,017**	**711,915**	**857,226**
Statement of Financial Position interest rate gap as of 1 January 2018	**385,547**	**55,942**	**228,950**	**64,451**	**(647,886)**	**87,004**
Nominal value of derivatives**	704,809	335,407	470,310	380,734	0	1,891,260
Total off-balance sheet assets	**704,809**	**335,407**	**470,310**	**380,734**	**0**	**1,891,260**
Nominal value of derivatives**	842,017	337,510	489,961	219,655	0	1,889,143
Undrawn portion of loans***	(7,684)	(9,064)	11,233	5,515	0	0
Undrawn portion of revolving loans***	(680)	680	0	0	0	0
Total off-balance sheet liabilities	**833,653**	**329,126**	**501,194**	**225,170**	**0**	**1,889,143**
Net off-balance sheet interest rate gap as of 1 January 2018	**(128,844)**	**6,281**	**(30,884)**	**155,564**	**0**	**2,117**
Cumulative interest rate gap as of 1 January 2018	**256,703**	**318,926**	**516,992**	**737,007**	**89,121**	**x**

* This item principally includes client deposits for which there is not information about contractual maturity or repricing date.

** Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.

*** Undrawn loans and revolving loans are reported on a net basis, i.e. the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

Average interest rates as of 31 December 2018 and 1 January 2018 were as follow:

	31 Dec 2018			1 Jan 2018		
	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and current balances with central banks	0.87%	x	x	0.31%	x	x
Financial assets at fair value through other comprehensive income	2.12%	x	2.12%	x	0.00%	2.98%
Financial assets at amortised cost	2.30%	2.99%	1.00%	1.70%	2.28%	1.13%
– of which: Loans and advances to customers	2.52%	3.76%	1.51%	2.31%	2.99%	1.65%
Total assets	**1.84%**	**2.07%**	**1.11%**	**1.34%**	**1.46%**	**1.10%**
Total interest-earning assets	**2.29%**	**2.99%**	**1.12%**	**1.65%**	**2.28%**	**1.13%**
Liabilities						
Amounts due to central banks	0.00%	x	x	0.00%	x	x
Financial liabilities at amortised cost	0.23%	1.20%	0.04%	0.15%	0.35%	0.14%
– of which: Amounts due to customers	0.11%	0.66%	0.02%	0.13%	0.34%	0.02%
Subordinated debt	x	x	0.94%	x	x	0.93%
Total liabilities	**0.22%**	**1.14%**	**0.04%**	**0.15%**	**0.33%**	**0.13%**
Total interest-bearing liabilities	**0.23%**	**1.20%**	**0.04%**	**0.16%**	**0.35%**	**0.14%**
Off-balance sheet assets						
Nominal value of derivatives (interest rate swaps, options, etc.)	1.65%	3.17%	0.56%	1.03%	2.91%	0.59%
Undrawn portion of loans	2.35%	x	1.61%	1.86%	x	1.22%
Undrawn portion of revolving loans	5.65%	3.80%	0.20%	5.01%	2.50%	0.23%
Total off-balance sheet assets	**1.77%**	**3.17%**	**0.56%**	**1.16%**	**2.89%**	**0.58%**
Off-balance sheet liabilities						
Nominal value of derivatives (interest rate swaps, options, etc.)	1.63%	3.09%	0.47%	0.87%	2.67%	0.48%
Undrawn portion of loans	2.35%	x	1.61%	1.86%	x	1.22%
Undrawn portion of revolving loans	5.65%	3.80%	0.20%	5.01%	2.50%	0.23%
Total off-balance sheet liabilities	**1.75%**	**3.09%**	**0.46%**	**1.01%**	**2.66%**	**0.48%**

Note: The above table sets out the average interest rates for December 2018 and 2017 calculated as a weighted average for each asset and liability category.

The 2W repo rate announced by the CNB increased during 2018 from 0.50% to 1.75%. Czech crown money market rates (PRIBOR) increased by 1.22–1.26% (1–12M). Interest rates swaps changed from -0.10% (10Y) to 0.70% (2Y).

Euro money market rates decreased during 2018 by 0.01-0.07% (1–12M), and interest rate swaps decreased from -0.11% (4–5Y) to -0.03% (2Y).

Dollar money market rates increased during 2018 by 0.90-1.11% (1–12M), and interest rate swaps increased from 0.34% (6–10Y) to 0.59% (2Y).

Following is a breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

(CZKm)	31 Dec 2018 Fixed interest rate	Floating interest rate	No interest	Total	1 Jan 2018 Fixed interest rate	Floating interest rate	No interest	Total
Assets								
Cash and current balances with central banks	4,000	15,570	2,934	22,504	5,000	16,412	11,111	32,523
Financial assets and other assets at fair value through profit or loss	3,159	89	20,032	23,280	964	669	17,736	19,369
Positive fair values of hedging financial derivatives	0	0	12,108	12,108	0	0	13,017	13,017
Financial assets at fair value through other comprehensive income	21,182	2,043	351	23,576	17,464	4,590	240	22,294
Financial assets at amortised cost	421,962	461,866	4,795	888,623	400,059	419,228	4,704	823,991
– of which: Loans and advances to customers	340,569	208,741	4,578	553,888	329,534	196,922	4,629	531,085
Liabilities								
Amounts due to central banks	1	0	0	1	1	0	0	1
Financial liabilities at fair value through profit or loss	0	0	22,239	22,239	0	0	19,834	19,834
Negative fair values of hedging financial derivatives	0	0	9,454	9,454	0	0	10,189	10,189
Financial liabilities at amortised cost	50,707	808,326	2,712	861,745	39,233	760,350	7,408	806,991
– of which: Amounts due to customers	200	752,339*	2,500	755,039	126	694,768*	7,159	702,053
Revaluation differences on portfolios hedge items	0	0	(449)	(449)	0	0	(1,206)	(1,206)
Subordinated debt	0	2,578	0	2,578	0	2,560	0	2,560

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate structure. For this purpose, a fixed interest rate is defined as a rate with a repricing period exceeding 1 year. Products having no parameters defining their interest rate structure are included in the 'No interest' category.

* This item principally includes client deposits where the Bank has the option to reset interest rates and hence they are not sensitive to interest rate changes.

(E) Liquidity risk

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Bank's Board of Directors. Liquidity is monitored on a bank-wide level, with the Market Book also having a standalone limit. The Bank has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Bank has defined a set of indicators for which binding limits are established.

The Bank is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank's experiences show that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities (mainly reverse repo transactions with CNB) that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk of the Bank is managed as stipulated above (and in particular not on the basis of undiscounted cash flows).

The Bank has modified the method of presenting the following items to take more into account the nature of the items and the internal approach. The comparable period as of 1 January 2018 was restated.

In the line *'Cash and current balances with central banks'*, obligatory minimum reserves are presented in the time bucket "On demand up to 7 days". In the past, they were presented under time bucket "Maturity undefined".

In the line *'Financial assets at amortized cost'*, the impaired loans under IAS 39 has been presented in time bucket "Maturity undefined". Now, all 'Financial assets at amortized cost' are broken down by contractual residual maturity into particular time buckets.

In the line *'Off-balance sheet liabilities'*, the commitments and contingencies are newly presented in time bucket "On demand up to 7 days" due to the option for the client to exercise the claim. In the past, these items were presented in particular time buckets according to the contractual residual maturity of the off-balance sheet contract. In relation to this change, the Bank has also modified the presentation of related provisions.

The table below provides a breakdown of assets, liabilities and equity into relevant maturity groupings based on the remaining period from the financial statements date to the contractual maturity date. The table includes a breakout of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	14,000	0	0	0	0	8,504	22,504
Financial assets and other assets at fair value through profit or loss	0	1	280	1,124	1,660	20,215	23,280
Positive fair values of hedging financial derivatives	0	0	0	0	0	12,108	12,108
Financial assets at fair value through other comprehensive income	2,241	0	180	6,917	14,238	0	23,576
Financial assets at amortised cost	129,726	184,795	93,661	234,327	246,114	0	888,623
– of which: Loans and advances to customers	15,419	53,946	77,703	194,182	212,638	0	553,888
Current tax assets	0	0	0	0	0	0	0
Deferred tax assets	19	0	0	0	0	0	19
Prepayments, accrued income and other assets	850	6	0	0	0	3,171	4,027
Investments in subsidiaries and associates	0	0	0	0	0	17,798	17,798
Intangible assets	0	0	0	0	0	4,737	4,737
Tangible assets	0	0	0	0	0	4,690	4,690
Assets held for sale	0	0	142	0	0	0	142
Total assets	**146,836**	**184,802**	**94,263**	**242,368**	**262,012**	**71,223**	**1,001,504**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss	2,250	0	0	0	0	19,989	22,239
Negative fair values of hedging financial derivatives	0	0	0	0	0	9,454	9,454
Financial liabilities at amortised cost	716,060	66,239	30,719	20,143	28,584	0	861,745
– of which: Amounts due to customers	698,206	42,170	14,149	514	0	0	755,039
Revaluation differences on portfolios hedge items	(449)	0	0	0	0	0	(449)
Current tax liabilities	0	106	0	0	0	0	106
Deferred tax liabilities	24	0	0	0	0	0	24
Accruals and other liabilities	11,139	0	0	0	0	130	11,269
Provisions	1,122	0	0	0	0	694	1,816
Subordinated debt	0	0	0	0	2,578	0	2,578
Equity	0	0	0	0	0	92,721	92,721
Total liabilities	**730,147**	**66,345**	**30,719**	**20,143**	**31,162**	**122,988**	**1,001,504**
Statement of Financial Position liquidity gap as of 31 Dec 2018	**(583,311)**	**118,457**	**63,544**	**222,225**	**230,850**	**(51,765)**	**0**
Off-balance sheet assets*	57,943	288,307	180,525	251,273	56,558	0	834,606
Off-balance sheet liabilities*	213,739	288,484	180,518	251,189	56,401	0	990,331
Net off-balance sheet liquidity gap as of 31 Dec 2018	**(155,796)**	**(177)**	**7**	**84**	**157**	**0**	**(155,725)**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts, as well as payables under guarantees, letters of credit and committed facilities.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	22,453	0	0	0	0	10,070	32,523
Financial assets and other assets at fair value through profit or loss	0	38	404	505	685	17,737	19,369
Positive fair values of hedging financial derivatives	0	0	0	0	0	13,017	13,017
Financial assets at fair value through other comprehensive income	246	0	2,554	1,660	17,834	0	22,294
Financial assets at amortised cost	121,375	160,188	82,446	225,311	234,671	0	823,991
– of which: Loans and advances to customers	7,434	54,045	75,319	183,774	210,513	0	531,085
Current tax assets	0	0	0	0	0	0	0
Deferred tax assets	95	9	0	0	0	0	104
Prepayments, accrued income and other assets	804	0	0	0	0	3,119	3,923
Investments in subsidiaries and associates	0	0	0	0	0	19,928	19,928
Intangible assets	0	0	0	0	0	4,189	4,189
Tangible assets	0	0	0	0	0	4,765	4,765
Assets held for sale	0	0	127	0	0	0	127
Total assets	**144,973**	**160,235**	**85,531**	**227,476**	**253,190**	**72,825**	**944,230**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss	1,673	0	0	0	0	18,161	19,834
Negative fair values of hedging financial derivatives	0	0	0	0	0	10,189	10,189
Financial liabilities at amortised cost	713,707	20,960	13,689	27,231	31,404	0	806,991
– of which: Amounts due to customers	679,737	9,342	11,544	1,430	0	0	702,053
Revaluation differences on portfolios hedge items	(1,206)	0	0	0	0	0	(1,206)
Current tax liabilities	0	254	0	0	0	0	254
Deferred tax liabilities	0	0	0	0	0	0	0
Accruals and other liabilities	16,482	0	0	0	0	200	16,682
Provisions	1,416	0	0	0	0	505	1,921
Subordinated debt	0	0	0	0	2,560	0	2,560
Equity	0	0	0	0	0	87,004	87,004
Total liabilities	**732,073**	**21,214**	**13,689**	**27,231**	**33,964**	**116,059**	**944,230**
Statement of Financial Position liquidity gap as of 1 Jan 2018	**(587,100)**	**139,021**	**71,842**	**200,245**	**219,226**	**(43,234)**	**0**
Off-balance sheet assets*	51,890	228,523	195,744	207,732	62,675	0	746,564
Off-balance sheet liabilities*	196,030	228,065	196,163	207,341	62,120	0	889,719
Net off-balance sheet liquidity gap as of 1 Jan 2018	**(144,140)**	**458**	**(419)**	**391**	**555**	**0**	**(143,155)**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts, as well as payables under guarantees, letters of credit and committed facilities.

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Bank based on the undiscounted cash flows as of 31 December 2018:

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss (except derivatives)	2,244	0	0	0	0	0	2,244
Financial liabilities at amortised cost	716,069	66,631	31,581	22,095	29,209	0	865,585
– of which: Amounts due to customers	698,216	42,345	14,344	518	0	0	755,423
Current tax liabilities	0	106	0	0	0	0	106
Deferred tax liabilities	24	0	0	0	0	0	24
Accruals and other liabilities	11,139	0	0	0	0	130	11,269
Provisions	1,122	0	0	0	0	694	1,816
Subordinated debt	0	0	0	0	2,578	0	2,578
Total non-derivative financial liabilities	**730,599**	**66,737**	**31,581**	**22,095**	**31,787**	**824**	**883,623**
Other loans commitment granted	102,498	0	0	0	0	0	102,498
Guarantee commitments granted	53,341	0	0	0	0	0	53,341
Total contingent liabilities	**155,839**	**0**	**0**	**0**	**0**	**0**	**155,839**

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Bank based on the undiscounted cash flows as of 1 January 2018:

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss (except derivatives)	1,673	0	0	0	0	0	1,673
Financial liabilities at amortised cost	713,833	21,171	14,653	29,705	32,289	0	811,651
– of which: Amounts due to customers	679,829	9,401	11,739	1,439	0	0	702,408
Current tax liabilities	0	254	0	0	0	0	254
Deferred tax liabilities	0	0	0	0	0	0	0
Accruals and other liabilities	16,482	0	0	0	0	200	16,682
Provisions	1,416	0	0	0	0	505	1,921
Subordinated debt	0	0	0	0	2,560	0	2,560
Total non-derivative financial liabilities	**733,405**	**21,425**	**14,653**	**29,705**	**34,849**	**705**	**834,742**
Other loans commitment granted	91,913	0	0	0	0	0	91,913
Guarantee commitments granted	51,897	0	0	0	0	0	51,897
Total contingent liabilities	**143,810**	**0**	**0**	**0**	**0**	**0**	**143,810**

(F) Foreign exchange position

The table below breaks out the Bank's main currency exposures. The remaining currencies are shown within *'Other currencies'*. The Bank manages its foreign exchange position on a daily basis. For this purpose, the Bank has a set of internal limits.

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	20,344	1,672	238	250	22,504
Financial assets and other assets at fair value through profit or loss	19,577	3,381	318	4	23,280
Positive fair values of hedging financial derivatives	10,592	1,454	62	0	12,108
Financial assets at fair value through other comprehensive income	5,404	17,822	350	0	23,576
Financial assets at amortised cost	732,624	141,384	12,901	1,714	888,623
– of which: Loans and advances to customers	444,107	105,859	2,978	944	553,888
Current tax assets	0	0	0	0	0
Deferred tax assets	0	19	0	0	19
Prepayments, accrued income and other assets	2,961	947	13	106	4,027
Investments in subsidiaries and associates	17,231	567	0	0	17,798
Intangible assets	4,733	4	0	0	4,737
Tangible assets	4,687	3	0	0	4,690
Assets held for sale	142	0	0	0	142
Total assets	**818,295**	**167,253**	**13,882**	**2,074**	**1,001,504**
Liabilities					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	18,811	3,167	257	4	22,239
Negative fair values of hedging financial derivatives	7,798	1,583	73	0	9,454
Financial liabilities at amortised cost	701,680	139,434	17,139	3,492	861,745
– of which: Amounts due to customers	667,554	71,677	12,470	3,338	755,039
Revaluation differences on portfolios hedge items	(1,061)	814	(202)	0	(449)
Current tax liabilities	88	18	0	0	106
Deferred tax liabilities	24	0	0	0	24
Accruals and other liabilities	8,541	2,111	427	190	11,269
Provisions	1,453	298	10	55	1,816
Subordinated debt	0	2,578	0	0	2,578
Equity	92,714	7	0	0	92,721
Total liabilities	**830,049**	**150,010**	**17,704**	**3,741**	**1,001,504**
Net FX position as of 31 December 2018	**(11,754)**	**17,243**	**(3,822)**	**(1,667)**	**0**
Off-balance sheet assets*	1,811,093	877,316	148,221	31,457	2,868,087
Off-balance sheet liabilities*	1,799,890	893,959	144,132	29,938	2,867,919
Net off-balance sheet FX position as of 31 December 2018	**11,203**	**(16,643)**	**4,089**	**1,519**	**168**
Total net FX position as of 31 December 2018	**(551)**	**600**	**267**	**(148)**	**168**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal value of all derivative deals.

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	30,441	1,594	199	289	32,523
Financial assets and other assets at fair value through profit or loss	15,773	3,241	262	93	19,369
Positive fair values of hedging financial derivatives	11,416	1,545	115	(59)	13,017
Financial assets at fair value through other comprehensive income	16,345	5,803	146	0	22,294
Financial assets at amortised cost	690,476	122,795	9,151	1,569	823,991
– of which: Loans and advances to customers	430,447	96,678	3,058	902	531,085
Current tax assets	0	0	0	0	0
Deferred tax assets	86	18	0	0	104
Prepayments, accrued income and other assets	2,987	760	174	2	3,923
Investments in subsidiaries and associates	17,056	2,872	0	0	19,928
Intangible assets	4,187	2	0	0	4,189
Tangible assets	4,763	2	0	0	4,765
Assets held for sale	127	0	0	0	127
Total assets	**793,657**	**138,632**	**10,047**	**1,894**	**944,230**
Liabilities					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	17,465	2,063	213	93	19,834
Negative fair values of hedging financial derivatives	8,518	1,683	47	(59)	10,189
Financial liabilities at amortised cost	687,088	104,944	12,353	2,606	806,991
– of which: Amounts due to customers	626,753	60,769	12,163	2,368	702,053
Revaluation differences on portfolios hedge items	(2,109)	958	(55)	0	(1,206)
Current tax liabilities	238	16	0	0	254
Deferred tax liabilities	0	0	0	0	0
Accruals and other liabilities	13,900	2,160	465	157	16,682
Provisions	1,393	459	14	55	1,921
Subordinated debt	0	2,560	0	0	2,560
Equity	86,807	197	0	0	87,004
Total liabilities	**813,301**	**115,040**	**13,037**	**2,852**	**944,230**
Net FX position as of 1 January 2018	**(19,644)**	**23,592**	**(2,990)**	**(958)**	**0**
Off-balance sheet assets*	1,635,085	667,691	130,226	17,213	2,450,215
Off-balance sheet liabilities*	1,599,658	706,201	126,893	16,312	2,449,064
Net off-balance sheet FX position as of 1 January 2018	**35,427**	**(38,510)**	**3,333**	**901**	**1,151**
Total net FX position as of 1 January 2018	**15,783**	**(14,918)**	**343**	**(57)**	**1,151**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal value of all derivative deals.

(G) Operational risk

Since 2008, the Bank has used the Advanced Measurement Approach (AMA) for operational risk management. In addition to standard operational risk instruments used within the AMA approach, such as operational losses collection, Risk Control Self-Assessment (RCSA), Key Risk Indicators (KRI) or Scenario Analysis (SA), the Bank developed and deployed also a permanent supervision system consisting of a set of operational everyday controls and a set of formalised periodic controls. These controls are independently and on a continuous basis reviewed within a so-called second level of controls. The Bank is continuously developing all the aforementioned operational risk instruments and supporting continuous development of an operational risk culture throughout all organisational units.

The information collected by the Operational Risks Department is regularly analysed and provided to the Bank's management. Based on this information, the management may decide on further strategic steps within the framework of operational risk management. The evaluation of operational risks is also an integral component of the process for new product development and validation.

(H) Legal risk

The Bank regularly monitors and evaluates legal disputes filed against it. In order to cover all contingent liabilities arising from legal disputes, the Bank establishes a provision equal to the claimed amount in respect of all litigation where it is named as a defendant and where the likelihood of payment has been estimated to exceed 50%. The Bank also manages its legal risk through the assessment of legal risks involved in the contracts to which the Bank is a party.

(I) Estimated fair value of assets and liabilities of the Bank

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where quoted market prices are not readily available, the fair value is estimated, as appropriate, using discounted cash flow models or other generally acceptable pricing models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect these estimates.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used.

(a) Cash and current balances with central banks
The reported values of cash and current balances with the central bank are generally deemed to approximate their fair value.

(b) Financial assets at amortised cost

Loans and advances to banks
The estimated fair value of loans and advances to banks that mature in 180 days or less approximates their carrying amounts. The fair value of other loans and advances to banks is estimated based upon discounted cash flow analysis using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing loans and advances to banks is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

Loans and advances to customers
The fair value of variable yield loans that regularly reprice and which have no significant change in credit risk generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analysis based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

Debt securities
The fair value of debt securities is based upon quoted market prices. Where no market prices are available, the fair value is estimated based on discounted cash flow models using the interest rate currently offered as of the financial statements date.

(c) Amounts due to central banks
The reported values of amounts due to central banks are generally deemed to approximate their fair value.

(d) Financial liabilities at amortised cost

Amounts due to banks and Amounts due to customers
The fair value of deposits repayable on demand is represented by the carrying value of amounts repayable on demand as of the financial statements date. The carrying value of term deposits at variable interest rates approximates their fair values as of the financial statements date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values as of the financial statements date.

Securities issued
The fair value of debt securities issued by the Bank is based upon quoted market prices. Where no market prices are available, the fair value is estimated using a discounted cash flow analysis.

(e) Subordinated debt
The fair value of subordinated debt is estimated using a discounted cash flow analysis.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Bank's Statement of Financial Position at their fair values:

	31 Dec 2018		1 Jan 2018	
(CZKm)	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and current balances with central banks	22,504	22,504	32,523	32,523
Financial assets at amortised cost	888,623	888,823	823,991	832,911
– Loans and advances to banks	270,281	270,182	229,438	229,734
– Loans and advances to customers	553,888	553,267	531,085	537,497
– Debt securities	64,454	65,374	63,468	65,680
Financial liabilities				
Amounts due to central banks	1	1	1	1
Financial liabilities at amortised cost	861,745	861,722	806,991	806,657
– Amounts due to banks	76,365	76,292	69,600	69,577
– Amounts due to customers	755,039	755,033	702,053	701,507
– Securities issued	30,341	30,397	35,338	35,573
Subordinated debt	2,578	2,578	2,560	2,560

The following table presents the hierarchy of fair values for those financial assets and liabilities not presented on the Bank's Statement of Financial Position at their fair values:

	31 Dec 2018				1 Jan 2018			
(CZKm)	Fair value	Level 1	Level 2	Level 3	Fair value	Level 1	Level 2	Level 3
Financial assets								
Cash and current balances with central banks	22,504	8,504	0	14,000	32,523	10,070	0	22,453
Financial assets at amortised cost	888,823	61,299	3,600	823,924	832,911	61,959	3,190	767,762
– Loans and advances to banks	270,182	0	0	270,182	229,734	0	0	229,734
– Loans and advances to customers	553,267	0	0	553,267	537,497	0	0	537,497
– Debt securities	65,374	61,299	3,600	475	65,680	61,959	3,190	531
Financial liabilities								
Amounts due to central banks	1	0	0	1	1	0	0	1
Financial liabilities at amortised cost	861,722	0	0	861,722	806,657	0	0	806,657
– Amounts due to banks	76,292	0	0	76,292	69,577	0	0	69,577
– Amounts due to customers	755,033	0	0	755,033	701,507	0	0	701,507
– Securities issued	30,397	0	0	30,397	35,573	0	0	35,573
Subordinated debt	2,578	0	0	2,578	2,560	0	0	2,560

(J) Allocation of fair values of financial instruments at fair value to the hierarchy of fair values

Financial assets and financial liabilities at fair value by fair value hierarchy (refer to Note 3.5.4):

(CZKm)	31 Dec 2018	Level 1	Level 2	Level 3	1 Jan 2018	Level 1	Level 2	Level 3
FINANCIAL ASSETS								
Financial assets at fair value through profit or loss	**23,035**	**4,837**	**18,198**	**0**	**18,373**	**1,517**	**16,856**	**0**
of which:								
– Equity securities	0	0	0	0	0	0	0	0
– Debt securities	3,248	2,995	253	0	1,633	1,300	333	0
– Derivatives	19,787	1,842	17,945	0	16,740	217	16,523	0
Other assets at fair value through profit or loss	**245**	**245**	**0**	**0**	**996**	**996**	**0**	**0**
Positive fair value of hedging financial derivatives	**12,108**	**0**	**12,108**	**0**	**13,017**	**0**	**13,017**	**0**
Financial assets at fair value through other comprehensive income	**23,576**	**21,417**	**1,808**	**351**	**22.294**	**17,697**	**4,357**	**240**
Financial assets at fair value	**58,964**	**26,499**	**32,114**	**351**	**54,680**	**20,210**	**34,230**	**240**
FINANCIAL LIABILITIES								
Financial liabilities at fair value through profit or loss	**22,239**	**4,212**	**18,027**	**0**	**19,834**	**2,079**	**17,755**	**0**
of which:								
– Sold securities	2,244	2,244	0	0	1,673	1,673	0	0
– Derivatives	19,995	1,968	18,027	0	18,161	406	17,755	0
Negative fair value of hedging financial derivatives	**9,454**	**0**	**9,454**	**0**	**10,189**	**0**	**10,189**	**0**
Revaluation differences on portfolios hedge items	**(449)**	**0**	**(449)**	**0**	**(1,206)**	**0**	**(1,206)**	**0**
Financial liabilities at fair value	**31,244**	**4,212**	**27,032**	**0**	**28,817**	**2,079**	**26,738**	**0**

Financial assets at fair value – Level 3:

		2018		2017
(CZKm)	Financial assets at FVOCI option	Total	Financial assets at FVOCI option	Total
Balance as of 1 January	**240**	**240**	**182**	**182**
Comprehensive income/(loss)				
– In the Statement of Income	0	0	0	0
– In Other Comprehensive Income	96	96	90	90
Purchases	0	0	0	0
Sales	0	0	0	0
Settlement	0	0	0	0
Transfer from Level 1	0	0	0	0
Foreign exchange rate difference	15	15	(32)	(32)
Balance as of 31 December	**351**	**351**	**240**	**240**

Shares and participation certificates

When using an alternative method of valuation based on the price/book value ratio, the fair value is not significantly different from the fair value determined on the basis of the present value of future cash flows which was used for the original valuation.

42 Offsetting financial assets and financial liabilities

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2018:

	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
(CZKm)	Gross amount of financial assets/ liabilities*	Gross amount of financial assets/ liabilities set off by financial liabilities/ assets	Net amount of financial assets/ liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	33,921	2,026	31,895	21,781	5,332	4,782
Negative fair value of derivatives	31,475	2,026	29,449	21,781	6,889	779

* This item includes also counterparties with only positive or negative fair value of derivatives.

The table below provides information about rights of offset and related arrangements for financial instruments as of 31 December 2017:

	Assets/liabilities set off according to IAS 32			Amounts which have not been set off		
(CZKm)	Gross amount of financial assets/ liabilities*	Gross amount of financial assets/ liabilities set off by financial liabilities/ assets	Net amount of financial assets/ liabilities	Financial instruments recognised in Statement of Financial Position	Cash collateral related to financial instruments	Net amount
Positive fair value of derivatives	31,001	1,244	29,757	20,683	5,088	3,986
Negative fair value of derivatives	29,594	1,244	28,350	20,683	7,034	633

* This item includes also counterparties with only positive or negative fair value of derivatives.

43 Assets in custody and assets under management

The table below provides information about assets in custody and assets under management:

	31 Dec 2018		31 Dec 2017	
(CZKm)	Cash	Securities	Cash	Securities
Assets in custody	3,789	531,523	4,520	566,090
Assets under management	0	3,039	0	2,987

Assets in custody include securities in the amount of CZK 37,037 million (2017: CZK 40,146 million) of Group subsidiaries.

44 Comparative information according to IAS 39

44.1 Principal accounting policies

44.1.1 Recognition of income and expenses

44.1.1.1 Net interest income and similar income

Interest income and expense related to interest-bearing instruments, except for instruments classified as financial assets or financial liabilities at fair value through profit or loss and interest hedging derivatives, are recognised on an accrual basis in the Statement of Income in the lines *'Interest income and similar income'* and *'Interest expense and similar expense'* using the effective interest rate (refer to 44.1.4.7 Effective interest rate method). Interest income and expense related to interest rate hedging derivatives are recognised in the lines described on an accrual basis using the contractual interest rate of the corresponding derivative. Late-fee income is recognised at the date of its payment and presented in the line *'Interest income and similar income'*.

Dividend income is recognised when the Bank's right to receive a dividend payment is established and is presented in the line *'Dividend income'*.

44.1.1.2 Net fee and commission income
The recognition of income from fees and commissions depends on the purpose for which a fee was assessed and the basis of accounting for any associated financial instrument. In accordance with the substance of fees and nature of services for which they are assessed, the Bank distinguishes the following three categories of fees:

- Fees and commissions that comprise an integral component of the effective interest rate of a financial instrument are recognised in the line *'Interest income and similar income'*;
- Fees and commissions for services provided – income from these is recognised as revenue when services are provided and it is presented in the line *'Net fee and commission income'*;
- Fees and commissions for the execution of an act – income from these is recognised as revenue when the act has been completed and is also presented in the line *'Net fee and commission income'*.

44.1.1.3 Net profit/(loss) on financial operations
This line includes net profit/loss on financial operations, which means realised and unrealised gains/losses on securities held for trading; security derivatives; currency, interest rate and trading commodity derivatives; foreign exchange transactions; foreign assets and liabilities retranslation to the functional currency; and realised gains/losses on available-for-sale financial assets.

In this line there is also recognised interest income and expense related to interest-bearing instruments classified as financial assets or financial liabilities at fair value through profit or loss.

44.1.2 Cash and cash equivalents
Cash comprises cash on hand and cash in transit.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes. This item also includes obligatory minimum reserves. The Bank can freely transact with the amount of these reserves under the assumption that average obligatory minimum reserves are maintained within the given maintenance period established by the CNB.

In preparing its Statement of Cash Flows for the period, the Bank includes into cash and cash equivalents the cash and current balances with central banks at the beginning and end of the period and current amounts due from and to banks.

44.1.3 Fair value and hierarchy of fair value
Fair value is the price that would be received in selling 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 most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements of asset or liability measured at fair value. The hierarchy of fair values has the following three levels:

- *Level 1:* inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- *Level 2:* inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- *Level 3:* inputs are unobservable inputs for the asset or liability.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The fair value is included in the hierarchy according to the lowest classified significant input used in its determination. Significant input information is that information which has a significant impact on the total fair value of the asset or liability.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis (i.e. those for which measurement at fair value is required or permitted in the statement of financial position at the end of each reporting period), the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the date of the event or change in circumstances that caused the transfer.

44.1.4 Financial instruments

44.1.4.1 Dates of recognition and derecognition

All regular way purchases or sales of financial assets are recognised using settlement date accounting. The settlement (collection) date is the day on which the financial instrument is delivered (cash payment).

When settlement date accounting is applied, the financial asset is recognised in the Statement of Financial Position on the day of receipt of a financial instrument (sending of cash) and derecognised on the day of its delivery (collection of cash).

For financial assets measured at fair value, however, an acquired financial asset is measured to reflect changes in its fair value from the purchase trade date to the purchase settlement date according to its categorisation into an individual portfolio (i.e. either in profit or loss or in other comprehensive income).

All purchases and sales of financial instruments that do not meet the “regular way” settlement criterion in the marketplace concerned are treated as financial derivatives. The Bank recognises financial derivatives in the Statement of Financial Position at the trade date. Financial derivatives are derecognised at their maturity.

The Bank recognises a financial liability in the Statement of Financial Position when it becomes a party to the contractual provisions of the instrument and it is removed from the Statement of Financial Position when it is extinguished (i.e. in circumstances where a contractually defined obligation is fulfilled, cancelled or expires).

44.1.4.2 Initial measurement of financial assets and financial liabilities

When a financial asset or financial liability is initially recognised, the Bank measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of that instrument.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received).

The transaction costs include mainly fees and commissions paid to brokers, dealers and agents.

Also, financial guarantee contracts issued are initially recognised at fair value, being the premium received, in the Statement of Financial Position in the line *‘Accruals and other liabilities’*. The guarantees are subsequently measured as of the financial statements date at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in profit or loss (in the Statement of Financial Position in the line *‘Accruals and other liabilities’*), and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee (in the Statement of Financial Position in the line *‘Provisions’*). The premium received is recognised in the Statement of Income in the line *‘Net fee and commission income’* on a straight-line basis over the life of the guarantee. The creation of provisions is recognised in the Statement of Income in the line *‘Allowances for loan losses’*.

44.1.4.3 “Day 1” profit or loss

In determining whether fair value at initial recognition equals the transaction price, the Bank takes into account factors specific to the transaction and to the asset or liability.

The Bank trades no financial instruments on an inactive market. On active markets, the Bank trades financial instruments only for the quoted price in the active market. For this reason, there is no difference between the transaction price and the fair value of the financial asset or financial liability that is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique whose variables include only data from observable markets (a “Day 1” profit or loss).

44.1.4.4 Financial assets and liabilities classification and subsequent measurement

Financial assets and liabilities held by the Bank are classified upon initial recognition into appropriate portfolios of financial instruments in accordance with the characteristics of a given instrument, the Bank’s intention as of the acquisition date, and pursuant to the Bank’s financial instrument investment strategy as follows:

I. Financial assets and liabilities at fair value through profit or loss;
II. Held-to-maturity investments;
III. Loans and advances;
IV. Available-for-sale financial assets; or
V. Financial liabilities at amortised cost.

The Bank does not make use of an option to designate a financial asset or liability upon initial recognition as a financial instrument at fair value through profit or loss (the so-called “Fair Value Option”).

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

The Bank designates as financial assets at fair value through profit or loss securities held for trading and derivatives that are assets (i.e. financial instruments acquired by the Bank for the purpose of generating a profit from short-term fluctuations in prices). These financial assets are recognised in the Statement of Financial Position in the line *'Financial assets at fair value through profit or loss'*.

Securities designated as held for trading include equity and debt securities, treasury bills, bills of exchange and participation certificates. The trading derivative financial instruments used by the Bank include currency and commodity forwards, currency and interest rate swaps, derivatives on securities and emission allowances and options.

Financial liabilities at fair value through profit or loss include liabilities from securities sold and trading derivatives that are liabilities and are recognised in the Statement of Financial Position in the line *'Financial liabilities at fair value through profit or loss'*.

Unrealised gains and losses, as well as realised gains and losses arising from the fair value measurement of financial assets and liabilities, interest and dividends are recognised as income in the Statement of Income in the line *'Net profit/(loss) on financial operations'*. These financial assets are not tested for impairment because the change of fair value is recognised directly in profit or loss.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intent and ability to hold to maturity and which do not meet the definition of loans and advances (i.e. are quoted on an active market).

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are integral components of the effective interest rate. The amortisation is included in *'Interest income and similar income'* in the Statement of Income. When an impairment of assets is identified, the Bank recognises allowances in the Statement of Income in the line *'Allowance for impairment of securities'*.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than due to an isolated event that is beyond the Bank's control, which is non-recurring and could not reasonably have been anticipated by the Bank due to a significant decrease of a client's creditworthiness, changes in tax laws, major business combination or major disposition (including sale of a segment), changes in legislative requirements, a significant increase in regulatory capital requirements or significant increase in risk weights for held-to-maturity investments to calculate the capital adequacy), the entire portfolio would have to be reclassified as *'Available-for-sale financial assets'*. Furthermore, the Bank would be prohibited from classifying any financial asset as *'Held-to-maturity investments'* for the following 2 years.

(iii) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- Assets that the Bank intends to sell immediately or in the near term, which are classified as held for trading, as well as those that the Bank upon initial recognition designates as at fair value through profit or loss;
- Assets that the Bank upon initial recognition designates as available-for-sale; or
- Assets for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration (e.g. asset-backed securities or a fixed rate, interest-only strip created in a securitisation and subject to prepayment risk), which are classified as available-for-sale financial assets or as financial assets at fair value through profit or loss.

Loans and advances are subsequently measured at amortised cost using the effective interest rate method less any impairment loss through the use of an allowance account. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are integral components of the effective interest rate. The amortisation is included in the line *'Interest income and similar income'* in the Statement of Income. When impairment of assets is identified, the Bank recognises allowances in the Statement of Income in the line *'Allowance for loan losses'*.

Financial assets designated as loans and advances are reported in the Statement of Financial Position in the line *'Amounts due from banks'* or in the line *'Loans and advances to customers'*, as appropriate for the type of debtor.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and advances, or held-to-maturity investments. This portfolio comprises equity securities and debt securities, asset-backed securities and participation certificates.

Available-for-sale financial assets are subsequently measured at fair value and at the end of each reporting period tested to determine whether there is any objective evidence that a financial asset or group of financial assets is impaired. Unrealised gains or losses from the fair value measurement of these assets are recognised within Other Comprehensive Income in the line *'Net value gain/(loss) on available-for-sale financial assets, net of tax'*) until their sale, maturity or impairment as well as fair value changes arising from changes in foreign exchange rates. Gains or losses from changes in foreign exchange rates on debt instruments are recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*, except that exchange rate gains or losses related to fair value revaluation are recognised within Other Comprehensive Income. When the available-for-sale financial asset is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

Accrued interest income for debt securities is recognised in the Statement of Income line *'Interest income and similar income'*. Dividend income arising from equity securities is recognised when the right to dividends is established and reported in the Statement of Income in the line *'Dividend income'*.

(v) Financial liabilities at amortised cost

Financial liabilities at amortised cost include non-derivative financial liabilities with fixed or determinable payments and are recognised according to the type of counterparty in the lines *'Amounts due to central banks'*, *'Amounts due to banks'*, *'Amounts due to customers'*, *'Securities issued'* and *'Subordinated debt'*.

Financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Income in the line *'Interest expense and similar expense'*.

In the event of the repurchase of its own debt securities, the Bank derecognises these securities (i.e. the item *'Securities issued'* is decreased). Gains and losses arising as a result of repurchasing the Bank's own debt securities are recognised as of the date of their repurchase in the Statement of Income in the line *'Net interest income'* as an adjustment to the interest paid from its own bonds.

44.1.4.5 Reclassification of financial assets

The Bank does not reclassify any financial assets after initial recognition into the *'Financial assets at fair value through profit or loss portfolio'*. In rare circumstances, if non-derivative financial assets at fair value through profit or loss are no longer held for the purpose of selling or repurchasing in the short term, the financial assets may be reclassified out of the portfolio and be classified into the *'Available-for-sale financial assets'*, or *'Held-to-maturity investments'* portfolio.

The Bank may also reclassify a non-derivative trading asset out of the *'Financial assets at fair value through profit or loss'* portfolio and into the *'Loans and advances'* portfolio if it meets the definition of loans and advances and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. In certain rare circumstances, the Bank may also reclassify financial assets out of the *'Available-for-sale financial assets'* portfolio and into the *'Loans and advances'* portfolio if they meet the definition of loans and advances and the Bank has the intention and ability to hold the financial assets for the foreseeable future or until maturity. Fixed income securities quoted on an active market can be reclassified out of the *'Available-for-sale financial assets'* portfolio and into the *'Held-to-maturity investments'* portfolio if the Bank's intention or ability to hold these securities has changed or upon expiry of the deadline during which securities were not permitted to be classified as securities held-to-maturity. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

The Bank may reclassify financial assets or a significant amount out of the *'Held-to-maturity investments'* portfolio into the *'Available-for-sale financial assets'* portfolio or *'Loans and advances'* portfolio, doing so without triggering the so called "tainting rules", in cases when the given assets are near to maturity, the Bank has received almost the entire original principal of the given financial asset or there has occurred a unique and exceptional event that is outside of the Bank's control and the Bank could not have expected it. Such unique cases include in particular a significant decrease of a client's creditworthiness, changes in tax laws or in legal requirements, a business combination or the sale of a part of the business (segment), a significant increase in regulatory capital requirements or a significant increase in risk weights for held-to-maturity investments used in calculating the capital adequacy.

For a financial asset reclassified out of the *'Available-for-sale financial assets'* portfolio, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flow is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to profit or loss. Reclassification is at the election of management and is determined on an instrument-by-instrument basis.

44.1.4.6 Determination of a financial instrument's fair value and its hierarchy

For the determination and categorisation of a financial instrument's fair value, the Bank treats a security as quoted if quoted market prices are readily and regularly available from a stock exchange, dealers, securities traders, industrial groups, valuation services or regulatory authorities and if these prices represent current and regular market transactions under ordinary conditions.

If there are no quoted prices in an active market for the financial asset, the Bank uses other values that are observable, directly or indirectly, from the markets for its measurement, such as:

I. Quoted prices for similar assets or liabilities in active markets;
II. Quoted prices for identical or similar assets or liabilities in markets that are not active (i.e. there are few recent transactions, prices quotations are not based on current information, etc.);
III. Inputs other than quoted prices (e.g. inputs based on interest rates, yield curves, implied volatilities, credit spreads, etc.); or
IV. Inputs derived principally from, or corroborated by, observable market data.

Where the inputs for the determination of a financial instrument's fair value are not observable in a market due to the fact that there is no or only minimal activity for that asset or liability, the Bank uses for fair value measurement inputs that are available but not directly observable within a market and which in the Bank's view reflect assumptions that market participants take into account when pricing the financial instrument.

The fair value of debt securities for which an observable market price is not available is estimated using an income approach (the present value technique taking into account the future cash flows that a market participant would expect to receive from holding the instrument as an asset) and the fair value of unquoted equity instruments is estimated using an income approach or market approach (using prices and other relevant information generated by a market). The fair values of financial derivatives are obtained from quoted market prices, discounted cash flow models or option pricing models and they are adjusted for the credit risk of the counterparty or the Bank's own credit risk, as appropriate.

The existence of published price quotations in an active market is normally the best evidence of fair value. The appropriate quoted market price for an asset held or liability to be issued is usually the current bid price and for an asset to be acquired or liability held the asking price.

The Bank manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk. It uses mid-market prices as the basis for establishing fair values for the offsetting risk positions and applies the bid or asking price to the net open position as appropriate.

When measuring the fair value of a financial asset or group of financial assets, the Bank incorporates into the valuation an adjustment for the risk of default of the counterparty, a so-called credit valuation adjustment (CVA).

44.1.4.7 Effective interest rate method

The effective interest rate is the rate which exactly discounts the estimated future cash payments or receipts through the expected life of a financial instrument.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument and includes any fees and incremental costs that are directly attributable to the instrument and constitute an integral component of the effective interest rate, but it does not take into consideration future credit losses.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period.

44.1.4.8 Forborne loans

Forborne exposures are debt contracts in respect of which forbearance measures have been granted to the debtor and for which the discontinuation conditions are not met. Forbearance measures consist of concessions to a debtor facing or about to face difficulties in meeting its financial commitments. The concession refers to either modification of terms and conditions (e.g. changes in payment schedule, interest rate reductions, penalty interest waivers) or refinancing. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Renegotiated loans are continuously reviewed by the Bank to ensure that all criteria are met and that future payments are likely to occur. The renegotiated loans continue to be subject to impairment assessment, calculated based on their future cash flows discounted by the loans' original effective interest rates.

44.1.4.9 Impairment of financial assets

At the end of each reporting period, the Bank assesses on a regular basis whether there is any objective evidence that a financial asset or group of financial assets is impaired, the only exception being securities at fair value through profit or loss.

Objective evidence that a financial asset or group of assets is impaired includes observable evidence that comes to the attention of the Bank and proving the significant deterioration of a debtor's (issuer's) financial health, breach of contract (default in interest or principal payment), high probability of bankruptcy or other financial reorganisation, or proving a measurable decrease in the estimated future cash flow due to adverse changes in industry conditions.

In addition to the aforementioned events, objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, economic or legal environment in which the issuer operates and significant or prolonged decline in the fair value of the instrument below its cost. The determination of what constitutes a significant or prolonged decline is a matter of circumstances that requires application of the Bank management's judgement. As indicators of possible significant or prolonged decline, the Bank regards unrealised loss in respect of instrument acquisition cost or the fact that the quoted price of the instrument has been below its carrying amount during every trading date for several months. Furthermore, the Bank considers the business model and strategy related to the instrument and supportive indicators as the financial situation of the issuer and its development perspective or regulatory requirements.

If there is objective evidence that an impairment loss on a financial instrument has been incurred, the Bank calculates an impairment loss and recognises it in the respective item in the Statement of Income.

For a financial asset classified in portfolios carried at amortised cost (i.e. *'Held-to-maturity investments'* and *'Loans and advances'* portfolios), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flow discounted at the financial asset's original effective interest rate. Estimations of future cash flows for loans are based on expected cash flows from the economic activities of the client and the possible realisation of loan collateral.

The Bank uses one of three methods to assess the amount of allowances. For larger, individually significant loans classified as default (Substandard, Doubtful and Loss loans based on the Czech National Bank's classification), the allowances are assessed on an individual basis requiring management to monitor the borrower's repayment abilities individually, including the estimated value from the collateral foreclosure and expected duration of the recovery process, etc. These allowances are calculated using discounted expected future cash flows.

For smaller, individually not significant impaired loans where the loans are homogeneous in nature (for example the consumer and mortgage loans to individuals and smaller corporate portfolios), the allowances are calculated by models using historical delinquency statistics.

Portfolio allowances are calculated for losses that have been incurred but have not been identified. Portfolio allowances are held against non-impaired loans across all segments and calculated using models based on probabilities of default and loss given default until the impairment event occurs and individual or model allowances for impaired loans are recognised.

Historical loss experience is adjusted on the basis of currently observable data to reflect new loss observations and to have better discrimination ability (i.e. to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently). The methodology and assumptions used for estimating the future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying amount of an asset is reduced through the use of an allowance account, the creation of which is recognised in the Statement of Income in the line *'Allowance for loan losses'* or *'Allowance for impairment of securities'*. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is correspondingly reversed.

When it can be reasonably anticipated that clients will be unable to fulfil their obligations to the Bank in respect of such loans, loss loans are written off and recognised in the Statement of Income in the line *'Allowance for loan losses'*. Subsequent recoveries are credited to the Statement of Income in *'Allowance for loan losses'* if previously written off. If the Bank collects an amount greater than that written off subsequent to the write-off of the loan, the difference is reported through *'Interest income and similar income'*.

For *'Available-for-sale financial assets'* and in the case of objective evidence of their impairment, a cumulative loss that had been recognised in Other Comprehensive Income is reclassified to the Statement of Income and recognised in the line *'Allowance for impairment of securities'* for debt instruments and in the line *'Net profit/(loss) on financial operations'* for equity instruments. The amount of the loss is measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the Statement of Income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the Statement of Income, the impairment loss is reversed, with the amount of the reversal recognised in the Statement of Income. The Bank cannot reverse any impairment loss recognised in the Statement of Income for an equity instrument.

44.1.4.10 Repurchase agreements

The Bank accounts for contracts to sell and buy back financial instruments (so-called "repos" or "reverse repos") according to their substance as the taking or granting of a loan with a corresponding transfer of financial instruments as collateral.

In the case of repurchase transactions ("repos"), the Bank only provides securities held in the portfolio of *'Financial assets or financial liabilities at fair value through profit or loss'* or in the *'Available-for-sale financial assets'* portfolio and that are recorded in the Statement of Financial Position in the lines so named. The corresponding liability arising from a loan taken is recognised in the line *'Amounts due to banks'* or *'Amounts due to customers'*, as appropriate.

Securities purchased under reverse repurchase agreements ("reverse repos") are recorded in the off-balance sheet, where they are remeasured at fair value. The corresponding receivable arising from the provided loan is recognised as an asset in the Statement of Financial Position according to the counterparty type in the line *'Amounts due from banks'* or *'Loans and advances to customers'*.

The Bank is entitled to provide those securities received in reverse repo transactions as collateral or sell them even in the absence of default by their owner. These securities continue to be recorded in the off-balance sheet and measured at fair value. According to the counterparty type, the corresponding liability arising from the loan taken is included in *'Amounts due to banks'* or *'Amounts due to customers'*. The Bank has the obligation to return these securities to its counterparties, however.

The differences between the sale and repurchase prices in respect of repo and reverse repo transactions are treated by the Bank as interest, and it is accrued evenly to expenses and income over the life of the repo agreement using the effective interest rate method.

In regard to the sale of a security acquired as collateral under a reverse repo transaction, the Bank derecognises from the off-balance sheet evidence the security acquired through the reverse repo transaction and recognises in the Statement of Financial Position an amount payable from a short sale that is remeasured at its fair value. This payable is included in *'Financial liabilities at fair value through profit or loss'*.

44.1.4.11 Derivatives and hedge accounting

A derivative is a financial instrument or other contract having all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other market variable;
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- It is settled at a future date.

At the inception of a financial derivative contract, the Bank designates the derivative instrument as either held for trading or hedging.

Held for trading derivatives are classified into a portfolio of *'Financial assets or financial liabilities at fair value through profit or loss'* based on whether the fair value is positive or negative (refer to 44.1.4.4 Financial assets and liabilities classification and subsequent measurement).

Hedging derivatives are derivatives that the Bank uses to hedge against interest rate and foreign exchange rate risks to which it is exposed as a result of its financial market transactions. The Bank designates a derivative as hedging only if the criteria set out under IFRS are met at the designation date, i.e. if, and only if, all of the following conditions are met:

- There is compliance with the Bank's risk management objective and strategy in undertaking the hedge;
- At inception of the hedge there is formal designation and documentation of the hedging relationship which includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk;
- The hedge is expected to be highly effective at inception and throughout the period;
- The effectiveness of the hedge can be reliably measured; and
- Changes in the fair value or cash flows of the hedged item are almost fully offset by changes in the fair value or cash flows of the hedging instrument and the results are within a range of 80% to 125%.

Hedging derivatives are accounted for according to the type of hedging relationship, which can be one of the following:

I. Hedging of an exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment that is attributable to a particular risk and that could affect profit or loss (fair value hedge); or
II. Hedging of an exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss (cash flow hedge); or
III. Hedging of a net investment in a foreign operation.

Changes in the fair value of a derivative that is designated and qualified as a fair value hedge are recognised in the Statement of Income line *'Net profit/(loss) on financial operations'*. Changes in the fair value of a hedged item are recognised in the Statement of Financial Position as a component of the carrying amount of the hedged item and in the Statement of Income line *'Net profit/(loss) on financial operations'*.

It is on this basis that the Bank hedges the interest rate risk and foreign currency risk of financial assets (loans with fixed interest rates and debt instruments classified as available-for-sale) and interest rate risk of deposits, repos and mortgage bonds issued. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and an adjustment to the carrying amount of the hedged interest-bearing financial instrument is amortised to profit or loss over the period until the maturity of the hedged item.

In connection with the reclassification of certain debt securities from the *'Available-for-sale financial assets'* portfolio and into the *'Held-to-maturity investments'* portfolio, the Bank revoked the designation of respective interest rate swaps as fair value hedges and prospectively classifies them as a cash flow hedge of interest rate risk associated with selected portfolios of assets or liabilities.

The Bank accounts also for portfolio fair value hedges (hedging transactions concerning portfolios of financial assets or liabilities), for which interest rate swaps are used. When accounting for these transactions, the Bank applies the IAS 39 "carve-out", as adopted by the European Union. The accounting treatment of financial derivatives designated as portfolio fair value hedges is similar to that of other fair value hedging derivatives.

Changes in the fair value of hedging derivatives classified as cash flow hedges and that prove to be highly effective in relation to the hedged risks are recognised in the line *'Cash flow hedging'* in Other Comprehensive Income and they are transferred to the Statement of Income and classified as income or expense in the periods during which the hedged items affect the Statement of Income. The ineffective portion of a hedge is charged directly to the Statement of Income in the line *'Net profit/(loss) on financial operations'*.

It is on this basis that the Bank hedges the interest rate risk and currency risk associated with selected portfolios of assets or liabilities or individually significant assets or liabilities. The effectiveness of a hedge is regularly tested through prospective and retrospective tests on a quarterly basis.

If the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, the entity revokes the designation and the cumulative gain or loss on the hedging instrument that has been recognised in Other Comprehensive Income for the period when the hedge was effective remains in equity until the forecast transaction occurs.

If the forecast transaction is no longer expected to occur, the gain or loss accumulated as other comprehensive income is reclassified to profit or loss.

The Bank additionally hedges against the foreign exchange rate risk arising from the net investment in the subsidiaries Bastion European Investments S.A. and PSA FINANCE SLOVAKIA, s.r.o. Foreign currency deposits are used as a hedging instrument. Foreign exchange rate differences arising from its retranslation are included in Other Comprehensive Income.

Financial derivatives constituting economic hedges under the Bank's risk management positions but not qualifying for hedge accounting under the specific rules of IAS 39 are treated as derivatives held for trading.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 41(C).

44.1.4.12 Embedded derivatives

In some cases, a derivative, such as an option for an earlier redemption of a bond, is a component of a hybrid (combined) financial instrument that also includes a non-derivative host contract. The embedded derivative is separated and accounted for as a derivative if, and only if, all of the following conditions are met:

- The embedded derivative as a separate instrument meets the definition of a derivative;
- The economic characteristics and risks of the embedded derivative are not closely related to those of the host contract; and
- The host contract is not measured at fair value with fair value changes recognised in the Statement of Income.

44.1.5 Provisions

Provisions are recognised when and only when:

- The Bank has a present obligation (legal or constructive) as a result of a past event;
- It is probable that settlement of the obligation will cause an outflow of resources causing a decrease of economic benefits; and
- A reliable estimate can be made of the amount of the obligation. Provisions for legal disputes are estimated on the basis of the amount sought by the plaintiff, including accrued interest and fees.

Provisions are measured as the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate reflecting current market assessments and the risks specific to the liability. Provision increases related to the passage of time are recognised as interest expense.

Among others, the Bank recognises provisions for credit-related commitments which do not meet the criteria for recognition in the Statement of Financial Position. These provisions cover estimated losses from credit-related commitments into which the Bank enters in the normal course of its business and that are recorded in the off balance sheet. These commitments include primarily guarantees, avals, uncovered letters of credit, irrevocable commitments to extend credit, undrawn loan commitments, and approved overdraft loans. Provisions for credit-related commitments are created on the same basis as are allowances for loan portfolios.

44.2 Available-for-sale financial assets

Available-for-sale financial assets comprise the following:

	31 Dec 2017	
(CZKm)	Fair value	Cost*
Shares and participation certificates	**240**	**145**
Fixed income debt securities	16,794	15,922
Variable yield debt securities	6,643	6,448
Total debt securities	**23,437**	**22,370**
Total available-for-sale financial assets	**23,677**	**22,515**

* Acquisition cost for shares and participation certificates; amortised acquisition cost excluding coupon for debt securities.

As of 31 December 2017, the *'Available-for-sale financial assets'* portfolio includes securities at fair value of CZK 23,437 million that are publicly traded on stock exchanges and securities at fair value of CZK 240 million that are not publicly traded.

As of 31 December 2017, the *'Available-for-sale financial assets'* portfolio includes bonds at fair value of CZK 1,233 million that are used as collateral for intraday facilities in central banks.

Shares and participation certificates available-for-sale at fair value comprise the following:

(CZKm)	31 Dec 2017
Shares and participation certificates	
– Other currencies	240
Total shares and participation certificates available-for-sale	**240**

Shares and participation certificates available-for-sale at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2017
Shares and participation certificates available-for-sale issued by:	
– Other foreign entities	240
Total shares and participation certificates available-for-sale	**240**

Debt securities available-for-sale at fair value comprise the following:

(CZKm)	31 Dec 2017
Fixed income debt securities	
– Czech crowns	12,261
– Other currencies	4,533
Total fixed income debt securities	**16,794**
Variable yield debt securities	
– Czech crowns	4,085
– Other currencies	2,558
Total variable yield debt securities	**6,643**
Total debt securities available-for-sale	**23,437**

Debt securities available-for-sale at fair value, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2017
Debt securities available-for-sale issued by:	
– State institutions in the Czech Republic	16,346
– Foreign state institutions	4,533
– Financial institutions in the Czech Republic	2,558
– Foreign financial institutions	0
Total debt securities available-for-sale	**23,437**

Debt securities available-for-sale issued by Foreign state institutions comprise the following:

(CZKm)	31 Dec 2017	
Country of issuer	Fair value	Cost*
Poland	754	639
Slovakia	3,779	3,134
Total	**4,533**	**3,773**

* Acquisition cost for shares and participation certificates; amortised acquisition cost excluding coupon for debt securities.

Of the debt securities issued by State institutions in the Czech Republic, CZK 16,346 million consist of securities eligible for refinancing with the CNB.

Reclassification of certain debt securities held in the portfolio of 'Available-for-sale financial assets'
During the first quarter of 2014, the Bank reviewed the accounting recognition of certain debt securities issued by State institutions held in the portfolio of *'Available-for-sale financial assets'* (hereafter only "AFS") on the basis of the Bank's changing its intention for their classification. The Bank concluded that all regulatory and accounting requirements, as well as internal limits, were satisfied for recognition of the debt securities in the nominal value of CZK 50,260 million in the portfolio of *'Held-to-maturity investments'* (hereafter only "HTM") and decided to reclassify the respective securities from AFS to HTM. The securities were reclassified at fair value. The corresponding unrealised gains and losses in equity of CZK 4,474 million as of the reclassification date are retained in Other Comprehensive Income. Such amounts are amortised over the remaining life of the security.

44.3 Amounts due from banks

Balances due from banks comprise the following:

(CZKm)	31 Dec 2017
Current accounts with other banks	295
Debt securities	2,846
Loans and advances to banks	17,112
Advances due from central banks (reverse repo transactions)	178,021
Term placements with other banks	34,015
Total amounts due from banks, gross	**232,289**
Portfolio allowances for loans to banks	(10)
Specific allowances for loans to banks	0
Total allowances for loans to banks	**(10)**
Total amounts due from banks, net	**232,279**

Advances due from the CNB and other banks under reverse repurchase transactions are collateralised by treasury bills issued by the CNB and other debt securities, the fair values of which are as follow:

(CZKm)	31 Dec 2017
Treasury bills	177,003
Debt securities issued by state institutions	2,028
Shares	0
Investment certificates	0
Total	**179,031**

Total amount of advances due from the CNB and other banks under reverse repurchase transactions was CZK 180,054 million.

Securities acquired as loans and advances

As of 31 December 2017, the Bank maintains in its portfolio bonds at an amortised cost of CZK 2,846 million and a nominal value of CZK 2,822 million, of which bonds with a nominal value of CZK 99 million and EUR 79 million are issued by Financial institutions in the Czech Republic and CZK 705 million by Foreign financial institutions.

44.4 Loans and advances to customers

Loans and advances to customers comprise the following:

(CZKm)	31 Dec 2017
Loans to customers	538,195
Bills of exchange	218
Forfaits	588
Total loans and advances to customers excluding debt securities and other amounts due to customers, gross	**539,001**
Debt securities	3,635
Other amounts due from customers	3,018
Total loans and advances to customers, gross	**545,654**
Portfolio allowances for loans to customers	
– Individuals	(330)
– Corporates*	(779)
Specific allowances for loans to customers	
– Individuals	(3,243)
– Corporates*	(5,981)
Total allowances for loans to customers	**(10,333)**
Specific allowances for other amounts due from customers	0
Total allowances for loans and other amounts due from customers	**(10,333)**
Total loans and advances to customers, net	**535,321**

* This item also includes allowances for loans granted to individual entrepreneurs.

As of 31 December 2017, loans and advances to customers included accrued interest of CZK 742 million, of which CZK 233 million relates to interest from overdue advances.

As of 31 December 2017, loans provided to customers under reverse repurchase transactions in the amount of CZK 1,256 million are collateralised by securities with a fair value of CZK 1,567 million.

As of 31 December 2017, the loan portfolio of the Bank (excluding Debt securities and Other amounts due from customers) is comprised of the following, as broken down by classification:

(CZKm)	Gross receivable	Collateral applied	Net exposure	Allowances	Carrying value
Standard	518,484	252,068	266,416	(777)*	517,707
Watch	5,881	2,691	3,190	(332)*	5,549
Substandard	3,510	2,123	1,387	(1,317)	2,193
Doubtful	1,876	547	1,329	(989)	887
Loss	9,250	1,213	8,037	(6,918)	2,332
Total	**539,001**	**258,642**	**280,359**	**(10,333)**	**528,668**

* This item includes portfolio allowances (due to losses incurred but not reported).

Set out below is a breakdown of loans by sector (excluding Debt securities and Other amounts due from customers):

(CZKm)	31 Dec 2017
Food industry and agriculture	15,532
Mining and extraction	3,642
Chemical and pharmaceutical industry	6,372
Metallurgy	11,150
Automotive industry	11,353
Manufacturing of other machinery	7,927
Manufacturing of electrical and electronic equipment	3,289
Other processing industry	8,777
Power plants, gas plants and waterworks	16,976
Construction industry	7,974
Retail	15,074
Wholesale	24,128
Accommodation and catering	1,707
Transportation, telecommunication and warehouses	12,597
Banking and insurance industry	55,125
Real estate	46,455
Public administration	21,319
Other industries	27,548
Individuals	242,056
Total loans to customers	**539,001**

The majority of loans – more than 90% – were provided to entities on the territory of the Czech Republic.

Broken out below are the types of collateral held in support of loans and advances to customers as stated in the Statement of Financial Position:

			31 Dec 2017
(CZKm)	Total client loan collateral*	Discounted client loan collateral value**	Applied client loan collateral value***
Guarantees of state and governmental institutions	1,328	1,046	1,044
Bank guarantee	17,217	16,601	16,362
Guaranteed deposits	2,612	2,508	1,703
Pledge of real estate	426,673	286,814	211,914
Pledge of movable assets	13,940	1,338	1,312
Guarantee by legal entity	27,528	19,930	14,310
Guarantee by individual (natural person)	1,196	108	105
Pledge of receivables	33,932	3,576	2,790
Insurance of credit risk	8,856	8,411	8,410
Other	2,026	1,266	692
Nominal value of collateral	**535,308**	**341,598**	**258,642**

* The nominal value of the collateral is determined based on internal rules of the Bank (e.g. internal property valuation, current value of collateral, market value of securities, etc.).

** The nominal value of the collateral is reduced by a coefficient taking into account the time value of money, cost of selling the collateral, risk of declining market prices, risk of insolvency, etc.

*** The applied collateral value is the discounted collateral value reduced to the actual balance of the collateralised exposure.

Pledges on industrial real estate represent 9% of total pledges on real estate.

Debt securities designated as loans and advances

As of 31 December 2017, the Bank holds in its portfolio bonds at an amortised cost of CZK 3,104 million and a nominal value of CZK 3,042 million, of which bonds with a nominal value of CZK 450 million are issued by State institutions in the Czech Republic, USD 1 million by Foreign state institutions, CZK 2,110 million by Other entities in the Czech Republic and CZK 68 million and EUR 16 million by Other foreign entities. Additionally, the Bank holds in this portfolio bills of exchange at an amortised cost of CZK 505 million and a nominal value of CZK 507 million, of which bills of exchange in the nominal value of CZK 300 million are issued by State institutions in the Czech Republic and CZK 207 million by Other entities in the Czech Republic. The portfolio is hedged using fair value hedge derivatives with a positive fair value of CZK 26 million.

Forborne loans and advances to customers

Forborne loans and advances to customers as of 31 December 2017:

(CZKm)	Neither past due nor impaired	Past due, not impaired	Impaired	Total forborne	Allowances	Collateral applied
Individuals	919	134	914	1,967	419	1,391
Corporates*	294	0	2,480	2,774	1,497	686
Total	**1,213**	**134**	**3,394**	**4,741**	**1,916**	**2,077**

* This item also includes loans granted to individual entrepreneurs.

The carrying value of forborne assets in comparison with the Bank's loan portfolio (excluding Debt securities and Other amounts due from customers):

			31 Dec 2017
(CZKm)	Gross receivable	Forborne assets	Share in gross receivable
Individuals	242,056	1,967	0.81%
Corporates*	296,945	2,774	0.93%
Total	**539,001**	**4,741**	**0.88%**

* This item also includes loans granted to individual entrepreneurs.

Portfolio and specific allowances for forborne assets:

			31 Dec 2017
(CZKm)	Portfolio allowances	Specific allowances	Total
Individuals	10	409	419
Corporates*	24	1,473	1,497
Total	**34**	**1,882**	**1,916**

* This item also includes allowances for loans granted to individual entrepreneurs.

44.5 Held-to-maturity investments

Held-to-maturity investments comprise the following:

		31 Dec 2017
(CZKm)	Carrying value	Cost*
Fixed income debt securities	56,936	55,814
Total held-to-maturity investments	**56,936**	**55,814**

* Amortised acquisition cost excluding coupon.

As of 31 December 2017, the *'Held-to-maturity investments'* portfolio includes bonds of CZK 56,936 million that are publicly traded on stock exchanges and bonds of CZK 0 million that are not publicly traded.

As of 31 December 2017, the *'Held-to-maturity investments'* portfolio includes bonds of CZK 976 million that are used as collateral for derivative deals with a central counterparty. The central counterparty is LCH.Clearnet SA. The Bank uses Société Générale Newedge UK Limited as related broker.

Fixed income debt securities held-to-maturity comprise the following:

(CZKm)	31 Dec 2017
Fixed income debt securities	
– Czech crowns	44,549
– Foreign currencies	12,387
Total fixed income debt securities	**56,936**

Fixed income debt securities held-to-maturity, allocated by issuer, comprise the following:

(CZKm)	31 Dec 2017
Fixed income debt securities issued by:	
– State institutions in the Czech Republic	47,237
– Foreign state institutions	9,699
Total fixed income debt securities	**56,936**

Debt securities held-to-maturity issued by Foreign state institutions comprise the following:

(CZKm)	31 Dec 2017	
Country of Issuer	Fair value	Cost*
Poland	7,422	7,002
Slovakia	2,697	2,476
Total	**10,119**	**9,478**

* Amortised acquisition cost excluding coupon.

44.6 Provisions

Provisions comprise the following:

(CZKm)	31 Dec 2017
Provisions for contracted commitments	505
Provisions for other credit commitments	1,393
Total provisions	**1,898**

The provisions for other credit commitments are held to cover credit risks associated with credit commitments issued. The provisions for contracted commitments principally comprise the provisions for ongoing contracted contingent commitments, legal disputes, self-insurance and the retirement benefits plan.

Provisions for other credit commitments are broken out below by type of risks covered:

(CZKm)	31 Dec 2017
Provision for off-balance sheet commitments	1,305
Provision for undrawn loan facilities	88
Total	**1,393**

44.7 Risk management and financial instruments

44.7.1 Credit risk

The Bank's maximum credit exposure as of 31 December 2017:

	Total exposure			Collateral applied		
(CZKm)	Statement of financial position	Off-balance sheet*	Total credit exposure	Statement of financial position	Off-balance sheet*	Total collateral
Current balances with central banks	**22,453**	**x**	**22,453**	**0**	**x**	**0**
Financial assets at fair value through profit or loss	**19,369**	**x**	**19,369**	**0**	**x**	**0**
Positive fair value of hedging financial derivatives	**13,017**	**x**	**13,017**	**0**	**x**	**0**
Available-for-sale financial assets	**23,677**	**x**	**23,677**	**0**	**x**	**0**
Amounts due from banks	**232,289**	**2,866**	**235,155**	**181,250**	**119**	**181,369**
Loans and advances to customers	**545,654**	**140,944**	**686,598**	**258,642**	**17,591**	**276,233**
– Individuals	242,056	23,156	265,212	192,423	5,171	197,594
of which: mortgage loans	217,695	15,745	233,440	188,282	5,158	193,440
consumer loans	20,502	49	20,551	3,665	4	3,669
– Corporates**	296,945	117,788	414,733	66,219	12,420	78,639
of which: top corporate clients	155,423	69,962	225,385	36,168	7,029	43,197
– Debt securities	3,635	x	3,635	0	x	0
– Other amounts due from customers	3,018	x	3,018	0	x	0
Held-to-maturity investments	**56,936**	**x**	**56,936**	**0**	**x**	**0**
Total	**913,395**	**143,810**	**1,057,205**	**439,892**	**17,710**	**457,602**

* Undrawn amounts, commitments, guarantees, etc.

** This item also includes loans provided to individual entrepreneurs.

The maximum credit exposure is presented on a gross basis (i.e. without the impact of allowances).

44.7.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent that instrument is exposed to interest rate risk. Market developments have led to a situation where interest rates are negative in certain currencies. This fact does not change the essence of interest rate risk measurement and management because the principle of recognising changes in interest rates over time remains unchanged just as the concept of hedging against interest rate risk by matching volumes with changing values within the given period remains valid. Due to legal and technical limitations, methods to prevent negative rates from being applied at the client's level can be applied with the objective of maintaining accordance between a transaction's contractual and economic natures. With respect to ongoing market practice, client deposits are seeing the introduction of deposit fees, which constitute a specific response to the existence of negative market interest rates and which also comply with the requirements given by limitations ensuing from the existing legal framework.

The Bank uses internal models for managing interest rate risk. The objective of these models is to describe the expected economic behaviour of the Bank's clients when market interest rates fluctuate. It is the policy of the Bank's management to manage the exposure to fluctuations in net interest income arising from changes in interest rates through a gap analysis of assets and liabilities in individual groups.

The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Those assets and liabilities that do not have a contractual maturity or a repricing date were grouped into the '*Undefined*' category. The table includes a breakout of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKm)	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Undefined	Total
Assets						
Cash and current balances with central banks	32,523	0	0	0	0	32,523
Financial assets at fair value through profit or loss	1,633	0	0	0	17,736	19,369
Positive fair values of hedging financial derivatives	0	0	0	0	13,017	13,017
Available-for-sale financial assets	1,653	6,344	1,660	13,780	240	23,677
Assets held for sale	0	0	0	0	127	127
Amounts due from banks	218,629	3,534	9,357	759	0	232,279
Loans and advances to customers	221,442	69,015	208,057	36,807	0	535,321
Held-to-maturity investments	0	3,875	27,541	25,520	0	56,936
Current tax assets	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	18	18
Prepayments, accrued income and other assets	0	0	0	0	3,923	3,923
Investments in subsidiaries and associates	0	0	0	0	19,928	19,928
Intangible assets	0	0	0	0	4,189	4,189
Tangible assets	0	0	0	0	4,765	4,765
Total assets	**475,880**	**82,768**	**246,615**	**76,866**	**63,943**	**946,072**
Liabilities						
Amounts due to central banks	1	0	0	0	0	1
Financial liabilities through profit or loss	1,673	0	0	0	18,161	19,834
Negative fair values of hedging financial derivatives	0	0	0	0	10,189	10,189
Amounts due to banks	60,457	7,227	1,916	0	0	69,600
Amounts due to customers	21,529	14,370	240	0	665,914*	702,053
Revaluation differences on portfolios hedge items	0	0	0	0	(1,206)	(1,206)
Securities issued	3,948	2,873	17,500	11,017	0	35,338
Current tax liabilities	0	0	0	0	254	254
Deferred tax liabilities	0	0	0	0	265	265
Accruals and other liabilities	0	0	0	0	16,682	16,682
Provisions	0	0	0	0	1,898	1,898
Subordinated debt	2,560	0	0	0	0	2,560
Total liabilities	**90,168**	**24,470**	**19,656**	**11,017**	**712,157**	**857,468**
Statement of Financial Position interest rate gap as of 31 December 2017	**385,712**	**58,298**	**226,959**	**65,849**	**(648,214)**	**88,604**
Nominal value of derivatives**	704,809	335,407	470,310	380,734	0	1,891,260
Total off-balance sheet assets	**704,809**	**335,407**	**470,310**	**380,734**	**0**	**1,891,260**
Nominal value of derivatives**	842,017	337,510	489,961	219,655	0	1,889,143
Undrawn portion of loans***	(7,684)	(9,064)	11,233	5,515	0	0
Undrawn portion of revolving loans***	(680)	680	0	0	0	0
Total off-balance sheet liabilities	**833,653**	**329,126**	**501,194**	**225,170**	**0**	**1,889,143**
Net off-balance sheet interest rate gap as of 31 December 2017	**(128,844)**	**6,281**	**(30,884)**	**155,564**	**0**	**2,117**
Cumulative interest rate gap as of 31 December 2017	**256,868**	**321,447**	**517,522**	**738,935**	**90,721**	**x**

* This item principally includes client deposits where the Bank has the option to reset interest rates and hence they are not sensitive to interest rate changes.
** Assets and liabilities arising from derivatives include interest rate swaps, interest rate forwards and futures, interest rate options and cross currency swaps.
*** Undrawn loans and revolving loans are reported on a net basis, i.e. the Bank reports both the expected drawings and repayments within one line. This line does not reflect commitments to extend loans with a fixed repayment schedule or commitments to provide a revolving loan inasmuch as the interest rate has not been determined for such commitments.

Following is a breakdown of financial assets and liabilities by their exposure to interest rate fluctuations:

				31 Dec 2017
(CZKm)	Fixed interest rate	Floating interest rate	No interest	Total
Assets				
Cash and current balances with central banks	5,000	16,412	11,111	32,523
Financial assets at fair value through profit or loss	964	669	17,736	19,369
Positive fair values of hedging financial derivatives	0	0	13,017	13,017
Available-for-sale financial assets	16,794	6,643	240	23,677
Amounts due from banks	9,899	222,305	75	232,279
Loans and advances to customers	333,738	196,954	4,629	535,321
Held-to-maturity investments	56,936	0	0	56,936
Liabilities				
Amounts due to central banks	1	0	0	1
Financial liabilities at fair value through profit or loss	0	0	19,834	19,834
Negative fair values of hedging financial derivatives	0	0	10,189	10,189
Amounts due to banks	25,033	44,318	249	69,600
Amounts due to customers	126	694,768*	7,159	702,053
Revaluation differences on portfolios hedge items	0	0	(1,206)	(1,206)
Securities issued	14,074	21,264	0	35,338
Subordinated debt	0	2,560	0	2,560

Note: Individual assets and liabilities are split into the categories of 'Fixed interest rate', 'Floating interest rate', and 'No interest' according to contractual parameters defining the interest rate structure. For this purpose, a fixed interest rate is defined as a rate with a repricing period exceeding 1 year. Products having no parameters defining their interest rate structure are included in the 'No interest' category.

* This item principally includes client deposits where the Bank has the option to reset interest rates and hence they are not sensitive to interest rate changes.

44.7.3 Liquidity risk

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments.

Liquidity risk management is based upon the liquidity risk management system approved by the Bank's Board of Directors. Liquidity is monitored on a bank-wide level, with the Market Book also having a standalone limit. The Bank has established its liquidity risk management rules such that it maintains its liquidity profile in normal conditions (basic liquidity scenario) and in crisis conditions (crisis liquidity scenario). As such, the Bank has defined a set of indicators for which binding limits are established.

The Bank is exposed to daily calls on its available cash resources from derivatives, overnight deposits, current accounts, maturing deposits, loan draw-downs and guarantees. The Bank's experiences show that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Bank sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities (mainly reverse repo transactions with CNB) that should be in place to cover withdrawals at unexpected levels of demand.

The liquidity risk of the Bank is managed as stipulated above (and in particular not on the basis of undiscounted cash flows).

The table below provides a breakdown of assets, liabilities and equity into relevant maturity groupings based on the remaining period from the financial statements date to the contractual maturity date. The table includes a breakout of other assets and liabilities not within the scope of financial instruments as defined in IAS 32.

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Assets							
Cash and current balances with central banks	14,607	0	0	0	0	17,916	32,523
Financial assets at fair value through profit or loss	0	17	391	487	737	17,737	19,369
Positive fair values of hedging financial derivatives	0	0	0	0	0	13,017	13,017
Available-for-sale financial assets	0	15	2,688	1,754	18,080	1,140	23,677
Assets held for sale	0	0	127	0	0	0	127
Amounts due from banks	109,298	105,954	1,537	9,866	127	5,497	232,279
Loans and advances to customers	3,837	53,844	74,205	183,384	203,809	16,242	535,321
Held-to-maturity investments	0	68	4,745	27,043	25,080	0	56,936
Current tax assets	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	18	18
Prepayments, accrued income and other assets	804	0	0	0	0	3,119	3,923
Investments in subsidiaries and associates	0	0	0	0	0	19,928	19,928
Intangible assets	0	0	0	0	0	4,189	4,189
Tangible assets	0	0	0	0	0	4,765	4,765
Total assets	**128,546**	**159,898**	**83,693**	**222,534**	**247,833**	**103,568**	**946,072**
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss	1,673	0	0	0	0	18,161	19,834
Negative fair values of hedging financial derivatives	0	0	0	0	0	10,189	10,189
Amounts due to banks	33,504	8,419	1,797	19,948	5,932	0	69,600
Amounts due to customers	679,737	9,342	11,544	1,430	0	0	702,053
Revaluation differences on portfolios hedge items	0	0	0	0	0	(1,206)	(1,206)
Securities issued	467	3,199	348	5,854	25,470	0	35,338
Current tax liabilities	0	254	0	0	0	0	254
Deferred tax liabilities	0	0	0	0	0	265	265
Accruals and other liabilities	16,271	15	0	0	0	396	16,682
Provisions	8	91	784	488	1	526	1,898
Subordinated debt	0	0	0	0	2,560	0	2,560
Equity	0	0	0	0	0	88,604	88,604
Total liabilities	**731,661**	**21,320**	**14,473**	**27,720**	**33,963**	**116,935**	**946,072**
Statement of Financial Position liquidity gap as of 31 Dec 2017	**(603,115)**	**138,578**	**69,220**	**194,814**	**213,870**	**(13,367)**	**0**
Off-balance sheet assets*	51,890	228,523	195,744	207,732	62,675	0	746,564
Off-balance sheet liabilities*	56,539	250,169	248,505	255,897	65,224	13,385	889,719
Net off-balance sheet liquidity gap as of 31 Dec 2017	**(4,649)**	**(21,646)**	**(52,761)**	**(48,165)**	**(2,549)**	**(13,385)**	**(143,155)**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from FX spot, fixed term and option contracts, as well as payables under guarantees, letters of credit and committed facilities.

The Bank has modified the method of presentation of annuity payments' breakdown in the line *'Loans and advances to customer'* according to residual maturity. The table below provides quantitative information of the change as of 31 December 2017:

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Reported	5,886	57,026	52,333	163,151	240,683	16,242	535,321
Change	(2,049)	(3,182)	21,872	20,233	(36,874)	0	0
Restated	3,837	53,844	74,205	183,384	203,809	16,242	535,321

The table below contains the remaining contractual maturities of non-derivative financial liabilities and contingent liabilities of the Bank based on the undiscounted cash flows as of 31 December 2017:

(CZKm)	On demand up to 7 days	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
Liabilities							
Amounts due to central banks	1	0	0	0	0	0	1
Financial liabilities at fair value through profit or loss (except derivatives)	1,673	0	0	0	0	0	1,673
Amounts due to banks	33,521	8,423	1,814	20,021	6,072	0	69,851
Amounts due to customers	679,829	9,401	11,739	1,439	0	0	702,408
Securities issued	482	3,348	1,101	8,246	26,215	0	39,392
Current tax liabilities	0	254	0	0	0	0	254
Deferred tax liabilities	0	0	0	0	0	265	265
Accruals and other liabilities	16,271	15	0	0	0	396	16,682
Provisions	8	91	784	488	1	526	1,898
Subordinated debt	0	0	0	0	2,560	0	2,560
Total non-derivative financial liabilities	**731,785**	**21,532**	**15,438**	**30,194**	**34,848**	**1,187**	**834,984**
Other loans commitment granted	2,437	14,278	33,087	28,409	459	13,243	91,913
Guarantee commitments granted	1,882	7,826	19,255	20,147	2,645	142	51,897
Total contingent liabilities	**4,319**	**22,104**	**52,342**	**48,556**	**3,104**	**13,385**	**143,810**

44.7.4 Foreign exchange position

The table below breaks out the Bank's main currency exposures. The remaining currencies are shown within *'Other currencies'*. The Bank manages its foreign exchange position on a daily basis. For this purpose, the Bank has a set of internal limits.

(CZKm)	CZK	EUR	USD	Other currencies	Total
Assets					
Cash and current balances with central banks	30,441	1,594	199	289	32,523
Financial assets at fair value through profit or loss	15,773	3,241	262	93	19,369
Positive fair values of hedging financial derivatives	11,416	1,545	115	(59)	13,017
Available-for-sale financial assets	16,345	7,186	146	0	23,677
Assets held for sale	127	0	0	0	127
Amounts due from banks	197,812	27,722	6,078	667	232,279
Loans and advances to customers	434,038	97,305	3,074	904	535,321
Held-to-maturity investments	44,549	12,387	0	0	56,936
Current tax assets	0	0	0	0	0
Deferred tax assets	0	18	0	0	18
Prepayments, accrued income and other assets	2,987	760	174	2	3,923
Investments in subsidiaries and associates	17,056	2,872	0	0	19,928
Intangible assets	4,187	2	0	0	4,189
Tangible assets	4,763	2	0	0	4,765
Total assets	**779,494**	**154,634**	**10,048**	**1,896**	**946,072**
Liabilities					
Amounts due to central banks	1	0	0	0	1
Financial liabilities at fair value through profit or loss	17,465	2,063	213	93	19,834
Negative fair values of hedging financial derivatives	8,518	1,683	47	(59)	10,189
Amounts due to banks	25,046	44,152	164	238	69,600
Amounts due to customers	626,753	60,769	12,163	2,368	702,053
Revaluation differences on portfolios hedge items	(2,109)	958	(55)	0	(1,206)
Securities issued	35,288	23	27	0	35,338
Current tax liabilities	238	16	0	0	254
Deferred tax liabilities	265	0	0	0	265
Accruals and other liabilities	13,900	2,160	465	157	16,682
Provisions	1,391	438	14	55	1,898
Subordinated debt	0	2,560	0	0	2,560
Equity	88,407	197	0	0	88,604
Total liabilities	**815,163**	**115,019**	**13,038**	**2,852**	**946,072**
Net FX position as of 31 December 2017	**(35,669)**	**39,615**	**(2,990)**	**(956)**	**0**
Off-balance sheet assets*	1,635,085	667,691	130,226	17,213	2,450,215
Off-balance sheet liabilities*	1,599,658	706,201	126,893	16,312	2,449,064
Net off-balance sheet FX position as of 31 December 2017	**35,427**	**(38,510)**	**3,333**	**901**	**1,151**
Total net FX position as of 31 December 2017	**(242)**	**1,105**	**343**	**(55)**	**1,151**

* Off-balance sheet assets and liabilities include amounts receivable and payable arising from spot transactions and nominal value of all derivative deals.

44.7.5 Estimated fair value of assets and liabilities of the Bank

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). Where available, fair value estimates are made based on quoted market prices. However, no readily available market prices exist for a significant portion of the Bank's financial instruments. In circumstances where quoted market prices are not readily available, the fair value is estimated, as appropriate, using discounted cash flow models or other generally acceptable pricing models. Changes in underlying assumptions, including discount rates and estimated future cash flows, significantly affect these estimates.

In estimating the fair value of the Bank's financial instruments, the following methods and assumptions were used.

(a) Cash and current balances with central banks

The reported values of cash and current balances with the central bank are generally deemed to approximate their fair value.

(b) Amounts due from banks

The estimated fair value of amounts due from banks that mature in 180 days or less approximates their carrying amounts. The fair value of other amounts due from banks is estimated based upon discounted cash flow analysis using interest rates currently offered for investments with similar terms (market rates adjusted to reflect credit risk). The fair value of non-performing amounts due from banks is estimated using a discounted cash flow analysis. The fair value of a loss loan is equal to the appraised value of the underlying collateral.

(c) Loans and advances to customers

The fair value of variable yield loans that regularly reprice and which have no significant change in credit risk generally approximates their carrying value. The fair value of loans at fixed interest rates is estimated using discounted cash flow analysis based upon interest rates currently offered for loans with similar terms to borrowers of similar credit quality. The fair value of non-performing loans is estimated using a discounted cash flow analysis, including the potential realisation of the underlying collateral.

(d) Held-to-maturity investments

The fair value of the held-to-maturity portfolio is based upon quoted market prices. Where no market prices are available, the fair value is estimated based on discounted cash flow models using the interest rate currently offered as of the financial statements date.

(e) Amounts due to central banks, banks and customers

The fair value of deposits repayable on demand represents the carrying value of amounts repayable on demand as of the financial statements date. The carrying value of term deposits at variable interest rates approximates their fair values as of the financial statements date. The fair value of deposits at fixed interest rates is estimated by discounting their future cash flows using market interest rates. Amounts due to banks and customers at fixed interest rates represent only a fraction of the total carrying value and hence the fair value of total amounts due to banks and customers approximates the carrying values as of the financial statements date.

(f) Securities issued

The fair value of debt securities issued by the Bank is based upon quoted market prices. Where no market prices are available, the fair value is estimated using a discounted cash flow analysis.

The following table summarises the carrying values and fair values of those financial assets and liabilities not presented on the Bank's Statement of Financial Position at their fair values:

	31 Dec 2017	
(CZKm)	Carrying value	Fair value
Financial assets		
Cash and current balances with central banks	32,523	32,523
Amounts due from banks	232,279	232,579
Loans and advances to customers	535,321	541,792
Held-to-maturity investments	56,936	59,097
Financial liabilities		
Amounts due to central banks	1	1
Amounts due to banks	69,600	69,577
Amounts due to customers	702,053	701,507
Securities issued	35,338	35,573
Subordinated debt	2,560	2,560

The following table presents the hierarchy of fair values for those financial assets and liabilities not presented on the Bank's Statement of Financial Position at their fair values:

				31 Dec 2017
(CZKm)	Fair value	Level 1	Level 2	Level 3
Financial assets				
Cash and current balances with central banks	32,523	10,070	0	22,453
Amounts due from banks	232,579	0	0	232,579
Loans and advances to customers	541,792	0	0	541,792
Held-to-maturity investments	59,097	59,097	0	0
Financial liabilities				
Amounts due to central banks	1	0	0	1
Amounts due to banks	69,577	0	0	69,577
Amounts due to customers	701,507	0	0	701,507
Securities issued	35,573	0	0	35,573
Subordinated debt	2,560	0	0	2,560

44.7.6 Allocation of fair values of financial instruments at fair value to the hierarchy of fair values

Financial assets and financial liabilities at fair value by fair value hierarchy (refer to Note 44.1.3):

(CZKm)	31 Dec 2017	Level 1	Level 2	Level 3
Financial assets				
Financial assets at fair value through profit or loss				
– Emission allowances	996	996	0	0
– Debt securities	1,633	1,300	333	0
– Derivatives	16,740	217	16,523	0
Financial assets at fair value through profit or loss	**19,369**	**2,513**	**16,856**	**0**
Positive fair value of hedging financial derivatives	**13,017**	**0**	**13,017**	**0**
Available-for-sale financial assets				
– Shares and participation certificates	240	0	0	240
– Debt securities	23,437	20,879	2,558	0
Available-for-sale financial assets	**23,677**	**20,879**	**2,558**	**240**
Financial assets at fair value	**56,063**	**23,392**	**32,431**	**240**
Financial liabilities				
Financial liabilities at fair value through profit or loss				
– Sold securities	1,673	1,673	0	0
– Derivatives	18,161	406	17,755	0
Financial liabilities at fair value through profit or loss	**19,834**	**2,079**	**17,755**	**0**
Negative fair value of hedging financial derivatives	**10,189**	**0**	**10,189**	**0**
Revaluation differences on portfolios hedge items	**(1,206)**	**0**	**(1,206)**	**0**
Financial liabilities at fair value	**28,817**	**2,079**	**26,738**	**0**

Financial assets at fair value – Level 3:

		2017
(CZKm)	Available-for-sale financial assets	Total
Balance as of 1 January	**182**	**182**
Comprehensive income/(loss)		
– In the Statement of Income	0	0
– In Other Comprehensive Income	90	90
Purchases	0	0
Sales	0	0
Settlement	0	0
Transfer from Level 1	0	0
Foreign exchange rate difference	(32)	(32)
Balance as of 31 December	**240**	**240**

45 Post balance sheet events

Establishment of the company KB SmartSolutions, s.r.o.

On 7 January 2019, the Bank established the company KB SmartSolutions, s.r.o. (a wholly owned subsidiary of the Bank having share capital of CZK 100 thousand) with the objective to facilitate the preparation of some new services of the KB Group. Subsequently, KB SmartSolutions, s.r.o. established on 8 January 2019 the company My Smart Living, s.r.o. (a wholly owned subsidiary of KB SmartSolutions, s.r.o. having share capital of CZK 100 thousand), which will address clients' needs in relation to housing.

Securities issued by Komerční banka

Shares

Komerční banka's registered capital of CZK 19,004,926,000 is divided into 190,049,260 registered common shares.

	2018	2017	2016	2015	2014
Number of shares issued[1]	190,049,260	190,049,260	190,049,260	38,009,852	38,009,852
Number of outstanding shares[1]	188,855,900	188,855,900	188,855,900	37,771,180	37,771,180
Market capitalisation (CZK billion)	160.0	172.8	167.1	187.0	179.0
Earnings per share (CZK)[2]	78.6	79.1	72.5	337.8	343.0
Dividend per share for the year (CZK)[3]	51.0[4]	47.0	40.0	310.0	310.0
Dividend payout ratio (%)[5]	64.9[4]	59.5	55.5	92.4	91.0
Book value per share (CZK)[6]	529.1	511.2	537.8	2,711.4	2,816.0
Share price (CZK)					
closing price at year-end	847	915	885	4,950	4,740
maximum	965	1,010	1,091	5,667	5,179
minimum	847	881	818	4,590	4,230

1) Values from 2016 onwards reflect the effect of 1-to-5 split of KB shares implemented in April 2016. Nominal value of each share is CZK 100. Before the split of KB shares, the nominal value was CZK 500.
2) Earnings attributable to shareholders per average number of shares outstanding (IFRS consolidated)
3) Dividend per share before tax. The statutory tax rate applicable in the Czech Republic is 15% or, in certain cases 35%. Dividend is paid in the following year.
4) Proposal for the Annual General Meeting on 24 April 2019
5) Dividend per share / Earnings per share
6) Shareholders' equity excluding minority equity (IFRS consolidated) divided by average number of shares outstanding

Rights vested in the shares

Rights are attached to the common shares in accordance with Act No. 90/2012 Coll., on Business Corporations, and with the Bank's Articles of Association as approved by the General Meeting. No special rights are attached to the shares. Shareholders' voting rights are governed by the nominal value of their shares. Each CZK 100 of nominal share value is equivalent to one vote.

Each shareholder shall be entitled to a proportion of the Bank's profit approved for distribution to the Shareholders by the General Meeting (a dividend) taking into account the Bank's financial results and terms and conditions specified by the generally binding legal regulations and the payment of which was decided upon by the Board of Directors based on fulfilment of the terms and conditions specified by the generally binding legal regulations.

In accordance with the Articles of Association, the right to a share in profit shall accrue to any shareholder registered as owning shares in the statutory records of the securities' issuer 7 calendar days prior to the date of the General Meeting which approved the share of the profit to be distributed among shareholders. The share in profit shall become payable upon the lapse of 30 days following the date of the General Meeting at which the resolution on the dividend payment was adopted.

The right to claim payment of the dividend shall lapse 3 years from the day when the shareholder learnt of the payment date for payment of the share in profit or when he could or should have learnt this, but in no case later than within 10 years of the payment date. Pursuant to a resolution of the Annual General Meeting held in 2009, the Board of Directors will not assert the statute of limitations in order to bar by lapse of time the payment of dividends for the duration of 10 years from the date of dividend payment. After the lapse of 10 years from the date of dividend payment, the Board of Directors is obliged to assert the statute of limitations and to transfer the unpaid dividends to the retained earnings account.

Upon the Bank's liquidation and dissolution, the means of liquidation are governed by the relevant generally binding legal regulations. Distribution of the remaining balance on liquidation among shareholders is approved by the General Meeting in proportion to the nominal values of the shares held by the Bank's shareholders.

Stock exchange listing

As of 31 December 2018, Komerční banka's shares were listed under ISIN CZ0008019106 on the Prime Market of the Prague Stock Exchange (PSE) and were traded at RM-SYSTEM Czech Stock Exchange. The average daily trading volume of KB shares on the PSE of CZK 132.7 million (EUR 5.2 million) was the second highest[1] among shares traded on the exchange and represented 21.7% of the exchange turnover.

Stock market performance

Global equity markets suffered in 2018 the biggest loss since the financial crisis in 2008. The S&P 500 Index lost 6.2% in USD terms (-1% in CZK terms), and the Dow Jones Industrial Average was off 5.6% (-0.4% in CZK terms). The technology-heavy NASDAQ index declined by 3.9% (+1.4% in CZK terms). At the beginning of the year, equity markets were showing substantial growth potential based on expected good corporates results, which in fact were delivered in every quarter. Markets were continuously under pressure due to global trade disputes, however, and ultimately that factor was the main reason for the negative performance. The trade disputes also pushed other indices into losses for the year. The MSCI ACWI index of 46 developed and emerging markets slid by 11.2% in USD terms (-6.3% in CZK terms). The MSCI index of European equity markets (including the Czech Republic's) was down even more sharply, by 18.2% in EUR terms (-17.6% in CZK terms). In contrast to the other indices mentioned, this index declined throughout the course of the year and not only in the last quarter of 2018. European equity markets were under significant pressure due to Brexit talks, the development of which created great uncertainty in Europe. The PX index of the Prague Stock Exchange lost 8.5% during 2018.

The STOXX Europe 600 Banks index had even greater losses, dropping 28% in EUR terms (27.5% in CZK terms). Low interest rates limited banks' earnings, and regulatory measures that were newly implemented or in preparation weighed further on banks' profitability and their outlooks.

KB share price development

The KB shares closed out trading in 2018 at a price of CZK 847, down 7.4% from the closing price of the previous year. As of 31 December 2018, Komerční banka's market capitalisation stood at CZK 161 billion (EUR 6.3 billion), ranking KB in third place by capitalisation among the shares listed on the PSE's Prime Market.

KB's share price started out the year at CZK 913, and at the beginning of February it slipped below CZK 900. Nevertheless, investors' positive expectations for 2018 results and the fulfilment of those expectations in the reported figures pushed the share price above CZK 920. The positive market sentiment towards KB's shares continued, and the stock price reached its high for the year of CZK 965 during the first half of April. Although the price moved down from that point, the announcement of results in May for 2018's first quarter temporarily stemmed the decline. The markets responded modestly to the release of KB's half-year results in the first half of August, and there was a clearly positive reaction to the third quarter results released at the beginning of November. More generally, however, the share price was on a downward trajectory during the second half, which was very much in line with the worsening sentiment towards European banks as a whole. The end of the year brought a further decline in KB's stock price due to a global stock market sell-off, and it reached its lowest level of the year, at CZK 847, on 28 December, the last trading day of the year.

Return for shareholders

Komerční banka's dividend policy aims to ensure appropriate remuneration of shareholders for their investments while also maintaining solid and safe capital adequacy and with a view to potential growth opportunities and currently applicable as well as anticipated regulatory requirements.

The gross dividend of CZK 47 per share paid out in 2018 represented 59.9% of KB Group's attributable net profit for 2017. The corresponding gross dividend yield based on 2017's closing share price was 5.1%.

The total return from holding KB shares in 2018 was -3.4%, assuming reinvestment of the net dividend on the payment day.

Dialogue with shareholders and the capital market

Apart from the 60.4% of KB's share capital held by Société Générale, an international financial services group headquartered in Paris, France, the Bank's free float is held by a diverse base of shareholders, ranging from large international asset managers to private individuals. From the total of more than 48,000 shareholders as of 31 December 2018, individuals resident in the Czech Republic numbered almost 43,000.

[1] Source: Prague Stock Exchange

The vast majority of freely traded shares are held by institutional investors located in such main global financial centres as New York, Boston and London.

KB works to build long-term relationships with its shareholders through regular and open communication with all capital market participants. During 2018, Komerční banka management participated in 168 investor meetings involving around 85 institutions in Prague, London, New York, Boston, Toronto and Warsaw.

More than 20 financial firms regularly publish their investment research reports on Komerční banka.

Acquisition of treasury shares in 2018

Komerční banka held 1,193,360 of its own shares as of 31 December 2018. These securities had been purchased on a European regulated market during 2006 and 2011 in accordance with decisions by the Bank's general meetings of 28 April 2005, 26 April 2006 and 21 April 2011 allowing KB to acquire its own shares into treasury.

During 2018, Komerční banka did not acquire its own shares into the banking book, nor did it dispose of its own shares. In 2018, Komerční banka intermediated buy and sell transactions in KB shares for its clients through its own account in the amount of 147,353 shares.

Based upon the consent of the General Meetings convened on 25 April 2017, Komerční banka was authorised to acquire its ordinary shares as treasury stock under the following conditions during 2018:
- The maximum amount of shares that can be held by the Bank at any specific time shall be 19,004,926 ordinary shares representing a total nominal value of CZK 1,900,492,600.
- The share purchase value must be at least CZK 1 per share and at most CZK 1,400 per share.
- The Bank may acquire shares for five years (i.e. the Bank is authorised to acquire its own ordinary shares for 5 years from the General Meeting on 25 April 2017).
- Shares may not be acquired by the Bank should such acquisition breach the conditions stipulated in § 301 (b) and (c) and § 302 of Act No. 90/2012 Coll., the Corporations and Co-operatives Act or, as the case may be, any other applicable legal rules of the Czech Republic or the European Union.

Bonds

Rights vested in the bonds

Rights and obligations pertaining to the bonds are governed and interpreted in accordance with the legal regulations of the Czech Republic. They are explicitly expressed in the issuance terms and conditions for each issue. Bonds bear interest from the date of issue, and coupon payments are made yearly or at stated intervals. The bonds' returns are paid by the issuer – Komerční banka.

The bonds will be redeemed by Komerční banka in the whole amount of the nominal value (with the exception of HZL ISIN CZ0002001142) on the maturity date. HZL ISIN CZ0002001142 is an amortising bond.

List of bonds issued by Komerční banka (as of 31 December 2018)

No.	Bond	ISIN	Issue date	Maturity date	Volume in CZK	Number of pieces	Interest rate	Payout of interest
1.	HZL 2007/2019	CZ0002001142 [2]	16 August 2007	16 August 2019	1,000,000,000	30	5.00% p.a.	yearly
2.	HZL 2007/2037	CZ0002001324 [2]	16 November 2007	16 November 2037	1,200,000,000	12	Note A	stated
3.	HZL 2007/2037	CZ0002001332 [2]	16 November 2007	16 November 2037	1,200,000,000	12	Note A	stated
4.	HZL 2007/2037	CZ0002001340 [2]	16 November 2007	16 November 2037	1,200,000,000	12	Note B	stated
5.	HZL 2007/2037	CZ0002001357 [2]	16 November 2007	16 November 2037	500,000,000	5	Note B	stated
6.	HZL 2007/2037	CZ0002001365 [2]	16 November 2007	16 November 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
7.	HZL 2007/2037	CZ0002001373 [2]	16 November 2007	16 November 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
8.	HZL 2007/2037	CZ0002001381 [2]	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
9.	HZL 2007/2037	CZ0002001399 [2]	16 November 2007	16 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
10.	HZL 2007/2037	CZ0002001431 [2]	30 November 2007	30 November 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
11.	HZL 2007/2037	CZ0002001449 [2]	30 November 2007	30 November 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
12.	HZL 2007/2037	CZ0002001456 [2]	30 November 2007	30 November 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
13.	HZL 2007/2037	CZ0002001464 [2]	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
14.	HZL 2007/2037	CZ0002001472 [2]	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
15.	HZL 2007/2037	CZ0002001480 [2]	30 November 2007	30 November 2037	500,000,000	5	RS minus 0.20% p.a.	stated
16.	HZL 2007/2037	CZ0002001498 [2]	7 December 2007	7 December 2037	500,000,000	5	RS minus 0.20% p.a.	stated
17.	HZL 2007/2037	CZ0002001506 [2]	7 December 2007	7 December 2037	700,000,000	7	RS minus 0.20% p.a.	stated
18.	HZL 2007/2037	CZ0002001514 [2]	7 December 2007	7 December 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
19.	HZL 2007/2037	CZ0002001522 [2]	7 December 2007	7 December 2037	1,000,000,000	10	RS minus 0.20% p.a.	stated
20.	HZL 2007/2037	CZ0002001530 [2]	7 December 2007	7 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
21.	HZL 2007/2037	CZ0002001548 [2]	7 December 2007	7 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
22.	HZL 2007/2037	CZ0002001555 [2]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
23.	HZL 2007/2037	CZ0002001563 [2]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
24.	HZL 2007/2037	CZ0002001571 [2]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
25.	HZL 2007/2037	CZ0002001589 [2]	12 December 2007	12 December 2037	1,200,000,000	12	RS minus 0.20% p.a.	stated
26.	HZL 2007/2037	CZ0002001753 [1]	21 December 2007	21 December 2037	10,330,000,000	1,033	RS plus 1.5% p.a.	yearly
27.	HZL 2007/2037	CZ0002001746 [1]	28 December 2007	28 December 2037	1,240,000,000	124	RS plus 1.5% p.a.	yearly
28.	HZL 2012/2022	CZ0002002801 [1]	21 December 2012	21 December 2022	3,000,000,000	300,000	2.55% p.a.	yearly
29.	2012/2019	CZ0003703613 [1]	21 December 2012	21 December 2019	5,000,000,000	5,000,000,000	Note C	yearly
30.	HZL 2014/2022	CZ0002003379 [1]	30 January 2014	30 April 2022	800,000,000	80,000	3.00% p.a.	yearly
31.	HZL 2014/2024	CZ0002003361 [1]	30 January 2014	30 January 2024	900,000,000	90,000	3.00% p.a.	yearly
32.	HZL 2014/2025	CZ0002003353 [1]	31 January 2014	31 January 2025	1,117,000,000	111,700	3.50% p.a.	yearly
33.	HZL 2014/2026	CZ0002003346 [1]	31 January 2014	31 January 2026	800,000,000	80,000	3.50% p.a.	yearly
34.	HZL 2014/2026	CZ0002003742 [2]	18 November 2014	18 November 2026	750,000,000	75,000	2.00% p.a.	yearly
35.	HZL 2014/2028	CZ0002003767 [2]	20 November 2014	20 November 2028	750,000,000	75,000	2.20% p.a.	yearly
36.	HZL 2014/2027	CZ0002003759 [2]	24 November 2014	24 November 2027	750,000,000	75,000	2.10% p.a.	yearly
37.	HZL 2014/2029	CZ0002003775 [2]	27 November 2014	27 November 2029	750,000,000	75,000	2.30% p.a.	yearly

Notes: Certain bonds are held by Komerční banka or other companies within the KB Group.
HZL = mortgage bond, RS = reference rate
1) dematerialised bonds
2) bonds in paper form

Note A: 5.06% p.a. for the first twelve annual periods, afterwards the relevant RS minus 0.20% p.a.

Note B: 5.02% p.a. for the first eleven annual periods, afterwards the relevant RS minus 0.20% p.a.

Note C: 1.50% p.a. for the first year period
2.00% p.a. for the second year period
2.50% p.a. for the third year period
5.00% p.a. for the fourth year period
5.50% p.a. for the fifth year period
6.00% p.a. for the sixth year period
6.50% p.a. for the seventh year period

All bonds (with the exception of HZL ISIN CZ0002003742, HZL ISIN CZ0002003767, HZL ISIN CZ0002003759 and HZL ISIN CZ0002003775 that are order bonds) are made out to the bearer. All bonds are denominated in CZK.

All bonds were issued under the second KB Debt Issuance Programme approved by the Czech National Bank on 4 June 2007. This 30 Year Debt Issuance Programme enables the Bank to issue bonds in a maximum amount of CZK 150 billion outstanding.

Heretofore unredeemed bonds were issued in the relevant years in accordance with the Bonds Act, the Securities Act and the Act on Capital Market Undertakings, as amended. The bonds' prospectuses, the base prospectuses of the bond programmes or issuance terms and conditions and supplements to the bond programmes were approved, if required by law, by the Czech National Bank.

Public tradability and transferability

HZL ISIN CZ0002002801 was admitted for trading on the Regulated Market of the Prague Stock Exchange. Transferability of the bonds is not limited.

Information on remuneration to auditors

Remuneration to the auditors of KB and KB Group for services performed by the companies Deloitte Audit s.r.o. (in the Czech Republic), Deloitte Audit s.r.o. (in the Slovak Republic), Ernst & Young, s.r.o. (in the Czech Republic) and Deloitte Reviseurs d'Entreprises SC s.f.d. SCRL (in the Kingdom of Belgium) during 2018:

	Deloitte		EY		Total	
Type of service – CZK thousand, excl. VAT	**KB**	**KB Group**	**KB**	**KB Group**	**KB**	**KB Group**
Audit services	17,320	21,171	0	4,587	17,320	25,758
Tax advisory	0	0	0	0	0	0
Non-audit services*	491	491	744	744	1,235	1,235
Total	**17,811**	**21,662**	**744**	**5,331**	**18,555**	**26,993**

* Non-audit services – training, allowed IT services

Information on the calculation base for the volume of contributions to the Investor Compensation Fund (in the Czech Republic)

According to art. 129(1) of Act on Business activities on the capital market, the annual contribution of securities traders to the Investor Compensation Fund amounts to 2% of the volume of revenues from fees and commissions for investment services provided in the previous calendar year. In 2018, the base for the volume of the contribution reached CZK 707 million (2018: CZK 753 million). The Bank includes in the base mainly income for intermediation of sales of mutual funds, custody services, safekeeping and administration of securities, brokerage fees for securities transactions for clients, management of client assets, primary issues, administration of purchase price of securities and other investment services. The volume of the Bank's contribution to the Investor Compensation Fund in 2018 reached CZK 14 million (2017: CZK 15 million).

Report on Relations among Related Entities
for the year ended 31 December 2018

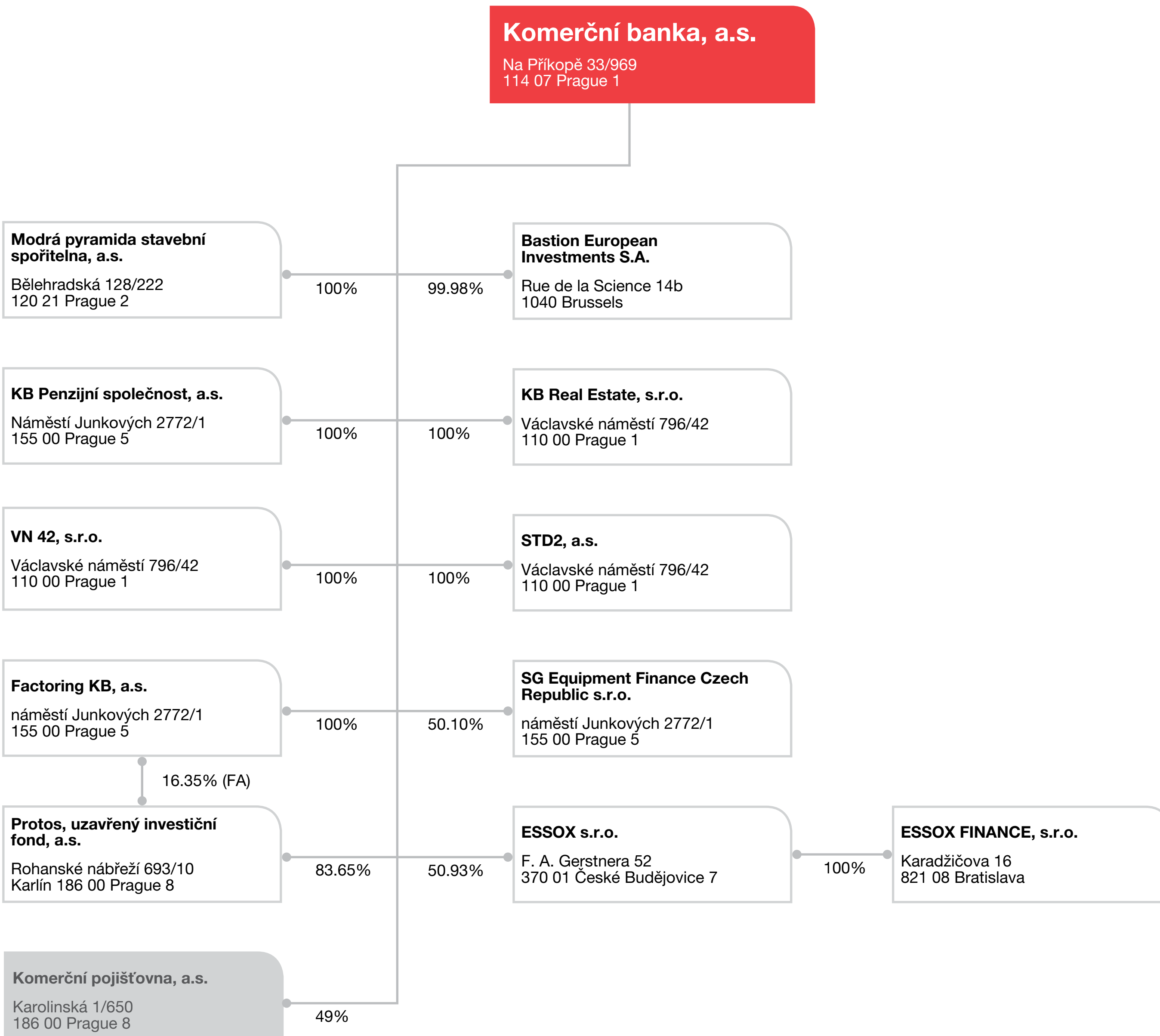
(hereinafter the **"Report on Relations"**)

Komerční banka, a.s., with its registered office in Prague 1, Na Příkopě 33/969, 114 07, Corporate ID: 45317054, incorporated in the Register of Companies maintained by the Municipal Court in Prague, Section B, File 1360, (hereinafter **"KB"** or **"Komerční banka"**), is part of a business group (holding company) in which there exist the following relations between KB and its controlling entity and further between KB and other entities controlled by the same controlling entities (hereinafter the **"related entities"**).

This Report on Relations was compiled in accordance with Section 82 et seq. of Act No. 90/2012 Coll., on Business Corporations and Co-operatives (the Business Corporations Act) for the year ended 31 December 2018, that is, from 1 January 2018 to 31 December 2018 (hereinafter the **"reporting period"**).

I. Introduction

Structure of relations among entities within the business group:
In the period from 1 January 2018 to 31 December 2018, KB was a member of the Société Générale S.A. Group, with its registered office at 29, BLD Haussmann, 75009 Paris, France, registration number in the French Register of Companies: R.C.S. Paris B552120222 (1955 B 12022) (hereinafter **"SG"** or **"SG Paris"**). The structure of relations within KB Group is shown below and the structure of relations within the whole of SG Group is shown in the annex:


Komerční banka, a.s.
Na Příkopě 33/969
114 07 Prague 1
Modrá pyramida stavební spořitelna, a.s.
Bělehradská 128/222
120 21 Prague 2
100%
99.98%
Bastion European Investments S.A.
Rue de la Science 14b
1040 Brussels
KB Penzijní společnost, a.s.
Náměstí Junkových 2772/1
155 00 Prague 5
100%
100%
KB Real Estate, s.r.o.
Václavské náměstí 796/42
110 00 Prague 1
VN 42, s.r.o.
Václavské náměstí 796/42
110 00 Prague 1
100%
100%
STD2, a.s.
Václavské náměstí 796/42
110 00 Prague 1
Factoring KB, a.s.
náměstí Junkových 2772/1
155 00 Prague 5
100%
50.10%
SG Equipment Finance Czech Republic s.r.o.
náměstí Junkových 2772/1
155 00 Prague 5
16.35% (FA)
Protos, uzavřený investiční fond, a.s.
Rohanské nábřeží 693/10
Karlín 186 00 Prague 8
83.65%
50.93%
ESSOX s.r.o.
F. A. Gerstnera 52
370 01 České Budějovice 7
100%
ESSOX FINANCE, s.r.o.
Karadžičova 16
821 08 Bratislava
Komerční pojišťovna, a.s.
Karolinská 1/650
186 00 Prague 8
49%

During the 2018 reporting period, KB had business relationships with the following related entities:

a) SG head office and branches

Company	Registered office
SG Paris *	29, Boulevard Haussmann, Paris, France
SG London	House 41 Tower Hill 99132, EC3N 4SG, London, Great Britain
SG New York	245 Park Avenue, 10167 New York, NY, USA
SG Istanbul	Nispetye Cad. Akmerkez E-3 Blok Kat.9 ETILER 80600 Istanbul, Turkey
SG Zürich	Sihlquai 253, 8031 Zürich, Switzerland
SG Warsaw	Ul. Marszalkowska 111, Warsaw, Poland
SG Frankfurt	Neue Mainzer Strasse 46-50, 60311, Frankfurt am Main, Germany
SG Brussels	Tour Bastion, 5 Place du Champs de Mars, 1050 Brussels, Belgium
SG Wien	Prinz Eugen Strasse 32, A1041, Vienna, Austria
SG Milan	Via Olona 2, 20123 Milan, Italy
SG Amsterdam	Rembrandt Tower, A Amstelplein 1, 1096 HA Amsterdam, the Netherlands
SG Hong Kong	11-19A Queen's Road Central, Hong Kong, Hong Kong
SG EN Espana	Gran Via 30, 28013, Madrid, Spain
SG Seoul	D1 D-Tower, 17, Jongno 3-Gil, Jongno-gu, 03155, Seoul, South Korea
SG Singapore	8 Marina Boulevard, 018981, Singapore
SG Mumbai	Ganapatrao Kadam Marg, Lowe Parel, 400013, Bombay, India
SG Tokyo	Palace Building, 1-1-1 Marunouchi, Chiyoda-ku, 100-8206 Tokyo, Japan

* including branches

b) SG subsidiaries

Company	Registered office	SG's share in voting rights
ALD (SIA)	K. Ulmana gatve 119, Riga, LV-2167, Latvia	75
ALD (UAB)	Ukmerges 283, Vilnius, LT -06313, Lithuania	75
ALD Automotive Hungary	1133 Budapest, Váci út 76, Hungary	100
ALD Automotive Polska sp. z.o.o.	Ostrobramska 101A, 04-041 Warsaw, Poland	100
ALD Automotive s.r.o.	U Stavoservisu 527/1, 10800 Prague 10, Czech Republic	100
ALD Automotive Slovakia s.r.o.,	Panónska cesta 47, 851 01 Bratislava, Slovakia	100
ALD EESTI AS	Akadeemia tee15A, 12618 Tallinn, Estonia	75.01
Banca Romana Pentrui Devzoltare (B.R.D.)	Boulevard Ion Mihalache No. 1-7, sector I, Bucharest, Romania	100
Crédit du Nord	28 Place Rihour 59800 Lille, France	100
European Fund Services, SA	17 rue Antoine Jans L-1820 Luxembourg, Luxembourg	100
Inter Europe Conseil	29, Boulevard Haussmann,75009, Paris, France	100
Komerční pojišťovna, a.s.	Karolinská 1, č.p. 650, 186 00 Prague 8 - Karlín, Czech Republic	100
Lyxor International Asset Management (LIAM)	Tour Société Générale, 17 Cours Valmy, 92800 Puteaux, France	100
MOBIASBANCA GOUPE SG	81a, Stefan cel Mare si Sfant ave, Chisinau, Moldavia	87.9
Newedge Group (Frankfurt branch)	Neue Mainzer Strasse 52, 60311 Frankfurt am Main, Federal Republic of Germany	100
OHRIDSKA BANKA AD SKOPJE	ul. Orce Nikolov br. 54, 1000 Skopje, Macedonia	75.38
Société Générale Newedge UK Limited	10 Bishops Square, London, E1 6EG, Great Britain	100
PEMA Polska sp. z. o. o.	Ul. Krzysztofa Kolumba 3, 62-052 Komorniki, woj. Wielkopolskie, Poland	100
PEMA Praha, spol. s r.o.	Ul. Dopraváků 723, 184 00 Prague 8, Czech Republic	100
PEMA Slovakia, spol. s r. o.	Pri Prachárni 20, 04001 Košice, Slovakia	100
Rosbank	11 Masha Poryvaeva Street, 107 078 Moskva, Russian Federation	99.95
SG Albania	Blv. Deshmoret e Kombit Twin Towers, Kulla II, Kati Perdhe, Tirane, 1000, Albania	88.89
SG Algerie	Résidence EL KERMA, 16 105 Gué de Konstantine, Algeria	100
SG Asset Management Alternative Investments (SGAM AI)	170 place Henri Renault, 92400 Courbevoie, France	100
SG De Bank Au Liban	Masraf Street, Beirut, Lebanon	16.85
SG Equipment Finance Hungary Plc.	1062 Budapest, Vaci út 1-3, Hungary	0

Company	Registered office	SG's share in voting rights
SG Equipment Leasing Hungary Ltd	1062 Budapest, Vaci út 1-3, Hungary	0
SG Equipment Leasing Polska	Marszalkowska 111 St., 00-102 Warsaw, Poland	100
SG Express Bank	Vladislav Varnenchik Blvd. 92, 9000 Varna, Bulgaria	99.74
SG China Ltd.	Taikang International Tower, Wudinghou Street, Xicheng District, 100140 Beijeng, China	100
SG Hambros	8 St James's Square, London, Great Britain	100
SG Issuer S.A. (SGBT)	15 Boulevard du Prince Henri Luxembourg, 1724, Luxembourg	100
SG Maroccaine de Banques	55, boulevard Abdelmoumen, Casablanca, Morocco	100
SG Private Banking (Suisse) SA	Rue de la Corraterie 6, Case Postale 5022, CH-1211 Geneva 11, Switzerland	100
SG Private Banking Belgique	Rue des Colonies, 11,1000 Brussels, Belgium	100
SG Private wealth management SA	11-13 Avenue Emile Reuter L-2420 Luxembourg, Luxembourg	100
SG Securities (London) Ltd.	Exchange House – 12 Primrose Street, London EC2A 2EG, Great Britain	100
SG Securities Services	Via Benigno Crespi 19, 20159 Milano, Italy	100
SG Sucursal en Espana	Genova 26, Madrid, Spain	100
SG Option Europe	17 Cours Valmy, La Defense Cedex, Paris, France	100
SG Splitska Banka	Rudjera Boskovica 16, 21000 Split, Croatia	100
SG Vehicle Finance Hungary Plc.	1062 Budapest, Vaci út 1-3, Hungary	100
SGA Société Générale Acceptance N.V.	Pietermaai 15, Willemstad, Netherlands Antilles	100
SG Bank & Trust (SGBT)	11-13 Avenue Emile Reuter L-2420 Luxembourg, Luxembourg	100
SG Montenegro	Bulevar Revolucije br. 17, Podgorica 81000, Montenegro	100
SG Srbija	50 Bulevar Zorana Dindica, Serbia	100
SKB Banka	Ajdovscina 4, 1513 Ljubljana, Slovenia	100
Sogecap	50 avenue du Général de Gaulle, 92093 Paris, La Défense CEDEX, France	100
Sogeprom Česká republika s.r.o.	Legerova 802/64, 120 00 Prague 2 - Vinohrady, Czech Republic	100

c) KB subsidiaries

Company	Registered office	SG's share in voting rights
Factoring KB a. s.	náměstí Junkových 2772/1, 155 00 Prague 5 - Stodůlky, Czech Republic	100
Modrá pyramida stavební spořitelna, a. s.	Bělehradská 128/222, 120 21 Prague 2, Czech Republic	100
KB Penzijní společnost, a.s.	náměstí Junkových 2772/1, 155 00 Prague 5 - Stodůlky, Czech Republic	100
Protos, uzavřený investiční fond, a. s.	Rohanské nábřeží 693/10, 186 00 Prague 8 - Karlín, Czech Republic	100
Bastion European Investments S.A.	Rue de la Science 14b, 1040 Brussels, Belgium	100
SG Equipment Finance Czech Republic s. r. o.	náměstí Junkových 2772/1, 155 00 Prague 5 - Stodůlky, Czech Republic	100
KB Real Estate s. r. o.	Václavské náměstí 796/42, 110 00 Prague 1 - Nové Město, Czech Republic	100
VN 42, s.r.o.	Václavské náměstí 796/42, 110 00 Prague 1 - Nové Město, Czech Republic	100
STD2, a.s.	Václavské náměstí 796/42, 110 00 Prague 1 - Nové Město, Czech Republic	100
ESSOX s.r.o.	F. A. Gerstnera č. ev. 52, 370 01 České Budějovice, Czech Republic	100
ESSOX FINANCE s.r.o.	Karadžičova 16, 821 08 Bratislava, Slovak Republic	100

Role of Komerční banka within the Group:
Komerční banka is the parent company of KB Group and is part of the international financial group of Société Générale (hereinafter "SG Group"). KB is a universal bank offering a wide range of services in the area of retail, corporate and investment banking on the territory of the Czech Republic and Slovakia. KB operates on the territory of the Slovak Republic using its branch abroad and with a focus on serving large and medium-sized enterprises. KB Group companies offer additional specialised services, including pension savings and building society schemes, leasing, factoring, consumer lending and insurance. As a part of KB Group, the Bank provides certain subsidiaries with trademark licences. Within KB Group, Komerční banka provides certain IT services, services and advisory in the area of human resources, as well as advisory in the areas of compliance, operational risks and insurance within SG Group. The products of KB's subsidiaries are sold using Komerční banka's sales network. Komerční banka offers some of its products using, inter alia, the network of Modrá pyramida stavební spořitelna, a.s.

As a part of its management and control system KB receives data on the whole control and management system and also provides these data, including data on KB, to the company SG (the data include, inter alia, budgets, business plans, business continuity and crisis management plans, and anti-money laundering measures).

KB intermediates SG's control over KB's subsidiaries and participates in the creation of group policies on the territory of the Czech Republic and Slovakia.

Manner and means of control
Société Générale, as the majority shareholder, exerts its influence on KB's activity through the General Meeting, has four representatives on the Bank's nine-member Supervisory Board and one representative on the three-member Audit Committee. One Société Générale employee is seconded to the Board of Directors of Komerční banka as its member. Furthermore, based on a contract entered into by and between SG and KB, SG seconds its employees to certain positions. At this time, there are nine such employees within KB.

In accordance with Section 79 of the Business Corporations Act, SG is a controlling entity in respect to KB. Control is formally exercised by implementing SG's methodologies in KB's internal regulations, in particular in the area of risk management and capital adequacy. Furthermore, there is informal control in the form of consultancy on individual areas of KB's activity.

The intermediation of SG's control over KB's subsidiaries is formally represented by the implementation of KB's methodologies in the subsidiaries' internal regulations, and informal control takes the form of consultancy on individual activity areas.

II. Relations within the Group

A. Important actions adopted in the reporting period at the initiative or in the interest of the controlling entity or entities controlled by the controlling entity in respect of assets exceeding 10% of the controlled entity's equity

Komerční banka made bank transactions which were subject to banking secrecy and which, separately or cumulatively, exceeded 10% of the equity of Komerční banka with its subsidiaries ESSOX, Modrá pyramida and SGEF, and furthermore with SG Paris.

B. Overview of mutual contracts between the controlled entity and the controlling entity or among controlled entities

Banking transactions
During the reporting period, Komerční banka had the relationships stated below that are subject to banking secrecy with the controlled entities in the areas listed below.

Deposit arrangements
In the deposit segment, KB had entered into arrangements with 27 branches and subsidiaries of SG Group as of the end of the reporting period. As of 31 December 2018, KB maintained a total of 59 accounts, of which 23 were loro accounts for branches and subsidiaries of SG Group, 31 were current accounts and 5 were overdraft accounts opened for non-banking entities of SG Group. The average monthly overdraft balance (borrowing) on loro accounts was CZK 85.76 million; the average monthly credit balance (deposit) was CZK 667 million. During the reporting period, the average monthly credit balance on current and overdraft accounts was CZK 575.95 million; the average monthly overdraft balance on these accounts was CZK 192.99 million. During the reporting period, KB's interest income on overdraft accounts and overdrafts on current accounts was CZK 2 million; income from the fees associated with the maintenance of accounts and related transactions amounted to CZK 5.95 million.

KB's cross-border payment transactions were partly conducted through nostro accounts maintained with SG Paris; B.R.D Groupe Société Générale, Bucharest; SG New York; SG Warszawa; SG Express Bank, Varna; Rosbank, Moscow and SG China. During the reporting period, KB's average monthly deposit on nostro accounts with SG was CZK 512.65 million; the average monthly overdraft balance on nostro accounts was CZK 113.65 million. Interest income on nostro accounts for the reporting period was CZK 0.165 million; interest expenses amounted to CZK 2.288 million. KB's expenses arising from fees for maintenance of, and transactions on, nostro accounts for the reporting period were CZK 18.8 million; fee income (i.e. discounts provided from credit operations on nostro accounts) amounted to CZK 3.6 million. KB's income arising from the fees from loro accounts for the reporting period was CZK 2.653 million. Interest expenses paid by KB on loro accounts amounted to CZK 230.1 thousand and interest income totalled CZK 2,032.5 thousand in the reporting period.

Ten subsidiaries of SG Group held term deposits (including depository bills) with KB during the reporting period. The average monthly balance of these deposits was CZK 33,302 million in the reporting period. The aggregate amount of interest expenses from term deposits (including depository bills) was CZK 17.1 million for the reporting period.

Nostro, loro, current, term and overdraft accounts of related entities were maintained under standard terms and conditions.

Loan arrangements
In the loan segment, KB provided loans during 2018 to two SG Group subsidiaries. These totalled 260 loans in the aggregate amount of CZK 6,830.9 million. The average monthly balance of the loans during the reporting period was CZK 6,478.8 million. The aggregate amount of interest income from loans and overdraft accounts was CZK 59.884 million.

As of the end of the reporting period, KB had provided seven entities of SG Group with bank guarantees (payment, non-payment) in the amount of CZK 2,576 million.

As of the end of the reporting period, KB had received guarantees from four SG Group entities as collateral for loans provided to clients in the aggregate amount of CZK 10,235 million. The aggregate amount of fees for guarantees received in the reporting period amounted to CZK 6.2 million.

Investment banking arrangements
In the investment banking segment, KB carried out transactions with 15 branches and subsidiaries from within SG Group. The total number of transactions was 42,496 (2,591 on-balance sheet transactions and 39,905 off-balance sheet transactions) in the aggregate nominal amount of CZK 4,224,914 million. The income from the investment banking transactions amounted to CZK 38,821.82 million and the costs totalled CZK 38,007.03 million.

The aggregate nominal amount of on-balance sheet transactions was CZK 2,119,193.8 million and consisted of the following:
- Depository transactions – a total of 2,091 transactions in the aggregate amount of CZK 2,509,387.1 million; and
- Securities held for trading – a total of 645 transactions in the aggregate amount of CZK 59,806.8 million.

The aggregate nominal amount of off-balance sheet transactions was CZK 2,105,720.1 million and consisted of the following:
- Foreign currency transactions (spots, forwards, swaps) totalling 25,230 transactions in the aggregate nominal amount of CZK 755,250.2 million;
- Interest rate derivative transactions (interest rate swaps and futures) totalling 987 transactions in the aggregate nominal amount of CZK 518,541.9 million;
- Option transactions with currency instruments totalling 8,712 transactions in the aggregate nominal amount of CZK 132,776.3 million;
- Commodity transactions were carried out only with SG Paris; KB executed 4,603 transactions in the aggregate amount of CZK 29,677.8 million;
- Emission allowance transactions: During the reporting period, KB executed a total of 227 transactions in the aggregate amount of CZK 4 569.5 million with SG Paris;
- Repo transactions: During the reporting period, KB executed a total of 146 transactions in the aggregate nominal amount of CZK 664,904.5 million with SG Paris.

All of the banking products were provided under standard terms and conditions, in accordance with KB's price list, and while taking into consideration the creditworthiness of individual clients under conditions customary in business or interbank transactions. None of these transactions were carried out at the instruction of the controlling entity. KB incurred no damage as a result of banking transactions entered into during the reporting period.

Other mutual contracts

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Mutual co-operation agreement + 1 amendment dated 1 Jul 2010 (banking services) + Amendment	ALD Automotive s.r.o.	1 Aug 2007 1 Jul 2010
Co-operation agreement – Jobs	ALD Automotive s.r.o.	9 Jun 2010
Framework service agreement (IT area)	ALD Automotive s.r.o.	31 Aug 2010
Accession to the rules of co-operation between KB and group members in the area of sourcing and procurement	ALD Automotive s.r.o.	16 Aug 2011
Framework agreement to lease a vehicle	ALD Automotive s.r.o.	7 Jan 2015
Lease of non-residential premises – Ostrava + Amendments	ALD Automotive s.r.o.	31 Oct 2003 30 Mar 2004 7 Dec 2004 15 Feb 2012
Lease of non-residential premises and movable property – České Budějovice	ALD Automotive s.r.o.	27 Nov 2003
Lease of non-residential premises and payment of relating services – Pilsen	ALD Automotive s.r.o.	30 Sep 2015
Co-operation agreement + amendment dated 7 Dec 2015 + Amendments	ALD Automotive s.r.o.	29 Mar 2013 7 Dec 2015 19 Oct 2018
Lease of non-residential premises – Hradec Králové + amendment dated 13 Feb 2015	ALD Automotive s.r.o.	1 Feb 2013
Agreement – Outsourcing of HR services + Amendment no. 1	ALD Automotive s.r.o.	1 Apr 2013 31 Mar 2016
Framework agreement for full-service leasing and finance leasing with subsequent purchase + Amendment no. 1	ALD Automotive s.r.o.	22 May 2013 31 May 2016
Agreement for co-operation in performance of the contract for employee group risk insurance	ALD Automotive s.r.o.	29 Oct 2013
Service contract – Lease of a mailing machine, provision of postal services	ALD Automotive s.r.o.	17 Jul 2014
Agreement for co-operation in performance of the group insurance agreement for work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka and Société Générale	ALD Automotive s.r.o.	29 Dec 2014
Non-disclosure agreement	ALD Automotive s.r.o.	9 Jul 2010
Agreement for co-operation in performance of the group insurance agreement for work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka and Société Générale no. 334000000	ALD Automotive s.r.o.	26 Sep 2016
Lease of non-residential premises and payment of relating services – Brno + Amendment	ALD Automotive s.r.o.	31 Dec 2016 17 May 2018
Separate agreement no. 3 – Provision of technical infrastructure services, Physical Housing of Equipment	ALD Automotive s.r.o.	30 Jun 2017
Service contract – Outsourcing (HR services)	ALD Automotive s.r.o.	21 Dec 2017
Service agreement: eDoceo	ALD Automotive s.r.o.	1 Apr 2018
Service contract – access to C4M	ALD Automotive s.r.o.	14 Sep 2018
Network package	ALD Automotive s.r.o	1 Nov 2012
Agreement - outsourcing of DPO services	ALD Automotive s.r.o	18 May 2018
Sub-Contract No.1 - Provision of Services for Technical Infrastructure, Voice over IP (VoIP)	ALD Automotive s.r.o.	6 Oct 2011
Separate agreement no. 2 - Provision of technical infrastructure services – Connectivity Services + Amendment	ALD Automotive s.r.o.	1 Nov 2012 17 May 2018
Non-disclosure agreement	ALD Automotive Slovakia s.r.o.	19 Oct 2015
Service contract – Outsourcing (HR services)	ALD Automotive Slovakia s.r.o.	1 Jan 2016
Framework agreement – Full-service leasing, finance leasing	ALD Automotive Slovakia s.r.o.	8 Jun 2016
Agreement for co-operation in performance of the group insurance agreement for work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka and Société Générale no. 334000000	ALD Automotive Slovakia s.r.o.	4 Aug 2016
Cooperation agreement	ALD Automotive Slovakia s.r.o.	19 Oct 2018
Cooperation agreement	ALD Automotive Slovakia s.r.o.	28 Mar 2013
Cooperation agreement + 1 amendment	ALD Automotive Slovakia s.r.o.	9 Oct 2003
Agreement – Outsourcing of HR services (excluding Payroll)	ALD Automotive Slovakia s.r.o.	30 Dec 2016

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Custodian services agreement	B.R.D.	20 Oct 2011
Service level agreement	B.R.D.	20 Oct 2011
EUR Account Agreement	B.R.D.	3 Dec 2015
Service contract (client)	ESSOX s.r.o.	21 Sep 2005
Mutual co-operation agreement + 1 amendment (recipient)	ESSOX s.r.o.	1 Aug 2007
Co-operation agreement	ESSOX s.r.o.	17 Sep 2008
Co-branded cards distribution agreement + 1 amendment	ESSOX s.r.o.	16 Jan 2009
Framework agreement for financial market trading	ESSOX s.r.o.	16 Apr 2009
Co-operation agreement + 1 amendment	ESSOX s.r.o.	20 Oct 2009
Confidentiality agreement	ESSOX s.r.o.	9 Jul 2010
Individual pricing agreement	ESSOX s.r.o.	30 May 2018
Agreement on the organisation of periodic control + 1 amendment (client)	ESSOX s.r.o.	28 Feb 2011
Personal data processing framework agreement (administrator)	ESSOX s.r.o.	12 Apr 2011
Contract - Soft Collection	ESSOX s.r.o.	29 Apr 2015
Service contract – Outsourcing + 5 amendments (provider)	ESSOX, s.r.o.	15 Dec 2009
Service contract – Outsourcing (HR services) + 1 amendment	ESSOX s.r.o.	21 Dec 2011
Framework agreement for the provision of financial services + 3 amendments (client)	ESSOX s.r.o.	31 Jul 2014
Framework agreement for the provision of financial services + 1 amendment	ESSOX s.r.o.	31 Jan 2018
Service level agreement	ESSOX s.r.o.	25 Nov 2014
Agreement – outsourcing of DPO services	ESSOX s.r.o.	11 May 2018
Service agreement: eDoceo	ESSOX s.r.o.	31 Mar 2018
Cooperation agreement + 2 amendments	ESSOX s.r.o.	1 Aug 2012
Service contract + 1 amendment	ESSOX s.r.o.	3 Jan 2017
Memorandum of Understanding - Project AS/400 Lifecycle Renewal	ESSOX s.r.o.	3 Apr 2017
Distribution agreement for product “Corporate Car Loans” + 1 amendment	ESSOX s.r.o.	1 Aug 2012
Co-branded cards co-operation agreement	ESSOX s.r.o.	28 Dec 2012
Framework service agreement (recipient)	ESSOX s.r.o.	26 Apr 2011
Separate agreement no. 1 – Provision of services for access to KB’s external entity	ESSOX s.r.o.	30 Jun 2011
Service contract – C4M access + 1 amendment (client)	ESSOX s.r.o.	29 Jul 2011
Contract for exchange of negative client information within KB/SG Financial Group in the Czech Republic	ESSOX s.r.o.	19 Aug 2011
Separate agreement no. 2 – Provision of technical infrastructure services, service hosting	ESSOX s.r.o.	29 Aug 2014
Confidentiality agreement	ESSOX, s.r.o.	10 May 2010
Agreement to use KB eTrading	ESSOX, s.r.o.	24 Jun 2016
Agreement to use internet banking + 2 amendments	ESSOX, s.r.o.	14 Nov 2001
Agreement to use a safe box of Komerční banka, a. s.	ESSOX, s.r.o.	20 Dec 2005
Agreement for co-operation in performance of the contract for employee group risk insurance no. 3280000000 in the wording of amendment no. 1 of 29 Jun 2012	ESSOX s.r.o.	22 Aug 2012
Group insurance agreement for work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka and Société Générale	ESSOX s.r.o.	14 Jul 2016
Contract for the payment of insurance premium and of insurance broker’s commission	ESSOX, s.r.o.	23 Aug 2016
Agreement for framework insurance contract	ESSOX, s.r.o.	10 Feb 2014
Separate agreement no. 3: Technical infrastructure services, Connectivity	ESSOX, s.r.o.	13 Dec 2017
Separate agreement no. 4: Technical infrastructure services, Physical hosting	ESSOX, s.r.o.	13 Dec 2017
Separate agreement no. 5: Technical infrastructure services, Identity and Access	ESSOX, s.r.o.	13 Dec 2017
Lease of non-residential premises and payment of relating services + 1 amendment (lessee)	ESSOX, s.r.o.	8 Mar 2006
Agreement to enter into a lease of non-residential premises and payment of relating services (future sub-lessee)	ESSOX, s.r.o.	27 Mar 2015
Lease of non-residential premises and payment of relating services + 2 amendments	ESSOX, s.r.o.	10 Jan 2017
Lease of parking places	ESSOX, s.r.o.	9 Mar 2017
Sublease agreement	ESSOX, s.r.o.	9 May 2017

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Service level agreement	European Fund Services, SA	12 Nov 2008
Framework agreement for the provision of financial services no. 9900021839000 + 12 amendments	Factoring KB, a.s.	31 Mar 2014 2 Jun 2014 20 May 2015 15 Apr 2016 22 Sep 2016 21 Nov 2016 21 Mar 2017 20 Apr 2017 11 Jul 2017 23 Oct 2017 24 Jan 2018 21 Jun 2018 31 Oct 2018
Change of the interest rate on an overdraft loan – framework agreement for the provision of financial services no. 9900021839000 (12)	Factoring KB, a.s.	26 Jan 2018 23 Feb 2018 26 Mar 2018 30 Apr 2018 28 May 2018 29 Jun 2018 27 Jul 2018 30 Aug 2018 1 Oct 2018 26 Oct 2018 26 Nov 2018 27 Dec 2018
Individual pricing agreement (2) + amendments (3)	Factoring KB, a.s.	31 Jul 2012 21 Aug 2012 1 Dec 2014 31 Aug 2017 9 Mar 2018
Bank guarantee agreement + amendment (1)	Factoring KB, a.s.	23 Oct 2017 20 Sep 2018
Framework agreement for the rental of employee-driven motor vehicles	Factoring KB, a.s.	22 Sep 2014
Service contract for the provision of postal services duplicate documentation shredding + 1 amendment	Factoring KB, a.s.	31 Oct 2013 22 Dec 2017
Service contract – BI services	Factoring KB, a.s.	27 Dec 2012
Agreement - services: data transfer - current accounts	Factoring KB, a.s.	1 Aug 2013
Framework agreement for the provision of technical infrastructure services	Factoring KB, a.s.	8 Sep 2010
Database usage license agreement	Factoring KB, a.s.	1 Apr 2011
IT – Separate agreement no. 1, connectivity services, provision of technical infrastructure solution services	Factoring KB, a.s.	1 Dec 2012
IT – Separate agreement no. 2, physical hosting of equipment, provision of technical infrastructure solution services + 1 amendment	Factoring KB, a.s.	1 Dec 2012 25 Oct 2016
IT – Separate agreement no. 3, IT infrastructure hosting, provision of technical infrastructure solution services + 1 amendment	Factoring KB, a.s.	1 Dec 2012 23 May 2017
IT – Separate agreement no. 4, VoIP, provision of technical infrastructure solution services	Factoring KB, a.s.	31 Dec 2012
IT – Separate agreement no. 5, e-mail, provision of technical infrastructure solution services	Factoring KB, a.s.	25 May 2015
IT – Separate agreement no. 6, fileshare, provision of technical infrastructure solution services	Factoring KB, a.s.	29 Feb 2016
IT – Separate agreement no. 7, end user workplace (EUV), provision of technical infrastructure solution services	Factoring KB, a.s.	18 Jan 2016
IT – Separate agreement no. 8, service desk (SD), provision of technical infrastructure solution services	Factoring KB, a.s.	18 Jan 2016
IT – Separate agreement no. 9, identity and access, provision of technical infrastructure solution services	Factoring KB, a.s.	18 Jan 2016
IT – Separate agreement no. 10, platform hosting, provision of technical infrastructure solution services	Factoring KB, a.s.	18 Jan 2016
IT – Separate agreement no. 11, DR (disaster recovery), provision of technical infrastructure solution services	Factoring KB, a.s.	18 Jan 2016

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
IT – Separate agreement no. 12, vulnerability detection (VD), provision of technical infrastructure solution services	Factoring KB, a.s.	28 Aug 2017
Service contract – information security services	Factoring KB, a.s.	27 Oct 2015
Co-operation agreement no. 0000020447/0000 + 2 amendments (Framework agreement)	Factoring KB, a.s.	31 Dec 2012
Service agreement: eDoceo	Factoring KB, a.s.	1 Apr 2018
Service level agreement – Co-operation in the area of reporting and accounting	Factoring KB, a.s.	26 Nov 2014
Contract for the provision of supplementary service – Profi Merlin – PO (1)	Factoring KB, a.s.	8 Jan 2016
Sublease of land	Factoring KB, a.s.	26 Apr 2018
Lease of non-residential premises and payment of relating services	Factoring KB, a.s.	1 Apr 2017
Lease of non-residential premises, movable assets and payment of relating services + 1 amendment	Factoring KB, a.s.	18 Jun 2008 19 Dec 2011
Lease of non-residential premises and payment of relating services	Factoring KB, a.s.	30 Sep 2015
Lease of non-residential premises, movable assets and payment of relating services	Factoring KB, a.s.	14 Dec 2017
Lease of non-residential premises, movable assets and payment of relating services + 4 amendments	Factoring KB, a.s.	30 Aug 2012 30 Dec 2014 4 May 2017 21 Feb 2017 28 Dec 2017 26 Mar 2018
Sublease agreement for parking places, building no. 2772 + 2 amendments	Factoring KB, a.s.	28 Aug 2012 21 Feb 2017 28 Dec 2017
Sublease agreement for parking places	Factoring KB, a.s.	23 Mar 2015
Sublease agreement for parking places – outside parking + 2 amendments	Factoring KB, a.s.	1 Jan 2013 21 Feb 2017 28 Dec 2017
License agreement – LOGO + 1 amendment	Factoring KB, a.s.	20 Dec 2004 29 Jan 2015
Contract for the payment of insurance premium and of insurance broker's commission	Factoring KB, a.s.	20 Mar 2018
Agreement for co-operation in performance of contract for employee group risk insurance no. 3280000000, in the wording of Amendment no. 1	Factoring KB, a.s.	24 Aug 2012
Agreement for co-operation in performance of group insurance agreement for work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka and Société Générale no. 334000000	Factoring KB, a.s.	26 Sep 2016
Mutual co-operation agreement + 1 amendment – Provision of banking services to employees	Factoring KB, a.s.	1 Aug 2007 1 Jul 2010
Agreement – Outsourcing of HR services (excluding payroll) KB Agr. no. 20596/0000 + 2 amendments	Factoring KB, a.s.	1 Jan 2013 1 Oct 2013 31 Mar 2016
Service contract – Outsourcing (HR services) + 1 amendment	Factoring KB, a.s.	4 Jan 2010 1 Apr 2016
Co-operation agreement – jobs (vacancies staffing)	Factoring KB, a.s.	28 Apr 2010
Distribution agreement + 1 amendment	Factoring KB, a.s.	1 Dec 2008 10 Jan 2013
Framework agreement – personal data processing	Factoring KB, a.s.	1 Dec 2008
Confidentiality agreement	Factoring KB, a.s.	9 Aug 2010
Rules for co-operation between KB and members of the Group in the field of sourcing and purchasing	Factoring KB, a.s.	4 Oct 2010
Agreement on the organisation of periodic control (internal audit services) + 1 amendment	Factoring KB, a.s.	5 May 2011
Service contract – access to C4M – amendment (1)	Factoring KB, a.s.	24 May 2011 29 May 2012
Service contract – Safety at work, environment protection, fire protection + 1 amendment	Factoring KB, a.s.	30 Jan 2015 22 Dec 2017
Agreement – DPO services outsourcing	Factoring KB, a.s.	26 Apr2018
Co-operation agreement	Komerční pojišťovna, a.s.	27 Dec 2000

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Service contract – short-term bonds market	Komerční pojišťovna, a.s.	23 Oct 2001
Contract for individual group risk insurance, including 8 amendments	Komerční pojišťovna, a.s.	9 Jan 2003
Framework cooperation agreement – Spektrum insurance programme no. 3010000235 including 4 amendments	Komerční pojišťovna, a.s.	28 Jan 2003
Lease of non-residential premises – Jihlava, including 8 amendments	Komerční pojišťovna, a.s.	31 Jan 2003
PATRON collective insurance contract including 1 amendment	Komerční pojišťovna, a.s.	25 Aug 2003
Contract for collective insurance of credit cards of Komerční banka, a.s., no. 3040000000, including 3 amendments	Komerční pojišťovna, a.s.	1 Nov 2004
License agreement + 1 amendment	Komerční pojišťovna, a.s.	20 Dec 2004
Lease of non-residential premises – Brno	Komerční pojišťovna, a.s.	31 May 2005
Co-operation agreement	Komerční pojišťovna, a.s.	22 Sep 2005
Framework agreement for personal data processing between KB and KP	Komerční pojišťovna, a.s.	24 Mar 2006
Contract to arrange “PATRON”	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange “PROFI PATRON”	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange “RISK LIFE FOR MORTGAGE LOANS” including 4 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange “PROFI MERLIN” including 2 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange “MERLIN” including 2 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange “VITAL AND VITAL PLUS PROGRAM”, including 2 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange “VITAL GRANT”, including 2 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Contract to arrange “VITAL”, including 5 amendments	Komerční pojišťovna, a.s.	25 Apr 2006
Payment co-operation agreement	Komerční pojišťovna, a.s.	29 May 2006
Contract to arrange “TRAVEL INSURANCE” including 3 amendments	Komerční pojišťovna, a.s.	14 Jun 2006
Contract to provide direct banking with Client’s identification number	Komerční pojišťovna, a.s.	31 Aug 2006
Contract to arrange sale of VITAL INVEST, including 35 amendments	Komerční pojišťovna, a.s.	4 Oct 2006
TVIS/STVIS and spot transactions contract	Komerční pojišťovna, a.s.	7 Dec 2006
Contract to arrange the sale of “VITAL PREMIUM”, including 8 amendments	Komerční pojišťovna, a.s.	18 Dec 2006
Contract for acceptance of payment cards – internet, including 1 amendment	Komerční pojišťovna, a.s.	29 Mar 2007
Agreement for the provision of a chip card reader	Komerční pojišťovna, a.s.	2 Apr 2007
Agreement to send electronic notifications of clearing	Komerční pojišťovna, a.s.	5 Jun 2007
Framework distribution contract, including 1 amendment	Komerční pojišťovna, a.s.	22 Jun 2007
Lease of non-residential premises, movable assets and payment of relating services – Ostrava, including 2 amendments	Komerční pojišťovna, a.s.	1 Jul 2007
Contract for the collective insurance of consumer loans no. 3010000000, including 6 amendments	Komerční pojišťovna, a.s.	1 Aug 2007
Mutual co-operation agreement, including 1 amendment	Komerční pojišťovna, a.s.	1 Aug 2007
Contract for collective insurance of credit cards of Komerční banka, a.s., no. 3040000000, including 3 amendments	Komerční pojišťovna, a.s.	1 Nov 2007
Agreement to terminate the contract for connection to KB’s voice information system	Komerční pojišťovna, a.s.	10 Apr 2008
Fees clearing agreement	Komerční pojišťovna, a.s.	1 Oct 2008
Contract of group co-operation in VAT registration, including 2 amendments	Komerční pojišťovna, a.s.	21 Nov 2008 9 Sep 2014
Contract for collective insurance of payment cards no. 2149500001, including 10 amendments	Komerční pojišťovna, a.s.	26 Jan 2009
Contract to arrange “VITAL PLUS”, including 4 amendments	Komerční pojišťovna, a.s.	14 Apr 2009
Contract for collective insurance of loans no. 3140000000, including 2 amendments	Komerční pojišťovna, a.s.	5 May 2009
Separate distribution agreement for product "Brouček" + 5 amendments	Komerční pojišťovna, a.s.	15 Jun 2009
Contract for collective insurance for product “MERLIN” and “PROFI MERLIN” no. 3170000000, including 8 amendments	Komerční pojišťovna, a.s.	5 Oct 2009
VITAL INVEST FORTE custody agreement including 2 amendments	Komerční pojišťovna, a.s.	6 Oct 2009
Contract for collective insurance of purchases of goods relating to KB credit cards no. 3190000000, including 1 amendment	Komerční pojišťovna, a.s.	29 Oct 2009
Agreement to co-operate in portfolio valuation	Komerční pojišťovna, a.s.	9 Dec 2009
Contract for acceptance of electronic payments made through Moje platba	Komerční pojišťovna, a.s.	14 Dec 2009
Call centre service contract	Komerční pojišťovna, a.s.	31 Dec 2009
Service contract – Outsourcing (HR services), including 1 amendment	Komerční pojišťovna, a.s.	21 Apr 2010

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Custody agreement including 2 amendments (securities management)	Komerční pojišťovna, a.s.	7 Jul 2010
Confidentiality agreement	Komerční pojišťovna, a.s.	9 Jul 2010
IT service framework agreement	Komerční pojišťovna, a.s.	14 Sep 2010
Accession to the Rules of co-operation between KB and Group members in the area of sourcing and acquisitions	Komerční pojišťovna, a.s.	15 Oct 2010
Contract for two types of collective insurance of the “A KARTA” and “LADY” credit cards of Komerční banka, a. s., no. 3230000000, including 1 amendment	Komerční pojišťovna, a.s.	1 Apr 2011
Lease of non-residential premises, movable assets and payment of relating services – Hradec Králové including 2 amendments	Komerční pojišťovna, a.s.	29 Aug 2011
Framework agreement for financial market trading	Komerční pojišťovna, a.s.	3 Oct 2011
Contract for collective insurance of “Profi pojištění plateb” no. 3250000000, including 2 amendments	Komerční pojišťovna, a.s.	7 Dec 2011
Contract for collective insurance of “Moje pojištění plateb” no. 3240000000, including 2 amendments	Komerční pojišťovna, a.s.	7 Dec 2011
Separate agreement no. 1 relating to framework IT services agreement dated 14 Sep 2010	Komerční pojišťovna, a.s.	22 Feb 2012
Separate agreement no. 2 relating to framework IT services agreement dated 14 Sep 2010 + 1 amendment	Komerční pojišťovna, a.s.	22 Feb 2012
Separate agreement no. 3 relating to framework IT services agreement dated 14 Sep 2010 + 2 amendments	Komerční pojišťovna, a.s.	22 Feb 2012
Separate agreement no. 4 relating to framework IT services agreement dated 14 Sep 2010 + 2 amendments	Komerční pojišťovna, a.s.	22 Feb 2012
Contract for employee group risk insurance no. 3280000000 + 8 amendments	Komerční pojišťovna, a.s.	29 Feb 2012
Agreement for co-operation of 29 June 2012 in performance of the contract for employee group risk insurance no. 3280000000 in the wording of amendment no. 1 of 29 June 2012	Komerční pojišťovna, a.s.	29 Feb 2012
Individual pricing agreement + 4 amendments	Komerční pojišťovna, a.s.	30 Aug 2012
Separate agreement no. 5 – provision of notification services, including 1 amendment	Komerční pojišťovna, a.s.	7 Sep 2012
Contract to arrange Vital Premium in EUR, including 2 amendments	Komerční pojišťovna, a.s.	23 Nov 2012
Framework agreement to indemnify clients	Komerční pojišťovna, a.s.	21 Jan 2013
Contract for collective insurance of corporate cards and golden corporate cards no. 3290000000	Komerční pojišťovna, a.s.	21 Jan 2013
Framework agreement for financial market trading – special provisions	Komerční pojišťovna, a.s.	11 Apr 2013
Contract for the provision of BI consulting, including 2 amendments	Komerční pojišťovna, a.s.	26 Jun 2013
Contract for optional collective insurance of consumer loans no. 3300000000	Komerční pojišťovna, a.s.	28 Aug 2013
Contract to arrange the “MOJE JISTOTA” risk life insurance, including 3 amendments	Komerční pojišťovna, a.s.	27 Sep 2013
Contract for payment card issuance and usage	Komerční pojišťovna, a.s.	1 Feb 2014
Administration order	Komerční pojišťovna, a.s.	13 Feb 2014
Minutes of the agreement not to provide a discount on administrative costs on expiration of Vital Plus contracts	Komerční pojišťovna, a.s.	7 Apr 2014
Separate agreement no. 6 – Provision of WEBEX technical infrastructure services no. 0000021303/0000	Komerční pojišťovna, a.s.	1 Aug 2014
Administration order	Komerční pojišťovna, a.s.	25 Aug 2014
Administration order	Komerční pojišťovna, a.s.	17 Oct 2014
Security interest registration order	Komerční pojišťovna, a.s.	31 Oct 2014
Framework agreement for financial market trading + 1 amendment	Komerční pojišťovna, a.s.	5 Nov 2014
Administration order	Komerční pojišťovna, a.s.	26 Nov 2014
Security interest registration order	Komerční pojišťovna, a.s.	26 Nov 2014
Administration order	Komerční pojišťovna, a.s.	12 Dec 2014
Service level agreement – Co-operation in the area of accounting and reporting	Komerční pojišťovna, a.s.	1 Jan 2015
Security interest registration order	Komerční pojišťovna, a.s.	26 Jan 2015
Securities pledge agreement	Komerční pojišťovna, a.s.	30 Jan 2015
Distribution agreement for product VITAL PREMIUM IN USD	Komerční pojišťovna, a s.	31 Mar 2015
Cash-pooling agreement	Komerční pojišťovna, a s.	23 Jun 2015
Administration order	Komerční pojišťovna, a.s.	10 Aug 2015
Agreement to provide a chip card reader	Komerční pojišťovna, a.s.	1 Oct 2015

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Administration order	Komerční pojišťovna, a.s.	1 Oct 2015
Service contract – Outsourcing – BI services, including 1 amendment	Komerční pojišťovna, a.s.	10 Dec 2015
Administration order	Komerční pojišťovna, a.s.	22 Dec 2015
Administration order	Komerční pojišťovna, a.s.	14 Apr 2016
Separate distribution agreement for product “Moje Pojištění majetku” + 1 amendment	Komerční pojišťovna, a.s.	25 Apr 2016
Contract to arrange the purchase or sale of securities, including 1 amendment	Komerční pojišťovna, a.s.	12 May 2016
Administration order	Komerční pojišťovna, a.s.	7 Jul 2016
Work-related accident and occupational disease insurance for members of the governing bodies of KB/SG Group no. 334000000, including 1 amendment	Komerční pojišťovna, a.s.	13 Jul 2016
Agreement for co-operation in performance of group insurance agreement on work-related accident and occupational disease insurance for Members of the Board of Directors and administrators of the financial group of Komerční banka and Société Générale no. 334000000	Komerční pojišťovna, a.s.	4 Aug 2016
Administration order	Komerční pojišťovna, a.s.	30 Aug 2016
Power of attorney	Komerční pojišťovna, a.s.	29 Sep 2016
Debit card agreement, including 1 amendment	Komerční pojišťovna, a.s.	16 Nov 2016
Administration order	Komerční pojišťovna, a.s.	22 Nov 2016
Agreement to pay the cost of using the IBM Websphere application Server license	Komerční pojišťovna, a.s.	1 Feb 2017
Separate agreement no. 7, provision of technical infrastructure solution services, SOC – Vulnerability Detection (VD)	Komerční pojišťovna, a.s.	1 Apr 2017
Administration order	Komerční pojišťovna, a.s.	10 May 2017
Administration order	Komerční pojišťovna, a.s.	16 Jun 2017
Administration order	Komerční pojišťovna, a.s.	20 Oct 2017
Administration order (setup and change of authorization to use direct banking services)	Komerční pojišťovna, a.s.	27 Dec 2017
Administration order (user’s authorization to use direct banking services)	Komerční pojišťovna, a.s.	15 Jan 2018
Contract for the payment of insurance premium and of insurance broker’s commission	Komerční pojišťovna, a.s.	13 Mar 2018
Administration order (personal data updates in respect of account administration)	Komerční pojišťovna, a.s.	28 Mar 2018
Contract for collective insurance Merlin Junior No. 4100000000	Komerční pojišťovna, a.s.	28 Mar 2018
Individual pricing agreement, including 1 amendment	Komerční pojišťovna, a.s.	11 Apr 2018
Agreement – outsourcing of DPO services	Komerční pojišťovna, a.s.	24 May 2018
Administration order (personal data updates in account administration orders in respect of account administration)	Komerční pojišťovna, a.s.	3 Jul 2018
Agreement for the provision of a chip card reader	Komerční pojišťovna, a.s.	31 Jul 2018
Administration order (personal data updates)	Komerční pojišťovna, a.s.	14 Aug 2018
Contract of cooperation	Komerční pojišťovna, a.s.	31 Aug 2018
Administration order	Komerční pojišťovna, a.s.	1 Oct 2018
Contract of cooperation – distribution of KP products by Komerční banka	Komerční pojišťovna, a.s.	2 Nov 2018
Administration order	Komerční pojišťovna, a.s. and Komerční pojišťovna, a.s. Slovakia	9 Feb 2012
Commitment Letter - Accumulator Note in CZK	Komerční pojišťovna, a.s. and Société Générale SA	25 Apr 2015
Adherence letter	Orange Business Czech Republic, s.r.o., Komerční pojišťovna, a.s.	3 Jul 2013
Commitment Letter - Forte 9	Société Générale S.A. and Komerční pojišťovna, a.s.	21 Jul 2011
Commitment Letter - Optimo 6Y EMTN in CZK	Société Générale S.A. and Komerční pojišťovna, a.s.	20 Sep 2011
Commitment letter (Optimo Komodity II)	Société Générale S.A. and Komerční pojišťovna, a.s.	24 Apr 2012
Commitment Letter - Certus, Certus 2 in CZK	Société Générale S.A. and Komerční pojišťovna, a.s.	14 Jan 2013
Commitment Letter - Participation note on SGI Harmonia CZK Index	Société Générale S.A. and Komerční pojišťovna, a.s.	26 Oct 2015
Commitment Letter - Certus 5 Note	Société Générale S.A. and Komerční pojišťovna, a.s.	12 Jan 2016

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Agreement relating to the financial instrument – Commitment letter Certus 8	Société Générale S.A. and Komerční pojišťovna, a.s.	3 Feb 2017
Distribution agreement, including amendments nos. 1 and 2	LIAM	15 Feb 2008 6 Oct 2009 23 Dec 2010
Contact bank agreement, including amendments nos. 1 and 2	LIAM	25 Feb 2008 6 Oct 2009 23 Dec 2010
Framework financial market trading agreement - TF	Modrá pyramida stavební spořitelna, a.s.	18 Nov 2015
ATM placement contract no. 2004/2011/9526-TF	Modrá pyramida stavební spořitelna, a.s.	3 Oct 2011
ATM placement contract no. 20076/0000-TF	Modrá pyramida stavební spořitelna, a.s.	27 Feb 2012
ATM placement contract no. 20162/0000-TF	Modrá pyramida stavební spořitelna, a.s.	2 Apr 2012
Group co-operation agreement under S. 5a of VAT Act no. 235/2004 Coll., as amended, including amendments nos. 1 and 2 - TF	Modrá pyramida stavební spořitelna, a.s.	27 Nov 2008, Amendment no. 1 of 22 Oct 2009, Amendment no. 2 of 22 Aug 2014
Service level agreement (co-operation in the area of accounting and reporting-TF)	Modrá pyramida stavební spořitelna, a.s.	10 Dec 2014 in effect since 1 Jan 2015
Cost-re-invoicing agreement (from KB to MPSS) - TF	Modrá pyramida stavební spořitelna, a.s.	for 2018
Contract for the use of KB's sales network – PO (products and customer intelligence)	Modrá pyramida stavební spořitelna, a.s.	1 Mar 2005, Amendment no. 1 of 12 Jun 2009, Amendment no. 2 of 30 Sep 2010, Amendment no. 3 of 1 Oct 2011, Amendment no. 4 of 30 Apr 2014, Amendment no. 5 of 30 Jan 2015
Framework agreement for personal data processing (KB as administrator, MPSS as processor) - PCI	Modrá pyramida stavební spořitelna, a.s.	30 May 2009
Framework agreement for personal data processing (MPSS as administrator, KB as processor) including Amendment no. 1 - PCI	Modrá pyramida stavební spořitelna, a.s.	30 May 2009, Amendment no. 1 of 12 Sep 2011
Agreement on KB call centre services including cost re-invoicing from KB to MPSS in 2014 - MARK	Modrá pyramida stavební spořitelna, a.s.	1 Jan 2010, Amendment no. 1 of 1 Sep 2016
Separate distribution agreement (Perfektní půjčka) including amendments nos.1, 2 and 3 - PCI	Modrá pyramida stavební spořitelna, a.s.	1 Apr 2011, Amendment no. 1 of 31 Jan 2013, Amendment no. 2 of 21 Jan 2014, Amendment no. 3 of 29 May 2014

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Separate distribution agreement (MůjÚčet, G2.2), including amendments nos. 1, 2, 3, 4, 5, 6, 7, 8, 9, 10 and 11 - PCI	Modrá pyramida stavební spořitelna, a.s.	1 Apr 2011, Amendment no. 1 of 27 Apr 2012, Amendment no. 2 of 31 Jan 2013, Amendment no. 3 of 29 May 2014, Amendment no. 4 of 29 May 2014, Amendment no. 5 of 21 Oct 2014, Amendment no. 6 of 10 Nov 2015, Amendment no. 7 of 30 Nov 2015, Amendment no. 8 of 15 Aug 2016 Amendment no. 9 of 30 Dec 2016 Amendment no. 10 of 22 Oct 2018 Amendment no. 11 of 22 Oct 2018
Separate distribution agreement (A karta, Lady karta, Kreditní karta VISA Elektron) including amendments nos.1, 2, 3 and 4 – PCI	Modrá pyramida stavební spořitelna, a.s.	1 Apr 2011, Amendment no. 1 of 31 Jan 2013, Amendment no. 2 of 21 Jan 2014, Amendment no. 3 of 29 May 2014 Amendment no. 4 of 10 Nov 2015
Separate distribution agreement (mortgage and pre-mortgage loans), including amendments nos. 1, 2, 3, 4 and 5 - PCI	Modrá pyramida stavební spořitelna, a.s.	9 Sep 2011, Amendment no. 1 of 19 Dec 2011, Amendment no. 2 of 31 Jan 2013, Amendment no. 3 of 10 Nov 2015 Amendment no. 4 of 1 Apr 2016 Amendment no. 5 of 12 Jan 2017; terminated as of 22 Oct 2018
Sales representation contract – housing consumer loan - PCI	Modrá pyramida stavební spořitelna, a.s.	22 Oct 2018
Agreement for co-operation in performance of Contract for employee group risk insurance no. 3280000000, in the wording of Amendment no. 1 of 29 Jun 2012 – support services team	Modrá pyramida stavební spořitelna, a.s.	10 Sep 2012
Framework agreement for the provision of better conditions to KB and SG Group employees – MPSS building savings plan holders, including amendment no. 1 – SPD (strategic distribution support)	Modrá pyramida stavební spořitelna, a.s.	1 Nov 2013 Amendment no. 1 of 10 Oct 2017 Amendment no. 2 of 18 May 2018
Distribution agreement for products “Úvěry pro bytová družstva a společenství vlastníků bytových jednotek,” including Amendment no. 1 – PCI (procurement of loans to housing co-operatives and apartment owners associations)	Modrá pyramida stavební spořitelna, a.s.	1 Nov 2013, Amendment no. 1 of 10 Nov 2015
Distribution agreement concerning the consumer loan product - PCI	Modrá pyramida stavební spořitelna, a.s.	18 Dec 2014
Confidentiality agreement relating to “HP OV SD license agreement” - IT	Modrá pyramida stavební spořitelna, a.s.	9 Feb 2009
Agreement to reimburse costs of license use (replacing the 2007 oral agreement to reimburse costs of license use), including Amendment no. 1 - IT	Modrá pyramida stavební spořitelna, a.s.	28 May 2009, Amendment no. 1 of 11 Feb 2010, validity extended orally

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Separate agreement no. 2 under IT service framework agreement of 24 Jan 2011, including Amendment no. 1 - IT	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2011, Amendment no. 1 of 22 Dec 2016
Separate agreement no. 3 under IT service framework agreement of 24 Jan 2011, including Amendments nos. 1 and 2 - IT	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2011 Amendments no. 1 and 2 of 15 Feb 2017
Separate agreement no. 4 under IT service framework agreement of 24 Jan 2011, including Amendment no. 1 - IT	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2011, Amendment no. 1 of 5 Oct 2012, Amendment no. 2 of 29 Dec 2017
Separate agreement no. 1 under IT service framework agreement of 24 Jan 2011, including Amendments no. 1 and 2 - IT	Modrá pyramida stavební spořitelna, a.s.	30 Nov 2011, Amendment no. 1 of 5 Oct 2012 Amendment no. 2 of 1 Jan 2014
Separate agreement no. 5 relating to the IT service framework agreement of 24 Jan 2011, including Amendment no. 1 - IT	Modrá pyramida stavební spořitelna, a.s.	29 Jun 2012 Amendment no. 1 of 7 May 2018
Assignment and confirmation of user rights expiration (ORACLE) - IT	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2016
Memorandum of understanding - ORACLE license transfers - IT	Modrá pyramida stavební spořitelna, a.s.	31 Oct 2016
Separate agreement no. 6 under IT service framework agreement of 24 Jan 2011 - IT	Modrá pyramida stavební spořitelna, a.s.	15 Feb 2017
Outsourcing agreement – data warehouse - IT	Modrá pyramida stavební spořitelna, a.s.	20 Dec 2017
Separate agreement no. 7 under IT service framework agreement of 24 Jan 2011 - IT	Modrá pyramida stavební spořitelna, a.s.	16 Feb 2018
Separate agreement no. 8 under IT service framework agreement of 24 Jan 2011 - IT	Modrá pyramida stavební spořitelna, a.s.	7 May 2018
Client scoring cooperation agreement – RISK	Modrá pyramida stavební spořitelna, a.s.	31 Aug 2007
Outsourcing agreement, assessment of risks associated with real estate construction for MPSS in the KB-RISK system	Modrá pyramida stavební spořitelna, a.s.	20 Dec 2011
Agreement on KB-MPSS risk management co-operation and relating SLA (8) - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on scoring calculator for MPSS - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on pre-Scoring of clients and negative information delivery - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on scoring model for HC and AO - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on delivery of inputs for real estate revaluation - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on Exchange of Fraud Lists - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on co-operation on IRBA implementation in MPSS - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on data administration and delivery for claim reporting - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
SLA – Agreement on risk services remuneration - RISK	Modrá pyramida stavební spořitelna, a.s.	31 Mar 2014
Agreement - Services PD/LGD Models for RWA calculation -RISK	Modrá pyramida stavební spořitelna, a.s.	18 Dec 2014
Contract for negative information exchange within KB/SG FG in the Czech Republic - RISK	Modrá pyramida stavební spořitelna, a.s.	19 Feb 2016
Contract for personal data protection and provision (debt collection) - RISK	Modrá pyramida stavební spořitelna, a.s.	29 Feb 2016
Memorandum of understanding – Co-operation within KB FG in mass claim assignment - RISK	Modrá pyramida stavební spořitelna, a.s.	3 Mar 2016
Framework contract for employee temporary assignment, including Amendment no. 1 - HR	Modrá pyramida stavební spořitelna, a.s.	1 Dec 2006, Amendment no. 1 of 31 Jul 2007
Mutual co-operation agreement of 31 Aug 2007 including Amendment no. 1 - HR	Modrá pyramida stavební spořitelna, a.s.	1 Aug 2007, Amendment no. 1 of 1 Jul 2010
Confidentiality agreement relating to “Outsourcing agreement (HR services)”	Modrá pyramida stavební spořitelna, a.s.	27 Apr 2010
Outsourcing agreement (HR services) including Amendment no. 1 - HR	Modrá pyramida stavební spořitelna, a.s.	30 Nov 2010 Amendment no. 1 of 20 Dec 2013
Agreement – Outsourcing of HR services (excluding Payroll) - HR	Modrá pyramida stavební spořitelna, a.s.	29 Jan 2016
Service agreement - eDoceo	Modrá pyramida stavební spořitelna, a.s.	12 Jun 2018
Confidentiality agreement – quadrilateral contract – TTS (team of the corporate secretary)	Modrá pyramida stavební spořitelna, a.s.	11 Aug 2006

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Cooperation agreement, including Amendment no. 1 - TTS	Modrá pyramida stavební spořitelna, a.s.	31 Jan 2013 Amendment no. 1 of 16 May 2015 Amendment no. 1 of 12 Jun 2018
Lease of garage parking places including Amendment no. 1 – support services team	Modrá pyramida stavební spořitelna, a.s.	31 Jan 2007 Amendment no. 1 of 30 Apr 2013
Lease of non-residential premises and payment of relating services (Uherský Brod) – support services team	Modrá pyramida stavební spořitelna, a.s.	20 Nov 2008
Confidentiality agreement relating to the "Contract of cooperation in the area of sourcing and procurement" – support services team	Modrá pyramida stavební spořitelna, a.s.	9 Jul 2010
Accession to the rules of co-operation between KB and financial group members in the area of sourcing and procurement - support services team	Modrá pyramida stavební spořitelna, a.s.	16 Sep 2010
Agreement on the organisation of periodic control, including Amendment no. 1	Modrá pyramida stavební spořitelna, a.s.	17 Dec 2010 Amendment no. 1 of 6 Dec 2012
Framework service agreement including Amendment no. 1 – support services team	Modrá pyramida stavební spořitelna, a.s.	24 Jan 2011 Amendment no. 1 of 11 Oct 2011
Agreement to enter into a sublease of non-residential premises and payment of relating services - support services team	Modrá pyramida stavební spořitelna, a.s.	1 Sep 2014
Sublease of non-residential premises and payment of relating services – support services team	Modrá pyramida stavební spořitelna, a.s.	1 Sep 2014
Lease of non-residential premises and payment of relating services (Antala Staška 2059, Prague 4), including Amendment no. 1 - support services team	Modrá pyramida stavební spořitelna, a.s.	1 Dec 2014 Amendment no. 1 of 30 Dec 2016
Lease of non-residential premises and payment of relating services (Kyjov) – support services team	Modrá pyramida stavební spořitelna, a.s.	27 Jul 2015; valid until 31 Aug 2018
Insurance contract no. 7720935797 – Property risk insurance – support services team	Modrá pyramida stavební spořitelna, a.s.	Annex no. 6 to the insurance contract valid between 1 Jan 2018 and 31 Dec 2020
Agreement for co-operation in performance of the Group Insurance Agreement on work-related accident and occupational disease insurance for Members of Board of Directors and Administrators of the Financial Group of Komerční banka/SG N *334000000 - support services team	Modrá pyramida stavební spořitelna, a.s.	27 Sep 2016 Insurance periods: 1 Jul 2017 – 30 Jun 2018, 1 Jul 2018 - 30 Jun 2019
Contract for the payment of insurance premium and of insurance broker's commission - support services team	Modrá pyramida stavební spořitelna, a.s.	11 Apr 2018 valid until 31 Dec 2020
Agreement - outsourcing of DPO services - support services team	Modrá pyramida stavební spořitelna, a.s.	23 Apr 2018
Collective co-insurance agreement for clients of VSSKB to cover death as a security for loan no.37-9861 - PCI	Modrá pyramida stavební spořitelna, a.s.	5 Dec 1995 (terminated as of 30 June 2007, effective since 1 January 2008); individual cases still settled under the contract
Operational contract to provide collective co-insurance of VSSKB clients, Česká pojišťovna, a.s., Komerční pojišťovna, a.s.- PCI	Modrá pyramida stavební spořitelna, a.s.	5 Dec 1995 (terminated as of 30 June 2007, effective since 1 January 2008); individual cases still settled under the contract

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Framework agreement of cooperation no. 3010000246 (PROGRAM SPEKTRUM) -TPS	Modrá pyramida stavební spořitelna, a.s.	9 Apr 2008
General distribution agreement, including Amendments nos. 1 and 2 – PCI	Modrá pyramida stavební spořitelna, a.s.	15 Oct 2012, Amendment no. 1 of 15 Nov 2012, Amendment no. 2 of 30 Dec 2016
Separate distribution agreement for the product "MOUDRÉ POJIŠTĚNÍ PYRAMIDA RISK LIFE INSURANCE", including Amendments nos. 1 and 2 - PCI	Modrá pyramida stavební spořitelna, a.s.	15 Oct 2012, Amendment no. 1 of 19 Dec 2012, Amendment no. 2 of 10 Jan 2017
Separate distribution agreement for the product "MOUDRÉ POJIŠTĚNÍ RISK LIFE INSURANCE", including Amendments nos. 1, 2 and 3 - PCI	Modrá pyramida stavební spořitelna, a.s.	15 Oct 2012, Amendment no. 1 of 19 Dec 2012, Amendment no. 2 of 10 Jan 2017 Amendment no. 3 of 6 Apr 2017
Agreement for the provision of better conditions to KP employees – MPSS building savings plan holders (strategic distribution support)	Modrá pyramida stavební spořitelna, a.s.	1 Nov 2013
Separate Distribution Agreement for Product "Moje Pojištění majetku" ("my property insurance"), including Amendment no. 1 -PCI	Modrá pyramida stavební spořitelna, a.s.	23 Sep 2016 Amendment no. 1 of 12 Oct 2017
Agreement on cooperation in the area of supplementary pension saving plans with a state contribution - PCI	Modrá pyramida stavební spořitelna, a.s.	6 May 2005
Sales representation contract, including Amendments nos. 1, 2 and 3 – PCI	Modrá pyramida stavební spořitelna, a.s.	4 Jan 2013, Amendment no. 1 of 27 Nov 2013, Amendment no. 2 of 1 Jan 2016, Amendment no. 3 of 2 May 2018; 2018 marketing costs re-invoicing from MPSS to KBPS
Agreement for the provision of better conditions to KP employees – MPSS building savings plan holders; Amendment no. 1 (strategic distribution support)	Modrá pyramida stavební spořitelna, a.s.	1 Nov 2013, Amendment no. 1 of 18 May 2018
Insurance premium paid on the basis of a contract made between Société Générale S.A. and Komerční banka, a.s. for MPSS-TPS	Modrá pyramida stavební spořitelna, a.s.	30 Aug 2013
Global terms of business	Newedge Group (Frankfurt branch)	31 Dec 2010
Transfer of futures accounts	Société Générale International Limited	26 Jun 2009
Clearing Agreement (Appendix 4 - FOA Clearing Module)	Société Générale International Limited	23 Apr 2015
Novation agreement	Société Générale International Limited	7 Oct 2011
Newedge EMIR reporting services agreement	Société Générale International Limited	3 Feb 2014
Agreement + Application for client + Representation letter	SG, Newedge; Eurex Clearing AG (Frankfurt)	26 Jun 2014
EORS Acceptance Letter	Société Générale (NewEdge)	2 Apr 2015
Agreement on Consultancy Services (Cash management)	OHRIDSKA BANKA AD SKOPJE	1 Jan 2016
Accession to the rules of co-operation between KB and group members in the area of sourcing and procurement	PEMA Praha, spol. s r.o.	20 Oct 2010
Agreement for co-operation in performance of the Group Insurance Agreement on work-related accident and occupational disease insurance for Members of the Board of Directors and Administrators of KB/SG Financial Group no. 333000000	PEMA Praha, spol. s r.o.	25 Mar 2015
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, PEMA Polska	14 Feb 2011 15 Feb 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, PEMA Praha	11 Mar 2011 15 Dec 2012
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, PEMA Slovakia	11 Mar 2011 30 Dec 2011
Confidentiality agreement	PEMA Praha, spol. s r.o.	20 Oct 2010

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Agreement on the organisation of periodic control, including 1 amendment	PEMA Praha, spol. s r.o.	11 Mar 2011
Mutual co-operation agreement	PEMA Praha, spol. s r.o.	3 Jan 2011
Agreement for co-operation in performance of the Group Insurance Agreement on work-related accident and occupational disease insurance for Members of the Board of Directors and Administrators of KB/SG Financial Group no. 333000000	PEMA Praha, spol. s r.o.	25 Mar 2015
Agreement for co-operation in performance of the Group Insurance Agreement on work-related accident and occupational disease insurance for Members of the Board of Directors and Administrators of KB/SG Financial Group no. 334000000	PEMA Praha, spol. s r.o.	27 Sep 2016
Agreement on the organisation of periodic control, including 1 amendment	PEMA Slovakia s r.o.	11 Mar 2011
ISDA Master Agreement (FX transactions framework agreement)	SG Bank & Trust (SGBT)	7 May 2010
License agreement + amendment no. 1	KB Penzijní společnost, a.s.	20 Dec 2004
Framework agreement for personal data processing	KB Penzijní společnost, a.s.	11 Aug 2006
Service contract (sharing data from subsidiaries) + amendments nos. 1 and 2	KB Penzijní společnost, a.s.	24 Nov 2006 28 Aug 2009 6 May 2010
Mutual co-operation agreement + Amendment no. 1	KB Penzijní společnost, a.s.	1 Aug 2007 1 Jul 2010
Agreement for co-operation within the Group under Section 5a of Act no. 235/2004 Coll., the VAT Act, + Amendments nos. 1 and 2	KB Penzijní společnost, a.s.	19 Nov 2008 22 Oct 2009 6 Aug 2014
Framework agreement to make term deposits with individual interest rates	KB Penzijní společnost, a.s.	6 May 2009
Agreement on KB Call Centre services + Amendment no. 1	KB Penzijní společnost, a.s.	31 Dec 2009 31 Dec 2013
Service contract – Outsourcing (HR services) + Amendment no. 1	KB Penzijní společnost, a.s.	4 Jan 2010 6 Dec 2016
Service contract – Outsourcing + Amendment no. 1	KB Penzijní společnost, a.s.	9 Jan 2010 11 Sep 2013
Co-operation agreement – Jobs	KB Penzijní společnost, a.s.	28 Apr 2010
Confidentiality agreement	KB Penzijní společnost, a.s.	9 Jul 2010
Rules for co-operation between KB and Group members in the area of sourcing and procurement	KB Penzijní společnost, a.s.	13 Sep 2010
IT service framework agreement + Amendment no. 1	KB Penzijní společnost, a.s.	2 Nov 2010 31 Dec 2014
Notification service contract (Contract no. 1 relating to Framework Agreement)	KB Penzijní společnost, a.s.	10 Jun 2011
Contract for the provision of technical infrastructure services – Connectivity services (Contract no. 2 relating to Framework Agreement)	KB Penzijní společnost, a.s.	20 Dec 2012
Contract for the provision of technical infrastructure services – Physical hosting of equipment (Contract no. 3 relating to Framework Agreement) + Amendment no. 1	KB Penzijní společnost, a.s.	20 Dec 2012 20 Jul 2016
Contract for the provision of technical infrastructure services – IT infrastructure hosting – VMWare (Contract no. 4 relating to Framework Agreement) + Amendments nos. 1 and 2	KB Penzijní společnost, a.s.	20 Dec 2012 10 Feb 2017 31 Dec 2017
Contract for the provision of technical infrastructure services – Voice over IP (Contract no. 5 relating to Framework Agreement)	KB Penzijní společnost, a.s.	31 Dec 2012
Contract for the provision of technical infrastructure services –Fileshare service (Contract no. 6 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services – Smartphone service (Contract no. 7 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services –EUW service (Contract no. 8 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services – service desk (Contract no. 9 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services – E-mail service (Contract no. 10 relating to Framework Agreement)	KB Penzijní společnost, a.s.	8 Aug 2013
Contract for the provision of technical infrastructure services – Platform hosting (Contract no. 11 relating to Framework Agreement)	KB Penzijní společnost, a.s.	17 Jun 2014
Contract for the provision of technical infrastructure services – identity and access (Contract no. 13 relating to Framework Agreement)	KB Penzijní společnost, a.s.	31 Jan 2014
Contract for the provision of technical infrastructure services and user accounts – Small application operation (Contract no. 14 relating to Framework Agreement)	KB Penzijní společnost, a.s.	16 Feb 2017

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Contract for the provision of technical infrastructure services – HW rental (Contract no. 15 relating to Framework Agreement)	KB Penzijní společnost, a.s.	20 Jul 2016
Contract for the provision of technical infrastructure services – KBPS application development (Contract no. 16 relating to Framework Agreement)	KB Penzijní společnost, a.s.	4 Mar 2015
Contract for the provision of technical infrastructure services – Application Support (Contract no. 17 relating to Framework Agreement)	KB Penzijní společnost, a.s.	4 Mar 2015
Contract for the provision of technical infrastructure services – Notification service (Contract no. 18 relating to Framework Agreement)	KB Penzijní společnost, a.s.	3 Oct 2016
Agreement on the organisation of periodic control + Amendment no. 1	KB Penzijní společnost, a.s.	21 Jan 2011 30 Dec 2011
Compliance service agreement	KB Penzijní společnost, a.s.	1 Dec 2011
Co-operation agreement + Amendments nos. 1 and 2	KB Penzijní společnost, a.s.	10 Aug 2012 30 Mar 2015 23 May 2018
Lease of non-residential premises, movable assets and payment of relating services + Amendments no. 1, 2, 3, 4 and 5	KB Penzijní společnost, a.s.	10 Aug 2012 26 Jun 2014 21 Feb 2017 4 May 2017 28 Dec 2017 26 Mar 2018
Sublease agreement + Amendments no. 1, 2, 3, 4	KB Penzijní společnost, a.s.	10 Aug 2012 30 May 2014 8 Jan 2016 21 Feb 2017 21 Dec 2017
Agreement for co-operation in performance of contract for employee group risk insurance	KB Penzijní společnost, a.s.	22 Aug 2012
Agreement – Outsourcing of services (documentation processing)	KB Penzijní společnost, a.s.	25 Sep 2012
Distribution agreement for products “Pension Saving Plan – Pillar II” and “Supplementary Pension Saving Plan with a State Contribution – Pillar III” + Amendments nos. 1 and 2	KB Penzijní společnost, a.s.	21 Dec 2012 4 Sep 2013 20 Jan 2016
Agreement – Outsourcing of HR services (excluding payroll) + Amendment no. 1	KB Penzijní společnost, a.s.	1 Jan 2013 31 Mar 2016
Framework agreement to make term deposits with individual interest rates	KB Penzijní společnost, a.s.	20 Mar 2013
Framework agreement for financial market trading	KB Penzijní společnost, a.s.	22 Mar 2013
Agreement – Outsourcing of services: operational risks + Amendment no. 1	KB Penzijní společnost, a.s.	25 Mar 2013 27 Mar 2015
Service agreement + Amendments no. 1 and 2	KB Penzijní společnost, a.s.	21 May 2013 2 Jun 2014 21 Dec 2017
Confidentiality agreement	KB Penzijní společnost, a.s.	12 Aug 2013
Contract for issue of payment place mandate	KB Penzijní společnost, a.s.	1 Oct 2013
Contract for personal data processing (in connection with contract for issue of payment place mandate)	KB Penzijní společnost, a.s.	1 Oct 2013
Service contract – Outsourcing – BI services	KB Penzijní společnost, a.s.	1 Nov 2013
Agreement to enter into Framework insurance agreement	KB Penzijní společnost, a.s.	11 Feb 2014
Framework agreement for the rental of employee-driven motor vehicles	KB Penzijní společnost, a.s.	22 Sep 2014
Framework agreement for financial market trading + Amendment no. 1	KB Penzijní společnost, a.s.	30 Oct 2014 23 Jun 2015
2 x Backup site provision agreement	KB Penzijní společnost, a.s.	10 Nov 2014
Service level agreement	KB Penzijní společnost, a.s.	24 Nov 2014
Contract of mandate – Supplier contract administration + Amendment no. 1	KB Penzijní společnost, a.s.	31 Dec 2014 6 Apr 2016
Agreement for work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka / Société Générale N°333000000	KB Penzijní společnost, a.s.	23 Mar 2015
Parking place sublease agreement + Amendment no. 1	KB Penzijní společnost, a.s.	31 Mar 2015 7 Mar 2017

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Service agreement – OHS, environmental protection and fire protection + Amendment no. 1	KB Penzijní společnost, a.s.	28 May 2015 21 Dec 2017
Purchase agreement	KB Penzijní společnost, a.s.	7 Mar 2016
Contract for the payment of insurance premium and of insurance broker's commission	KB Penzijní společnost, a.s.	17 Jun 2016
Agreement for co-operation in performance of group insurance agreement for work-related accident and occupational disease insurance for Members of Board of Directors and administrators of the financial group of Komerční banka / Société Générale N°334000000	KB Penzijní společnost, a.s.	12 Sep 2016
Service contract – information security services	KB Penzijní společnost, a.s.	16 Sep 2016
Framework agreement to provide electronic communication mobile services	KB Penzijní společnost, a.s.	28 Dec 2017
Contract for the payment of insurance premium and of insurance broker's commission	KB Penzijní společnost, a.s.	21 Mar 2018
Parking place sublease agreement no. 20391 – rent adjustment	KB Penzijní společnost, a.s.	22 Mar 2018
Parking place sublease agreement no. 21866 – rent adjustment	KB Penzijní společnost, a.s.	26 Mar 2018
Sublease	KB Penzijní společnost, a.s.	27 Mar 2018
Service agreement - eDoceo	KB Penzijní společnost, a.s.	31 Mar 2018
Framework agreement to make term deposits with individual interest rates	KB Penzijní společnost, a.s.	24 Apr 2018
Agreement - outsourcing of DPO services	KB Penzijní společnost, a.s.	26 Apr 2018
Agreement on Provision of Research	KB Penzijní společnost, a.s.	4 Jun 2018
Framework agreement for financial market trading	KB Penzijní společnost, a.s.	6 Jun 2018
Purchase contract – movable assets	KB Penzijní společnost, a.s.	20 Jun 2018
Securities pledge agreement reg. no. 10000696516	KB Penzijní společnost, a.s.	21 Aug 2018
Securities pledge agreement reg. no. 10000705120	KB Penzijní společnost, a.s.	9 Nov 2018
Service agreement – outsourcing (accounting services)	KB Penzijní společnost, a.s.	31 Dec 2018
Real estate lease agreement + 7 amendments	KB Real Estate, s.r.o.	4 Jun 2012 26 Sep 2012 4 Sep 2013 14 Dec 2013 31 Dec 2014 31 Dec 2015, 31 Dec 2016 31 Dec 2017
Service contract – Outsourcing (accounting services)	KB Real Estate, s.r.o.	1 Apr 2015
Service contract – Outsourcing (support services)	KB Real Estate, s.r.o.	3 Nov 2015
Contract on the payment of insurance premiums and payment of insurance premiums broker	KB Real Estate, s.r.o.	12 Apr 2018
Contract for cooperation in connection with the use of real estate + 1 addendum	KB Real Estate, s.r.o.	1 Sep 2012. 31 Oct 2018
Agreement on opening and maintaining correspondent account of non-resident-credit institution in the currency of the Russian Federation + Amendments	Rosbank	15 Jun 2011 1 Nov 2011
ISDA Master Agreement (framework agreement to make FX transactions)	SG Bank & Trust (SGBT)	7 May 2010
Sub-Custody & Brokerage Service Agreement	SG Bank & Trust (SGBT)	1 Apr 2011
Agreement on Consultancy Services (Cash Management)	SG Banka Srbija	2 Dec 2016
Lease of non-residential premises and payment of relating services + 6 amendments	SG Equipment Finance Czech Republic s.r.o.	1 Nov 2012
Framework agreement for the rental of employee-driven motor vehicles	SG Equipment Finance Czech Republic s.r.o.	17 May 2016
Lease of non-residential premises and payment of relating services + 1 amendment – Ostrava	SG Equipment Finance Czech Republic s.r.o.	1 Dec 2014
Lease of non-residential premises, movable assets and payment of relating services + 5 amendments – Prague	SG Equipment Finance Czech Republic s.r.o.	21 Oct 2013
Lease of non-residential premises and payment of relating services + 1 amendment – Pilsen	SG Equipment Finance Czech Republic s.r.o.	30 Sep 2015
Lease of non-residential premises, movable assets and payment of relating services + 1 amendment – Ústí nad Labem	SG Equipment Finance Czech Republic s.r.o.	28 Jan 2016
Lease of non-residential premises and payment of relating services + 1 amendment – České Budějovice	SG Equipment Finance Czech Republic s.r.o.	27 May 2011
Sublease agreements for parking places + 2 amendments – Prague	SG Equipment Finance Czech Republic s.r.o.	30 Oct 2013

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Lease of non-residential premises and payment of relating services + 6 amendments – Bratislava	SG Equipment Finance Czech Republic s.r.o.	30 Oct 2012
Framework agreement for the rental of employee-driven motor vehicles	SG Equipment Finance Czech Republic s.r.o.	21 Oct 2014
Individual pricing agreement	SG Equipment Finance Czech Republic s.r.o.	15 Dec 2006
Individual pricing agreement	SG Equipment Finance Czech Republic s.r.o.	27 Jun 2014
Framework agreement to provide financial services (7181080BE0000) + 11 amendments	SG Equipment Finance Czech Republic s.r.o.	20 Dec 2010
Framework service agreement + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	14 Dec 2010
Framework agreement to provide financial services (RAS) reg. no. 9900022630000 + 4 amendments	SG Equipment Finance Czech Republic s.r.o.	29 Sep 2014
Framework agreement to provide financial services (11/12/BA) + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	6 Aug 2012
Separate agreement no. 1 – Provision of technical infrastructure services, connectivity services	SG Equipment Finance Czech Republic s.r.o.	1 Jun 2012
Separate agreement no. 2 – Provision of technical infrastructure services, physical hosting of equipment	SG Equipment Finance Czech Republic s.r.o.	1 Jun 2012
Separate agreement no. 3 – Provision of technical infrastructure services, IT infrastructure hosting (VMWare) + 2 amendments	SG Equipment Finance Czech Republic s.r.o.	1 Jun 2012
Co-operation agreement – Jobs	SG Equipment Finance Czech Republic s.r.o.	14 Apr 2010
Service contract – Access to C4M	SG Equipment Finance Czech Republic s.r.o.	12 Oct 2011
Agreement on reimbursement of cost	SG Equipment Finance Czech Republic s.r.o.	13 Dec 2013
Service level agreement	SG Equipment Finance Czech Republic s.r.o.	1 Sep 2014
Service agreement + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	30 Oct 2013
Service agreement – Outsourcing (HR services)	SG Equipment Finance Czech Republic s.r.o.	15 Jun 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Equipment Finance Czech Republic s.r.o. + Société Générale	26 Jan 2011
Framework agreement to issue depository notes	SG Equipment Finance Czech Republic s.r.o.	28 Jun 2010
Framework agreement for financial market trading	SG Equipment Finance Czech Republic s.r.o.	12 May 2011
Contract to provide direct banking	SG Equipment Finance Czech Republic s.r.o.	25 Aug 2011
Mutual co-operation agreement	SG Equipment Finance Czech Republic s.r.o.	1 Aug 2007
Agreement on KB Call Centre services	SG Equipment Finance Czech Republic s.r.o.	31 Dec 2009
Personal data processing framework agreement between KB and SGEF	SG Equipment Finance Czech Republic s.r.o.	1 Dec 2010
Co-operation agreement	SG Equipment Finance Czech Republic s.r.o.	30 Jun 2010
Rules of co-operation between KB and Group members in the area of sourcing and procurement	SG Equipment Finance Czech Republic s.r.o.	20 Sep 2010
Agreement for co-operation in performance of the contract for employee group risk insurance	SG Equipment Finance Czech Republic s.r.o.	20 Aug 2012
Confidentiality agreement	SG Equipment Finance Czech Republic s.r.o.	1 Dec 2010
Confidentiality agreement	SG Equipment Finance Czech Republic s.r.o.	9 Jul 2010
Agreement on framework insurance contract no. 7720802024 + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	10 Feb 2014
Data processing and service agreement	SG Equipment Finance Czech Republic s.r.o.	18 Feb 2010
Lease of land + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	19 Mar 2015
Sublease of parking places + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	30 Dec 2014
Framework agreement for the provision of financial services 06/15/BA	SG Equipment Finance Czech Republic s.r.o.	21 Apr 2015
Commercial Framework Agreement	SG Equipment Finance Czech Republic s.r.o., ECS Int. CZ s.r.o.	21 Dec 2005
Cooperation agreement + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	1 Sep 2016
Service contract – Safety at work, environment protection, fire protection + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	23 Feb 2016
Letter of Guarantee no. 06/16/BA	SG Equipment Finance Czech Republic s.r.o.	1 Apr 2016
Contract for the payment of insurance premium and of insurance broker's commission	SG Equipment Finance Czech Republic s.r.o.	14 Jun 2016
Agreement - outsourcing of HR services (excluding payroll)	SG Equipment Finance Czech Republic s.r.o.	1 Sep 2016
Database usage license agreement	SG Equipment Finance Czech Republic s.r.o.	29 Jun 2016
Service agreement - BI services + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	30 Jun 2016
Contract for exchange of negative client information within KB/SG Financial Group in the Czech Republic	SG Equipment Finance Czech Republic s.r.o.	30 Jan 2017

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Separate agreement no. 6 - provision of technical infrastructure solution services – e-mail + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	23 Mar 2017
Separate agreement no. 4 - provision of technical infrastructure solution services – VoIP	SG Equipment Finance Czech Republic s.r.o.	23 Mar 2017
Separate agreement no. 7 - provision of technical infrastructure solution services – Fileshare + 1 amendment	SG Equipment Finance Czech Republic s.r.o.	21 Jun 2017
Letter of Guarantee No. 43/16/BA	SG Equipment Finance Czech Republic s.r.o.	15 Dec 2016
Letter of Guarantee No. 44/16/BA	SG Equipment Finance Czech Republic s.r.o.	15 Dec 2016
Letter of Guarantee No. 13/17/BA	SG Equipment Finance Czech Republic s.r.o.	1 Jul 2017
Framework agreement for the rental of employee-driven motor vehicles - Bratislava	SG Equipment Finance Czech Republic s.r.o.	17 May 2016
Framework agreement to lease a vehicle	SG Equipment Finance Czech Republic s.r.o.	20 Dec 2017
Separate agreement no. 11 - provision of technical infrastructure solution services - Identity and Access	SG Equipment Finance Czech Republic s.r.o.	19 Feb 2018
Contract for the payment of insurance premium and of insurance broker's commission	SG Equipment Finance Czech Republic s.r.o.	28 Mar 2018
Separate agreement no. 8 - provision of technical infrastructure solution services – Service desk	SG Equipment Finance Czech Republic s.r.o.	20 Feb 2018
Separate agreement no. 9 - provision of technical infrastructure solution services - End User support	SG Equipment Finance Czech Republic s.r.o.	01 Jan 2018
Separate agreement no. 10 - provision of technical infrastructure solution services - Platform hosting	SG Equipment Finance Czech Republic s.r.o.	26 Feb 2018
Agreement - outsourcing of DPO services	SG Equipment Finance Czech Republic s.r.o.	01 May 2018
Separate agreement no. 5 - provision of technical infrastructure solution services – lease of HW	SG Equipment Finance Czech Republic s.r.o.	19 Feb 2018
Agreement on Consultancy Services (Cash Management)	SG Expressbank AD	5 Dec 2016
Terms for Business for Treasury Equities, Derivatives and Fixed Income Products	SG London	4 Oct 2007
Appointment of process agent for Komerční banka, a.s.	SG London	6 May 2011
Appointment of process agent for Komerční banka, a.s.	SG London	14 Sep 2011
Appointment of process agent for Komerční banka, a.s.	SG London	23 Jan 2013
Custody contract	SG Montenegro	2 Dec 2014
Agreement on consultancy services (Cash Management)	SG Montenegro	2 Dec 2016
Appointment of process agent for Komerční banka a.s., including an amendment	SG New York	12 Jan 2004
USD clearing services agreement for Komerční banka, including an amendment	SG New York	24 Aug 2015
SOGE USD-Clearing Services Agreement	SG New York	5 Sep 2006
Service Level Agreement	SG New York	16 Sep 2003
Amendment to Service Level Agreement	SG New York	15 Sep 2017
6x Sending reports to SG Economic, Equity and Strategy Research	SG Paris	2002
Analytical coverage of the Czech Republic for the needs of SG Research	SG Paris	2002
Exchange of opinions on the macroeconomic situation	SG Paris	2002
Exchange of opinions on economic development with SG analysts	SG Paris	2002
Exchange of opinions on financial markets development	SG Paris	2002
Revisions of texts written in English	SG Paris	2012
Inserting KB's analytical reports, economic and strategic analyses in SG's database of analyses	SG Paris	2002
ISDA master agreement (intermediation of transactions with all types of derivatives on the interbank market)	SG Paris	23 Nov 1998
Master Cooperation Agreement SG on Transfer Pricing with SG PRIV Entities/ Branches and SG Group Entities and Branches, relative to the service offering of Equity Research	SG Paris	9 Nov 2012
Amendment to the ISDA Master Agreement dated as of 23 November 1998	SG Paris	19 Apr 2017
Credit Support Annex to the ISDA Master Agreement dated as of 23 November 1998	SG Paris	19 Apr 2017
TBMA/ISMA Global master Repurchase Agreement (framework agreement to close repo and buy-sell-back deals)	SG Paris	4 Nov 2003
Contract on the provision of services relating to securities (custody contract)	SG Paris	19 Jul 2004
General terms and conditions for use of e-confirmation	SG Paris	10 Feb 2005
Sub-custodian service agreement	SG Paris	16 Sep 2005

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Sub-custodian service agreement	SG Paris	12 Dec 2005
Agreement relating to the intermediation in the sale of market products linked to investment banking activity in the Czech Republic	SG Paris	22 Dec 2006
Agreement relating to the use of the Glass Custody Tool	SG Paris	8 Mar 2007
Custodian services agreement	SG Paris	8 Mar 2007
ISDA master agreement (emission allowances)	SG Paris	23 Nov 2007
Co-operation agreement (framework conditions of co-operation in the area of internal audit)	SG Paris	31 Mar 2008
Service level agreement on credit RWA calculation + Amendment no. 1	SG Paris	20 Jul 2008 18 Dec 2013
Credit support annex (financial collateral transactions)	SG Paris	27 Oct 2009
Custody contract	SG Paris	19 Feb 2010
Intra-group corporate services fees agreement	SG Paris	11 Jun 2010
Intra-group IT services fees agreement	SG Paris	11 Jun 2010
Bilateral agreement on rate reset and payment notices produced by the ISDA Operations Committee	SG Paris	6 Oct 2010
SOGE Deposit Account Agreement	SG Paris	2 Apr 2009
SOGE Swiftnet Network	SG Paris	10 May 2004
SOGE EURO Account Maintenance & Clearing Service Agreement	SG Paris	16 Jan 2008
EUR Account Maintenance & Clearing Service Agreement (dated 7 Nov 2005) – an update of the pricelist and commercial terms	SG Paris	10 Mar 2010 11 Aug 2010
SG Paris - Sure Pay dated 8 Feb 2006 – an update	SG Paris	22 Oct 2009
CZK Account Maintenance & Clearing Service Agreement dated 13 Jan 2006 - an update	SG Paris	10 Aug 2009
Contingency agreement	SG Paris	17 Oct 2008
Cash letter service agreement	SG Paris	11 Aug 2008
Service Level Agreement	SG Paris	3 Apr 2008
SG Paris - Pay Away	SG Paris	10 Feb 2006
SG Paris - Word Pay	SG Paris	14 Jun 2006
Service Agreement (SoGePass)	SG Paris	26 Apr 2006
MT101 Agreement	SG Paris	14 Feb 2003
STEP2 Service level agreement, STEP2 Indirect participant notification	SG Paris	11 Jun 2004 10 Dec 2007
FileAct SLA agreement for SEPA transfers	SG Paris	4 Mar 2008
T3C Agreement for Services Provided by the Thin Client Competency Center (Tc3) Hosted by Kb At Prague + Amendment	SG Paris	22 Dec 2010 30 Jun 2015
Amendment to Service Level Agreement (backup procedure conditions)	SG Paris	13 Mar 2013
Amendment for incoming or outgoing XML SEPA Credit Transfer and SEPA Direct Debit messages - Euro Account Maintenance & Clearing Service Agreement	SG Paris	30 Dec 2013
IT Services Agreement + 2 amendments	SG Paris	21 Dec 2015
Amendment for incoming or outgoing XML SCT (SEPA Credit Transfer) and SDD (SEPA Direct Debit) messages	SG Paris	13 Jan 2014
Master Agreement relating to Financial Instruments	SG Paris	1 Oct 2018
Convention (Purchase and SW maintenance of the EMC document licences)	SG Paris	28 Dec 2012
Transfer pricing agreement for advisory business	SG Paris	1 Jan 2013
Transfer Pricing Agreement (TPA)	SG Paris	1 Apr 2017
Service Level Agreement (SGCIB Global Applications)	SG Paris	7 Aug 2014
Consent Form (Derivatives Trade Reporting)	SG Paris	30 Sep 2015
SLA Custody	SG Paris	27 Oct 2016
Agreement relating to the use of SGSS Gallery for custody reports	SG Paris	21 Oct 2015
International Sogexpress Agreement	SG Paris	24 Jun 2016
Service Level Agreement	SG Paris	27 Oct 2016
Master Agreement - Access to the Swiftnet Network and related Services	SG Paris	14 Sep 2012
Service Level Agreement (SLA) for SWIFTNET and associated services	SG Paris	29 Mar 2017

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Client Service Agreement - Regulatory Capital Calculation and allocation of operational risk	SG Paris	25 May 2017
SLA for provision of domestic/international cash concentration Sogecash (International) Pooling by SG to SG Group Banks + 3 amendments	SG Paris	1 Jul 2009
Service Level Agreement (SLA) for GTB platform	SG Paris	28 Aug 2017
Market Activities Business-ECM Transfer pricing agreement	SG Paris	1 Apr 2017
Credit Support Annex for Variation Margin (2x)	SG Paris	4 Jul 2017
Collateral Transfer Agreement (4x)	SG Paris	4 Jul 2017
Euroclear Security Agreement (2x)	SG Paris	4 Jul 2017
Clearstream Security Agreement (2x)	SG Paris	4 Jul 2017
Framework Agreement for the Distribution of Primary Market Transactions (2x)	SG Paris	10 Apr 2017
Work Order (2x)	SG Paris	2002
Risk-participation Agreement	SG Paris	6 Nov 2017
Consultancy services related to the transformation of KB model	SG Paris	20 Nov 2017
SLA for the provision of Sogecash Intraday Sweeping by SG to KB	SG Paris	1 Jul 2015
CSA for Sogecash International SFTP	SG Paris	1 Aug 2018
Master Service Agreement IBFS.C0131	SG Paris	28 Nov 2018
Client Service Agreement IBFS.C0132	SG Paris	28 Nov 2018
Agreement - Consultancy Services	SG Paris	6 Dec 2018
Agreement for employee temporary assignment	SG Paris	1 Apr 2015
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, ALD Automotive SIA	23 May 2011 30 Nov 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, ALD Automotive UAB	17 May 2011 5 Dec 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, ALD EESTI AS	6 Jun 2011 2 Dec 2011
Agreement on the organisation of periodic control	SG Paris, Komerční pojišťovna, a.s.	24 Jun 2013
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, ALD Automotive Hungary	28 Feb 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, ALD Automotive Polska	28 Mar 2011 8 Mar 2012
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, ALD Automotive s.r.o.	19 Apr 2011 17 Dec 2012
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, PEMA Polska	14 Feb 2011 15 Feb 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, PEMA Prague	11 Mar 2011 15 Dec 2012
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, PEMA Slovakia	11 Mar 2011 30 Dec 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, SG Equipment Leasing Hungary	29 Mar 2011 30 Dec 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, SG Equipment Leasing Polska	13 Sep 2011 27 Jun 2012
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, SG Vehicle Finance Hungary Plc.	29 Mar 2011 30 Dec 2011
Agreement on the organisation of periodic control	SG Paris, SG Warszawa	30 Dec 2011
Agreement on the organisation of periodic control, including 1 amendment	SG Paris, SGEF Hungary Plc.	29 Mar 2011 30 Dec 2011
Contact Bank Agreement	SG Private Wealth Management S.A.	29 Apr 2016
Distribution Agreement	SG Private Wealth Management S.A.	29 Apr 2016
Custody contract	SG Securities Services	8 Mar 2011
Custody Account Agreement + Amendment	SG Warszawa	13 Nov 2009 29 Mar 2016
Customer Service Agreement for the provision of Sogecash Web services (SGWeb - multibank internet banking for corporate clients)	SG Paris	1 Jun 2018
Hosting Contract	SG Paris	30 Dec 2011
KB data processing (KBI task – former DI) in SoGe	SG Paris	03 Mar 2010

Title of contract (or subject matter of contract – if not clear from the title)	Contracting party	Date of contract
Local JV Agreement relating to securities activities	SG Securities Services, SG International Retail Banking	15 Mar 2012
Service level agreement E-Trading	SG Paris	01 Jun 2014
Report sending - SG Thematic Research	SG Paris	2002
Provision of Research Services	SG Paris	3 Jan 2018
Supplemental Agreement	SG Paris	22 Feb 2018
Framework Agreement for the Marketing and Placing of Primary Market Transactions	SG Paris	24 Apr 2017
Agreement on Contact Bank + 2 amendments	SGAM, SGAM Fund	23 Feb 2004 14 Mar 2005 21 Dec 2005
Brokerage Conformity Agreement (distribution agreement)	SGAM AI	10 Jul 2004
Introduction Broker Agreement (SGAM funds purchases)	SGAM AI	19 Feb 2007
EURO medium-term note master purchase agreement (securities trading)	SGAM Banque	13 Jul 2007
Novation agreement (revision of securities trading conditions)	SGAM Banque	29 Mar 2010
Custody contract	SKB Banka	28 May 2015
Custody agreement	SKB Banka	14 Sep 2016
Service level agreement	SKB Banka	30 Sep 2016
Agreement on Consultancy Services (Cash Management)	SKB Banka	1 Jan 2016
Agreement on the organisation of periodic control	SKB Banka, SG	15 Nov 2017
EORS Acceptance Letter	Société Générale (NewEdge)	02 Apr 2015
Commitment letter	Société Générale S.A.	29 Jul 2009
Commitment Letter Forte 3 (dated 30 April 2010)	Société Générale S.A.	30 Apr 2010
Commitment letter - Forte 2 (dated 12 November 2009) + 1 amendment	Société Générale S.A.	12 Nov 2009
Commitment Letter Forte 4	Société Générale S.A.	7 Sep 2010
Cross-Border RMB Agent Settlement Agreement	Société Générale (China) Limited	5 Jul 2011
Contract assignment agreement	STD2, a.s., Arcadis Czech Republic s.r.o.	1 Nov 2017
Service agreement – Outsourcing (accounting services)	STD2, a.s.	1 Nov 2017
Lease of real estate + 1 amendment	STD2, a.s.	31 Aug 2018 5 Dec 2018
Service agreement – facility management, energies, etc.	STD2, a.s.	29 Jun 2018
Contract of cooperation in connection with the use of real estate	STD2, a.s.	31 Oct 2018
Contract to provide a contribution	STD2, a.s.	4 Sep 2018
Lease of non-residential premises and payment of relating services + 6 amendments	VN 42, s.r.o.	18 Nov 2013 14 Dec 2013 22 Dec 2014 19 Feb 2015 31 Dec 2015 1 Mar 2017 17 Nov 2018
Service agreement – Outsourcing (support services) + 1 amendment	VN 42, s.r.o.	18 Nov 2013 5 Sep 2017
Service agreement – Outsourcing (accounting services)	VN 42, s.r.o.	3 Nov 2014
Contract for the usage of KB eTrading	VN 42, s.r.o.	6 Oct 2014
VAT group co-operation agreement	VN 42, s.r.o.	15 Jul 2014
Contract for the payment of insurance premium and of insurance broker's commission	VN 42, s.r.o.	12 Apr 2018
Contract for the transfer of technical improvement	VN 42, s.r.o.	26 Feb 2018

C. Assessment of advantages and disadvantages arising from the relations within the Group and assessment as to injury

Advantages and disadvantages arising from the relations within the Group

The SG Group is diversified and provides universal banking services. The entire Group takes advantage of mutual synergistic effects, including product pooling, a strong international brand and SG's know-how. KB, for example, uses SG's global network to provide Trade Finance Products while co-operating in the payments area and using SG's wide network. Thanks to the Group, it is possible for KB to use the global cash pooling network, offer transnational solutions in the cash management area and offer SG products. KB benefits from SG's global experience in the Global Finance Platform area. The advantages from KB's integration into the SG Group contribute to KB's positive financial results.

Assessment of injury

KB's Board of Directors has reviewed all arrangements between the Company and the companies that were part of the Group during the 2018 reporting period and states that KB incurred no injury as a result of any contracts, agreements or any other legal acts made or adopted by the Company or as a result of any other influence otherwise exerted by SG in the reporting period.

In Prague on 4 March 2019

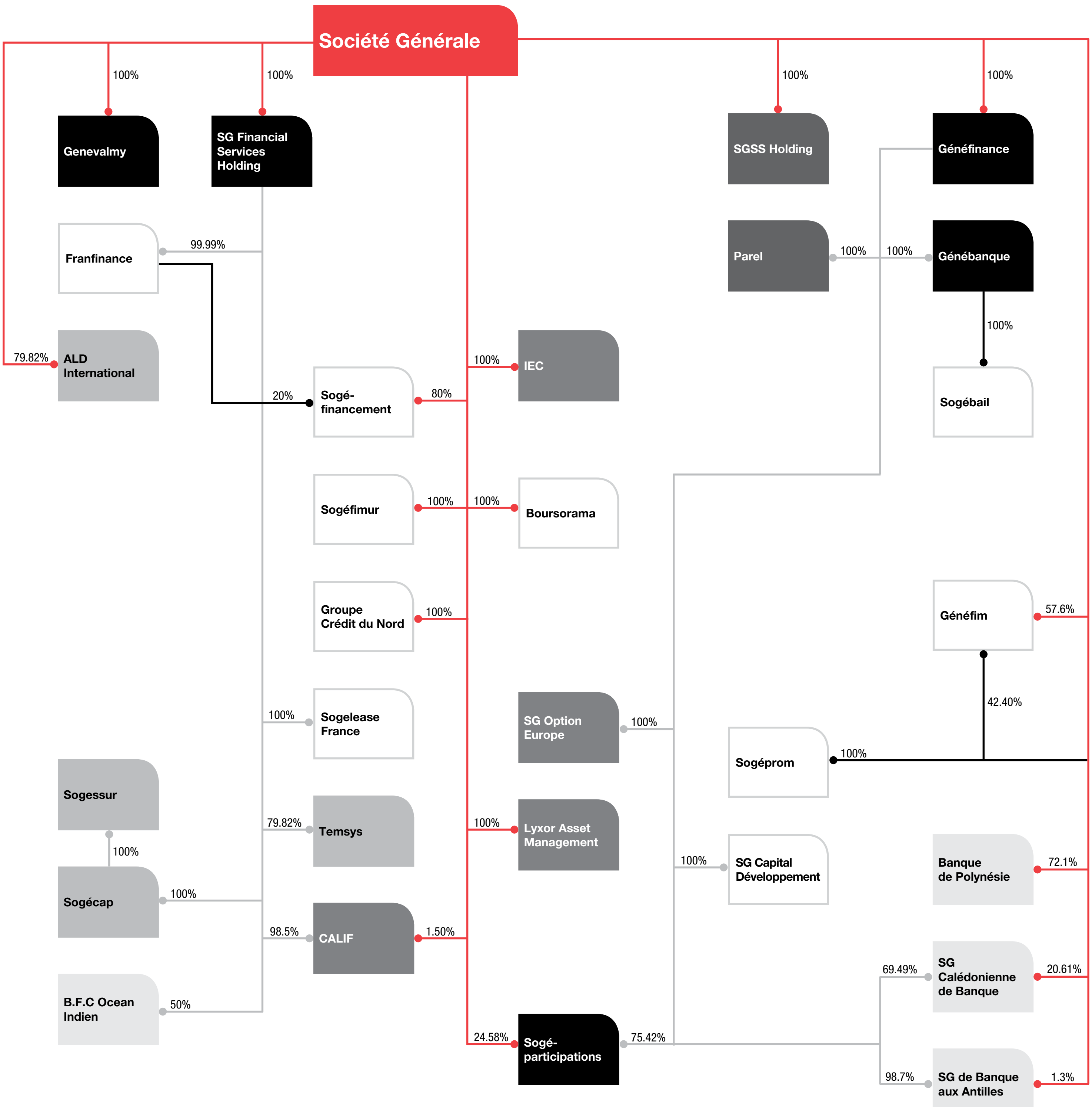
Jan Juchelka
Chairman of the Board of Directors
Komerční banka, a.s.

Vladimír Jeřábek
Member of the Board of Directors
Komerční banka, a.s.

The structure of relationships SG Group

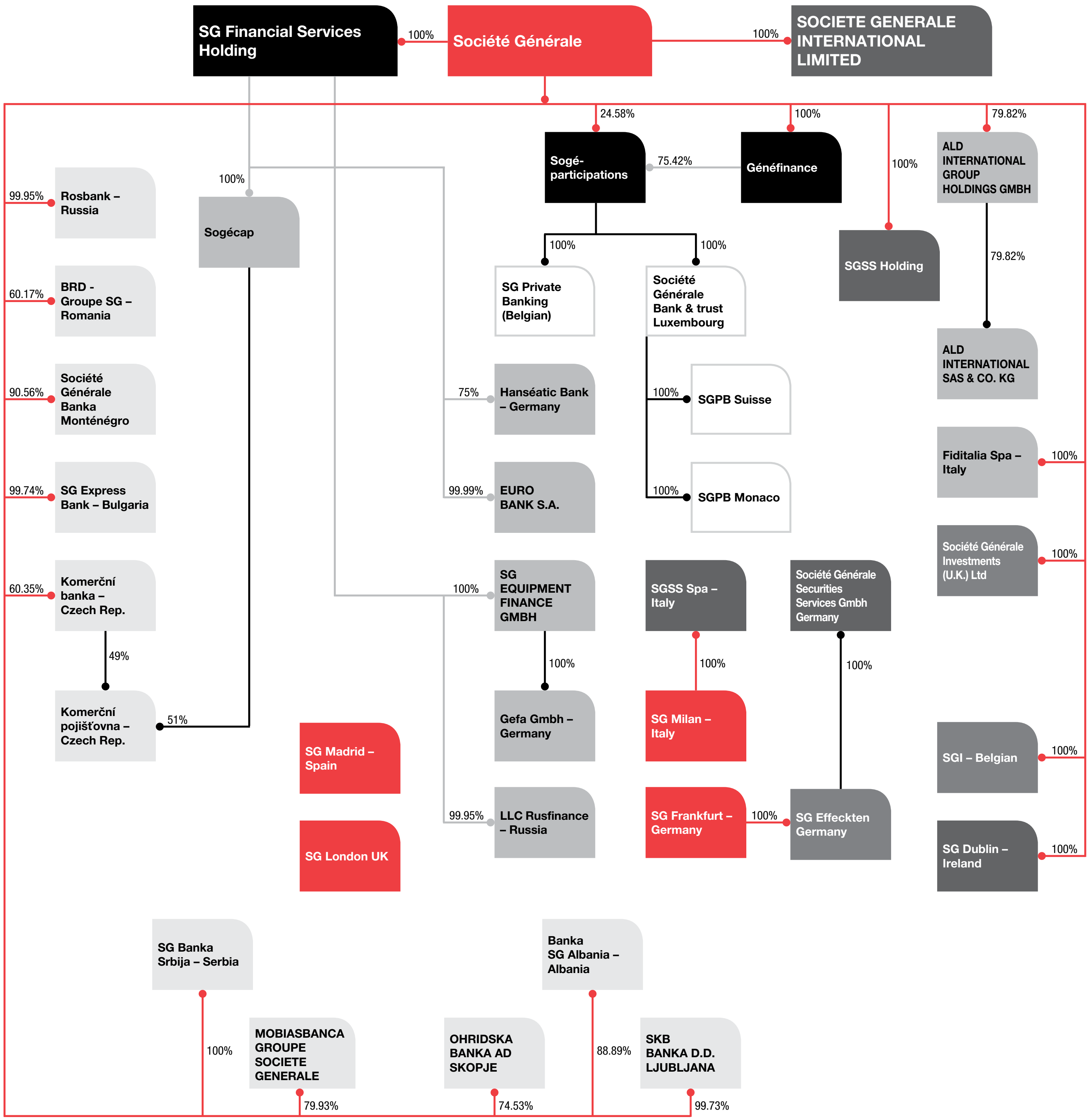
% of the share capital

FRANCE



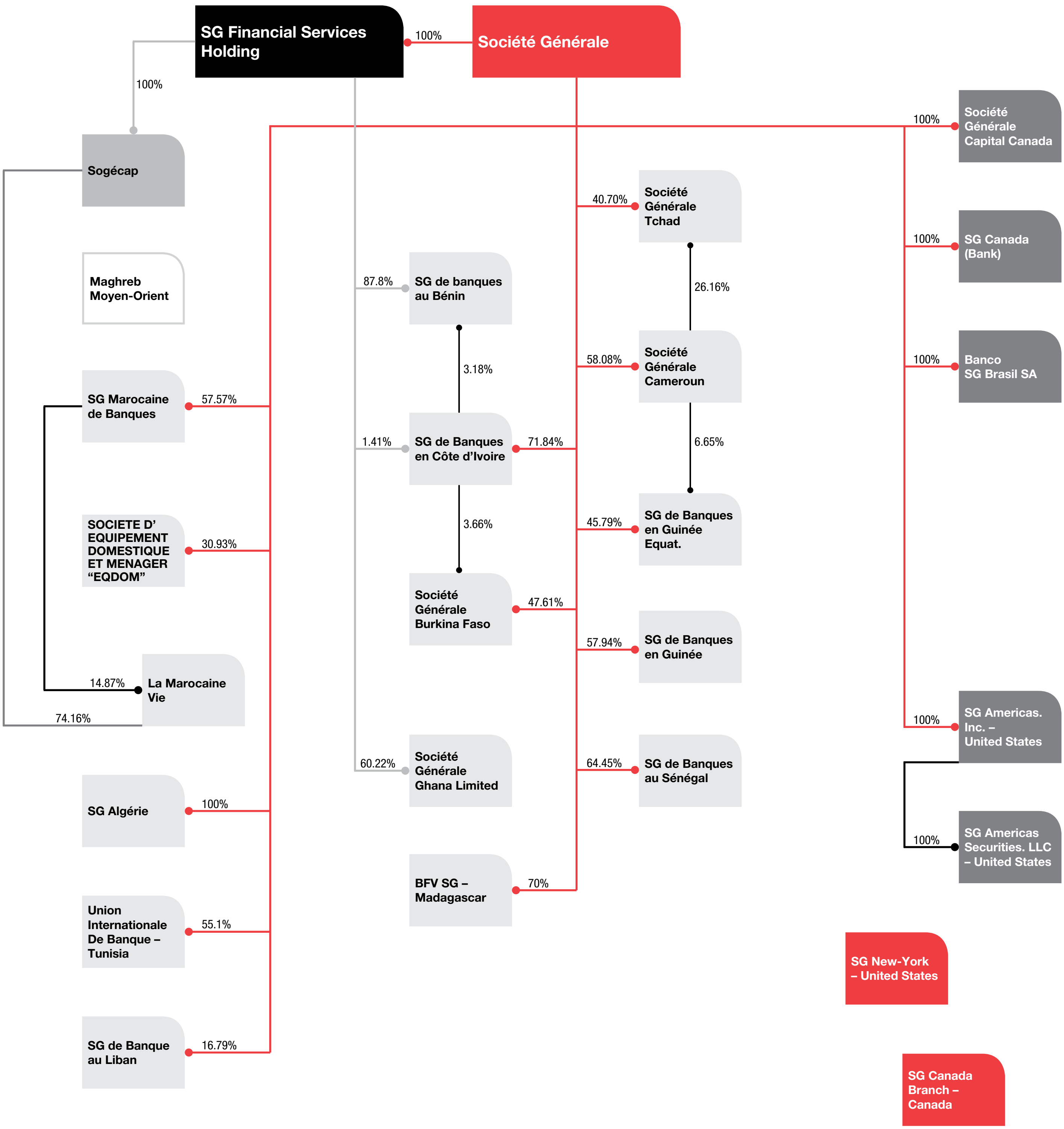
Note: Share capital and voting rights may differ.

EUROPE



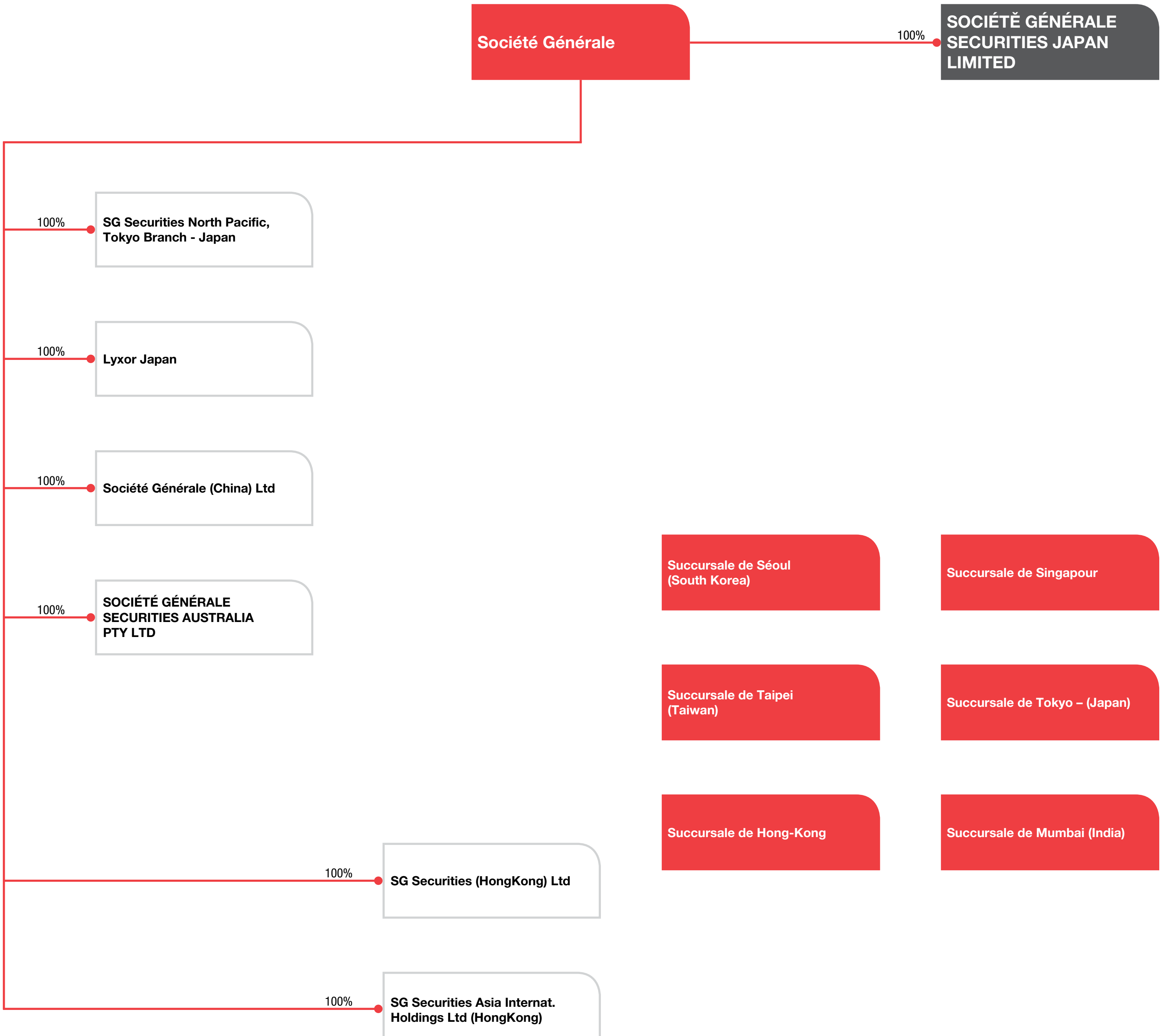
Note: Share capital and voting rights may differ.

AFRICA AND AMERICA



Note: Share capital and voting rights may differ.

ASIA AND AUSTRALIA



Note: Share capital and voting rights may differ.

Report of the Supervisory Board

Throughout 2018, the Supervisory Board carried out the tasks as defined by law and by the Articles of Association. It supervised the exercise of powers by the Board of Directors, checked the accounts and other financial documents of Komerční banka, a.s., ascertained the effectiveness of the management and control system and made its regular assessments.

Having checked the Bank's annual (separate) and consolidated financial statements for the period from 1 January 2018 to 31 December 2018, the Supervisory Board reports that the accounts and financial documents were maintained in a transparent manner and in accordance with generally binding regulations providing for banks book-keeping. The accounts and financial documents show all important aspects of the financial situation of Komerční banka, a.s., and the financial statements prepared on their basis give a true and fair view of the Bank's and Group's accounting and financial situation.

The Supervisory Board recommends that the general meeting approve the annual (separate) and consolidated financial statements and the distribution of profit for the year 2018 as proposed by the Board of Directors of the Bank.

The Supervisory Board checked the Report on Relations among Related Entities in 2018 drawn up under S. 82 et seq. of the Corporations Act, and states on the basis of the presented documents that, during the accounting period from 1 January 2018 to 31 December 2018, Komerční banka, a.s. did not suffer any harm resulting from the contracts, agreements, other legal acts made or adopted by the Bank or from any influence otherwise exerted by Société Générale.

Prague, 15 March 2019

On behalf of the Supervisory Board of Komerční banka, a.s.:

Jean-Luc Parer
Chairman

Management affidavit

To the best of our knowledge, we believe that this annual report gives a true and fair view of the Bank's and Group's financial position, business activities and results from the year 2018, as well as of the outlook for the development of the Bank's and Group's financial situation, business activities and results.

Prague, 20 March 2019

Signed on behalf of the Board of Directors:

Jan Juchelka
Chairman of the Board of Directors and Chief Executive Officer

Vladimír Jeřábek
Member of the Board of Directors

Independent Auditor's Report

to the Shareholders of Komerční banka, a.s.

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Tax ID. No.: CZ49620592

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Komerční banka a.s.

Having its registered office at: Na Příkopě 33 č.p. 969, 114 07, Prague 1

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Komerční banka, a.s. and its subsidiaries (hereinafter also the "Group") and separate financial statements of Komerční banka, a.s. (hereinafter also the "Company") prepared on the basis of International Financial Reporting Standards ("IFRS") as adopted by the EU.

The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2018, consolidated statement of income and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information (the "Consolidated Financial Statements").

The separate financial statements comprise the separate statement of financial position as at 31 December 2018, separate statement of income and separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory information (the "Separate Financial Statements").

In our opinion:

- The accompanying Consolidated Financial Statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying Separate Financial Statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Consolidated and Separate Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated and 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	Related audit procedures
Allowances for the loans and advances	
At 31 December 2018, gross loans and advances to customers & banks (hereinafter “loans”) comprised of CZK 893,395 million and CZK 834,025 million for the Group and the Company respectively against which allowances for loans to customers & banks (hereinafter “allowances”) of CZK 12,173 million and CZK 9,856 million were recorded, respectively. From 1 January 2018 the Group has adopted IFRS 9 resulting in impairment charges being recognized when losses are expected rather than when they have been incurred. Management has disclosed the information regarding the transitional effect of IFRS 9 in note 3.6.1 including the impact on shareholders Equity on 1 January 2018. The allowances are determined either (i) individually for significant credit impaired exposures (stage 3 defaulted) or (ii) using statistical models for performing loans (stage 1&2) and non significant credit impaired exposures (stage 3). The measurement of allowances for loans is deemed a key audit matter due to the level of judgement applied by Management. The most significant judgements are: • Assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer. • Timely identification of exposures with significant increase in credit risk (Stage 2) and credit impaired exposures (Stage 3). • Valuation of collateral and assumptions of future cash flows on individually assessed credit-impaired exposures. *Management provided further information about loan impairment in Note 3.5.5.11, Notes 22 and 43A to the Consolidated Financial Statements and in Note 3.5.5.11, Notes 21 and 41A to the Separate Financial Statements.*	Based on our risk assessment & industry knowledge, we examined the allowances, we evaluated the methodology applied and the assumptions used. We tested the design and operating effectiveness of selected key internal controls the management of the Bank has established over the impairment assessment and allowance recording. With the assistance of our IT specialists, we tested IT controls relating to access rights and change management of relevant IT applications. <u>Assumptions used in the expected credit loss models</u> We were assessing, in cooperation with our specialists, the model methodology, the internal validation reports and results of the back-testing for selected internal models. We assessed whether the modelling assumptions considered all relevant risks, were reasonable in light of historical experience & forward outlook, economic climate, and the circumstances of the customers as well as our own knowledge of practices used by other similar banks. On a sample basis, we evaluated the appropriateness of risk parameters used in the calculation of allowances. We have re performed the calculation of risk parameters on a sample basis and we performed analytical procedures. <u>Identification of exposures with significant increase in credit risk and credit impaired loans</u> We tested system-based and manual controls over the timely classification of the loans to relevant stage. In cooperation with our specialists, we evaluated assumptions used for staging models and we recalculated the staging on portfolio basis. We tested a sample of loans and advances (including loans that had not been classified by management as stage 3) to form our own assessment as to whether impairment events had occurred and to assess whether impairments had been identified in a timely manner. <u>Allowances for individually assessed credit impaired loans</u> We tested controls on regular assessment and approval of allowance by management. We selected a sample of loans and, where we deemed them to be impaired, tested the estimation of the future expected cash flows from customers including from realisation of collateral held. This work involved assessing the work performed by external experts used by the Group to value the collateral or to assess the estimates of future cash flows. In some cases, we used our own industry experts.

Key audit matter	Related audit procedures
Interest and fee income recognition	
For the year ended 31 December 2018 the interest income comprised of CZK 33,448 million and CZK 29,876 million for the Group and the Company respectively. Total fee and commission income for the same period comprised of CZK 7,346 million and CZK 6,305 million for the Group and the Company respectively. With the main source being customer loans and deposits these are the main contributors to the net operating income of the Company and the Group affecting the profitability. While interest income is accrued over the expected life of the financial instrument, the recognition of fee income depends on the nature of the fees as follows: • Fees that are directly attributable to the financial instrument are accrued over the expected life of such an instrument and are presented as interest income. • Fees for services provided are recognised when service is provided and are presented as fee and commission income. • Fees for the execution of an act are recognised when the act has been completed and are presented as fee and commission income. Revenue recognition specifics, a high volume of individually small transactions which depends on data quality of interest and fee inputs and on IT solutions for their recording resulted in this matter being identified as a key audit matter. *Refer to Notes 5 and 6 to the Consolidated and Separate Financial Statements for the details.*	Based on our risk assessment & industry knowledge, we evaluated the methodology applied and the assumptions used by management. We tested the design and operating effectiveness of the key internal controls and focused on: • Assessment of interest/fees recognition during new product validation; • Interest/fee inputs on customer loans and deposits, including authorisation of the changes in the interest and fee price list and authorisation of non-standard interest/fees; • Recording of fee and interest income and management oversight; and • IT controls relating to access rights and change management of relevant IT applications with the assistance of our IT specialists. We also performed the following procedures with regard to interest and fee income recognition: We evaluated the accounting treatment applied by the Bank to determine whether the methodology complies with the requirement of the relevant accounting standard. We focused our testing on verification of the correct classification of: • Fees that are identified as directly attributable to the financial instrument; • Fees that are not identified as directly attributable to the financial instrument. We evaluated the mathematical formula used for accruing the relevant income over expected life of the financial instrument. We analysed correctness of the recorded amount of interest income and fee and commission income using substantive analytical tests and monthly data analytics.

Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the Consolidated and Separate Financial Statements and auditor's report thereon. The Board of Directors is responsible for the other information.

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

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

- The other information describing the facts that are also presented in the Consolidated and Separate Financial Statements is, in all material respects, consistent with the Consolidated and Separate Financial Statements; and
- The other information is prepared in compliance with applicable law or regulation.

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

Responsibilities of the Company's Board of Directors and Supervisory Board for the Consolidated and Separate Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the Consolidated and Separate Financial Statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the Board of Directors determines is necessary to enable the preparation of Consolidated and Separate Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated and Separate Financial Statements, the Board of Directors is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group and Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated and 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 Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated and 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 Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated and Separate Financial Statements, including the disclosures, and whether the Consolidated and Separate Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors, the Supervisory Board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee 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 the Board of Directors, the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the Consolidated and 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.

Report on Report on Relations among Related Entities (the "Report on Relations")

We have reviewed the factual accuracy of the information included in the accompanying Report on Relations of Komerční banka, a.s. for the year ended 31 December 2018 which is included in this annual report on pages 314 to 340. This Report on Relations is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the Report on Relations based on our review.

We conducted our review in accordance with Auditing Standard 56 issued by the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the Report on Relations is free of material factual misstatements. A review is limited primarily to inquiries of the Company's personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the Report on Relations and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the Report on Relations of Komerční banka, a.s. for the year ended 31 December 2018 contains material factual misstatements.

The Company has decided not to disclose amounts under related party contracts citing business secrecy restrictions.

Report on Other Legal and Regulatory Requirements

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

<u>Appointment of the Auditor and the Period of Engagement</u>

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 25 April 2018 and our total uninterrupted engagement including previous renewals has lasted for 4 years.

<u>Consistence with the Additional Report to the Audit Committee</u>

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 15 March 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

<u>Provision of Non-audit Services</u>

We declare that no prohibited non-audit services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the annual report.

In Prague on 20 March 2019

Audit firm:

Deloitte Audit s.r.o.
registration no. 079

Statutory auditor:

Daniela Hynštová
registration no. 2235

Notes

Consultancy, design and production: AdHackers s.r.o.

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