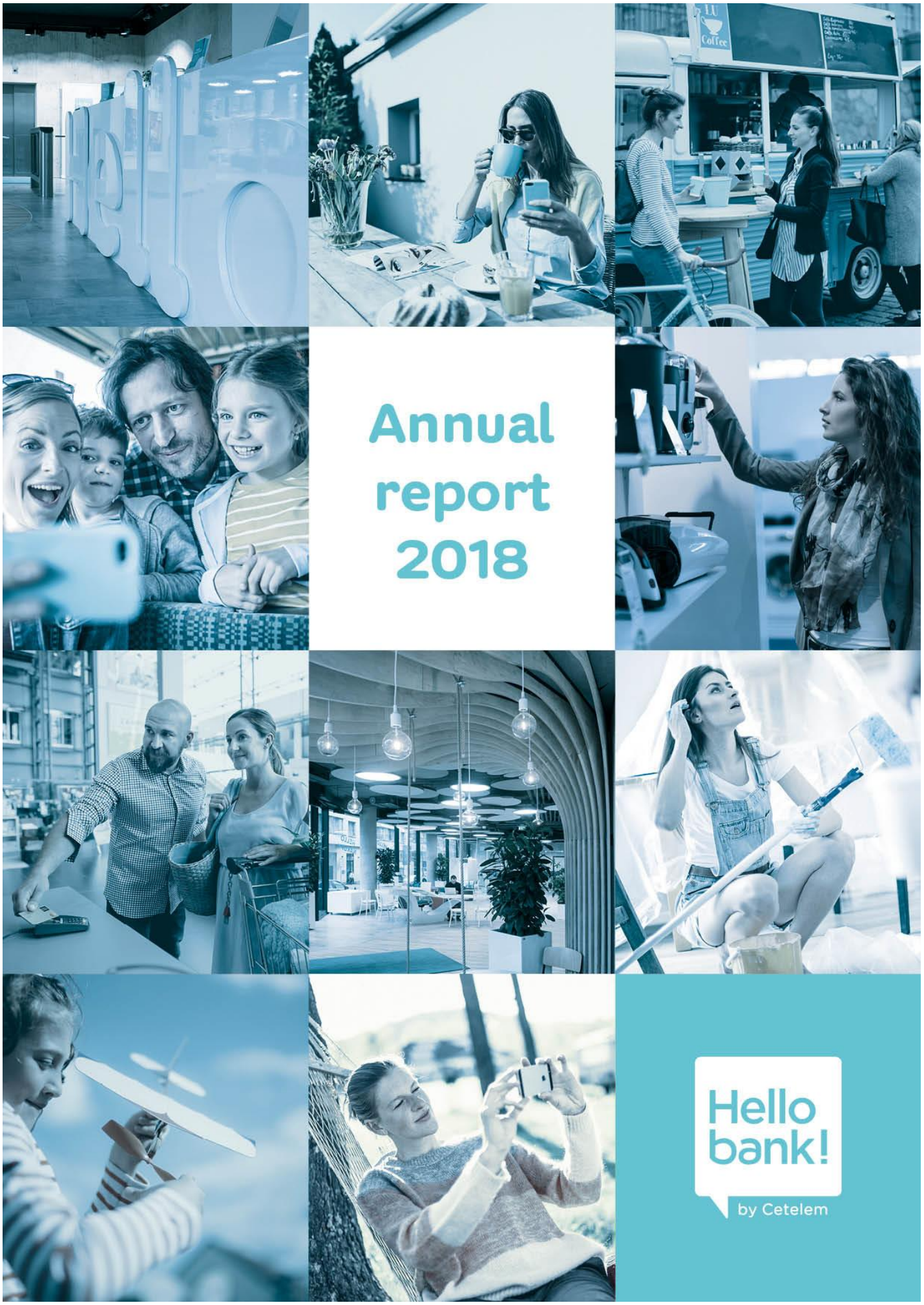

Annual report 2018

Hello bank!

by Cetelem

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Ladies and Gentlemen,

I would like to start by taking a look back at the last year. It was a very important period for the Czech branch of BNP Paribas Personal Finance, when, joined by our clients and business partners, we entered a new era of our company under the Hello bank! brand. We have implemented a larger value proposition for our clients thanks to attractive banking services and their smart digital management. And we can already note the promising effects.

The Czech economy continued in 2018 its sustainable good trend in terms of GDP growth at the level of 3%. It was significantly influenced by the household consumption, driven by the positive sentiment, increasing average wages, as well as by the record low unemployment rate, which, at 2,3%, was the lowest anywhere in the EU. The Czech economy's good shape had a positive impact on consumer behaviour and confidence, which resulted in a higher level of loans for household consumption and housing. Borrowing, by volume, was up approximately 7% year on year, in tandem with a spurt in household deposits by more than 10%.

Within the competitive Czech banking market landscape, our first and achieved priority in 2018 was to reach a good level of our new brand Hello bank! spontaneous awareness and to successfully roll out our expanded value proposition. For our clients, we prepared a new mobile app and savings and current accounts to complement our historically appealing credit products. Finding ourselves in the starting blocks for much of our activity, it required handsome effort to get up and running successfully. As part of our results we achieved higher volumes of pure personal loan despite a slightly decreasing trend in loan consolidation. Our market share increased in terms of credit cards outstanding however the market is keeping a declining trend. Hello bank! remains the Czech market's only bank to provide instalment loans offering our services at more than 1 500 points of sale. We considerably bolstered our partnership with key players in this area. Overall in 2018 we have financed more than 150 000 new loans and credit lines. We rely on many years of experience in the credit products market and, since last year those in the deposit market highly appreciated by our historical as well as new clients. It is also the stability of the BNP Paribas Group that empowers us.

We were also successful in our second priority: customer satisfaction that is one of the main driver of all our employees' hard day to day work on building modern bank with user friendly environment for simple digital management of finance. After the first full year of Hello bank! and also after the best autumn season regarding the reached production on our loans in our 22 years of history in Czech Republic, I am proud to say that we are on the right track. The transformation we have undergone has been praised by existing clients and resonated with many new customers. These are encouraging performances thanks to our ability to react to the increasing interest rates by a better valorisation of deposits on saving account, while keeping competitive pricing of consumer loans. Our clients and partners also highly appreciated the improved seamless experience for online credit and banking application including acceleration of time to yes and time to finance. I am convinced that, by meeting customers' expectations and their heightened requirements, we will spur on the company's sustainable prosperity.

I would like to commend the professional work of our employees, who contribute daily to the increased satisfaction of our customers and partners. Together, we are progressing towards the coming year's targets. In 2019, the focus is on seamless client journey, technological

development for digital solutions and customer experience that is our long-term priority. Let me also thank our clients for the trust given to us and to our business partners, who are the essential part of our business strategy. Of course, it is also our BNP Paribas Group, which give us an intensive support in all aspects of our business.

I am honored that our company has gained your favor and I am looking forward to another year of mutual cooperation.

Emmanuel Bourg

Head of Branch

BNP Paribas Personal Finance SA

2. OTHER INFORMATION

No other events that could significantly affect the Bank's results and development were recorded between the date of the reporting period and the date of the annual report. The Bank actively responds to the evolution of the economic environment, presumes the further development of business activities with aim to strengthen its position on the market and achieve adequate financial results.

The Bank has no research and development, but consistently efforts to innovate its services and processes. It does not perform any particular activity in the field of environmental protection. Labour relations are governed by the applicable legislation of the Czech Republic; the Bank has no collective agreement. As a branch of a foreign bank it has no separate organisational component abroad.

3. AUDITORS' OPINION

MAZARS

This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

INDEPENDENT AUDITOR'S REPORT

on the financial statements as at 31 December 2018 of

BNP Paribas Personal Finance SA, odštěpný závod

Identification data:

Branch name:	BNP Parias Personal Finance SA, odštěpný závod
Registration number:	038 14 742
Branch address:	Karla Engliše 3208/5 150 00 Praha 5
Balance sheet date:	31 December 2018
Audited period:	from 1 January 2018 to 31 December 2018
Financial reporting framework:	International Financial Reporting Standards as adopted by the European Union
Date of issue:	29 March 2019
Auditor:	Jiří Šimek Licence number 2024 Mazars Audit s.r.o. Licence number 158

MAZARS AUDIT S.R.O., POBŘEŽNÍ 620/3, PRAHA 8 - 186 00
TEL: +420 224 835 730 - FAX: +420 224 835 799 - WWW.MAZARS.CZ

IČ: 63986884, DIČ CZ63986884, ZAPSÁNA V OBCHODNÍM REJSTŘÍKU VEDENÉM MĚSTSKÝM SOUDEM V PRAZE - ODDÍL C, VLOŽKA 38404

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Independent Auditor's Report for the founder of

BNP Paribas Personal Finance SA, odštěpný závod

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of BNP Paribas Personal Finance SA, odštěpný závod (hereinafter also the "Branch") prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the statement of financial position as at 31 December 2018, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Branch, see Note I.1. to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of BNP Paribas Personal Finance SA, odštěpný závod as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors 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 clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent on the Branch 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.

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 financial statements and auditor's report thereon. The Head of the Branch is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 financial statements is, in all material respects, consistent with the 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 Branch 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 Head of the Branch for the Financial Statements

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

In preparing the financial statements, the Head of the Branch is responsible for assessing the Branch'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 Head of the Branch either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above mentioned laws and regulations 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 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 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 Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Head of the Branch.
- Conclude on the appropriateness of the Head of the Branch's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch'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 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 Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Head of the Branch 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.

Mazars Audit s.r.o.

Prague, 29 March 2019

Mazars Audit s.r.o.
Licence number 158
Pobřežní 620/3
186 00 Praha 8

Represented by Jiří Šimek

Jiří Šimek
Statutory auditor, licence number 2024

4. STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

Statement of financial position as at 31 December 2018 (CZK '000)			
Description	*Ref.*	*31 December 2018*	*31 December 2017*
ASSETS			
Cash and cash equivalents	IV.1.	10,506	237,137
Financial assets at amortised cost			
Receivables from banks	IV.2.	964,670	977,986
Receivables from clients	IV.3.	11,860,140	12,546,658
Financial assets at fair value			
Investment securities	IV.4.	8,603	
Other long-term securities and investments	IV.4.		11,603
Property and equipment	IV.6.	38,804	15,099
Intangible assets	IV.7.	377,255	335,456
Tax assets – current tax	IV.12.	80,172	147,970
Tax assets – deferred tax	IV.5.	124,077	160,027
Other assets	IV.8.	187,581	138,844
TOTAL ASSETS		**13,651,808**	**14,570,780**
LIABILITIES		**12,098,280**	**12,269,817**
Financial liabilities at amortised cost			
Liabilities to banks	IV.9.	8,610,593	10,280,410
Liabilities to customers	IV.9.	1,492,556	25,794
Debt securities issued	IV.10.	1,507,249	1,501,776
Provisions	IV.11.	42,088	14,211
Other liabilities	IV.13.	445,794	447,626
BRANCHES´ RESERVES		**1,553,528**	**2,300,963**
Reserves allocated to branch	IV.14.	997,586	1,141,846
Gains, losses from revaluation of securities	IV.14.		11,031
Gains or losses from revaluation of assets and liabilities	IV.14.	1,047	2,906
Deferred tax from revaluation	IV.14.	-199	-552
Profit/loss for the period	IV.14.	555,094	1,145,732
TOTAL LIABILITIES		**13,651,808**	**14,570,780**

5. STATEMENT OF COMPREHENSIVE INCOME

Statement of Comprehensive Income for the year ending 31 December 2018 (in CZK '000)			
Description	*Ref.*	*31 December 2018*	*31 December 2017*
Interest income	V.1.	1,580,540	1,877,299
Interest expense	V.1.	-121,386	-81,000
NET INTEREST INCOME		**1,459,154**	**1,796,299**
Income from fees and commissions	V.2.	385,996	432,719
Fee and commission expenses	V.2.	-24,681	-33,752
NET INCOME FROM FEES& COMMISSIONS		**361,315**	**398,967**
Dividend income	V.3.	3,947	3,769
Gains and losses from investments	V.3.	-3,000	
Other income/expense	V.4.	73,239	4,199
OPERATING INCOME		**1,894,655**	**2,203,234**
Personnel costs	V.5.	-511,503	-491,968
Operating costs	V.6.	-632,645	-553,155
Depreciation of property and equipment	V.7.	-9,977	-9,243
Amortisation of intangible assets	V.8.	-81,183	-24,396
OPERATING COSTS		**-1,235,308**	**-1,078,762**
OPERATING INCOME BEFORE ASSET IMPAIRMENT AND PROVISIONS		**659,347**	**1,124,472**
Impairment of receivables	V.9.	39,743	25,691
Net charge/release of provisions	V.11.	17,092	
Others	V.10.	-1,258	313
PROFIT BEFORE TAX		**714,924**	**1,150,476**
Income tax	IV.12.	-159,830	-4,744
- current tax expense	IV.12.	-98,340	-128,394
- deferred tax income	IV.12.	-61,490	123,650
PROFIT FOR THE PERIOD, AFTER TAX		**555,094**	**1,145,732**
Gains, losses from revaluation of securities		-1,859	1,178
Gains or losses from revaluation of assets and liabilities – re-classifiable			5,404
Deferred tax from revaluation		353	-1,207
OTHER COMPREHENSIVE INCOME		**-1,506**	**5,555**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**553,588**	**1,151,287**
Comprehensive income for the period, attributable to:			
- founder		553,588	1,151,287

6. STATEMENT OF CHANGES IN EQUITY

Changes in equity (in CZK '000)	Reserve fund & other capital funds & retained profit *)	Revaluation differences	Total
1 January 2017	**1,614,257**	**7,830**	**1,622,087**
Capital transfer	-472,411		-472,411
Income for the accounting period	1,145,732		1,145,732
Other comprehensive income		5,555	5,555
31 December 2017	**2,287,578**	**13,385**	**2,300,963**
Impact of adopting IFRS 9	-144,260	-11,031	-155,291
1 January 2018	**2,143,318**	**2,354**	**2,145,672**
Capital transfer	-1,145,732		-1,145,732
Income for the accounting period	555,094		555,094
Other comprehensive income		-1,506	-1,506
31 December 2018	**1,552,680**	**848**	**1,553,528**

Note: *) Reserve fund and other capital funds and retained profit include the reserves allocated to branches, net profit for the period, and retained profit.

7. STATEMENT OF CASH FLOWS

Statement of cash flows for the year ending 31 December 2018 (in CZK '000)		
Description	*31 December 2018*	*31 December 2017*
CASH AT THE BEGINNING OF THE PERIOD	**1,215,123**	**947,224**
PROFIT BEFORE TAX	**714,925**	**1,150,476**
Adjustment for non-cash transactions	*-1,789,361*	*-2,756,908*
Fixed asset depreciation/amortisation	95,266	35,502
Change in allowances and provisions	-494,288	-1,054,649
Gain from the disposal of fixed assets	1,186	-313
Proceeds from dividends and profit sharing	-3,947	-3,769
Net interest expense and income	-1,739,626	-1,990,609
Adjustments for other non-cash transactions, if any	352,048	256,930
	-1,074,436	**1,606,432**
Change in the non-cash portion of working capital	*2,137,827*	*1,598,586*
Change in receivables and deferred expenses	746,333	1,579,265
Change in current liabilities and deferred revenues	1,391,494	19,321
	1,063,391	**-7,846**
Interest paid	-47,111	-37,949
Interest income	1,736,226	1,931,029
Income tax paid	-30,542	-128,394
NET CASH FLOW FROM OPERATING ACTIVITIES	**2,721,964**	**1,756,840**
Fixed asset acquisition costs	-155,975	-133,190
Dividends and profit shares received	3,947	3,769
Proceeds from the disposal of fixed assets	194	330
NET CASH FLOW FROM INVESTING ACTIVITIES	**-151,834**	**-129,091**
Other change in financing activities	-1,664,345	-887,443
Change in cash and equivalents related to transactions with founder	-1,145,732	-472,407
NET CASH FLOW FROM FINANCING ACTIVITIES	**-2,810,077**	**-1,359,850**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**-239,947**	**267,899**
CASH AT THE END OF THE PERIOD	**975,176**	**1,215,123**

8. NOTES TO THE FINANCIAL STATEMENTS

I. GENERAL INFORMATION

I.1 BANK ORIGINATION AND CHARACTERISTICS

BNP Paribas Personal Finance, SA, odštěpný závod (hereinafter referred to as "the Bank") was incorporated on 20 February 2015 by entry in the Companies Register. As a branch, Bank is not considered as an independent legal entity. Its founder is a foreign legal entity BNP Paribas Personal Finance with a registered office at 1 boulevard Haussmann, 75009 Paris, France, registration number: 542 097 902.

Bank started its business activity in the Czech Republic after the effective date of the cross-border merger on the 1 June 2015. With effective date of cross-border merger from 31 May 2015, all assets and liabilities including liabilities from labour relations of acquired company CETELEM ČR, a.s. with former registered office Praha 5, Karla Engliše 5/3208, Post Code 150 00, Company No. [IČ] 25 08 56 89, incorporated in the Companies Register with the Municipal Court in Prague, Section B, File 4331, were transferred to the acquiring company, BNP Paribas Personal Finance with a registered office at 1 boulevard Haussmann, 75009 Paris, France, registration number: 542 097 902 which operates in the Czech Republic through its branch BNP Paribas Personal Finance SA, odštěpný závod, incorporated in the Companies Register with the Municipal Court in Prague, Section A, File 77003.

From the accounting and tax perspective, the merger became effective on 1 January 2015 (from this date, all the transactions made by CETELEM ČR were considered to be transactions of BNP Paribas PF as acquiring company) and this day is the effective day of the merger according to Act No. 125/2008 Coll., on Transformations of Commercial Companies and Cooperatives.

Registered office:

BNP Paribas Personal Finance SA, odštěpný závod.

Company No. [IČ] 03814742, incorporated in the Companies Register with the Municipal Court in Prague, Section A, File 77003

Praha 5, Karla Engliše 5/3208, Post Code 150 00

Lines of business:

a) collecting of deposits from the public;
b) granting loans;
c) financial leasing;
d) providing of payment services and electronic money issuance;
e) providing of guarantees and acceptance of commitments;
f) money brokering;
g) providing banking information.

BNP Paribas Personal Finance SA, odštěpný závod is a branch of a foreign bank using benefits of a single banking license of the founder according to the law of European Union.

I.2 Governing and Supervisory Bodies as at 31 December 2017

Statutory body of the founder	Management Board	A member since
LAURENT DAVID	Member of Management Board and CEO	12 May 2014
JEAN-MARIE BELLAFIORE	Member of Management Board and Deputy CEO	12 June 2015
ALAIN VAN GROENENDAEL	Chairman of the Management Board	12 May 2009
JACQUES TENAILLE D'ESTAIS	Member of Management Board	07 March 2012
DOMINIQUE FIABANE	Member of Management Board	14 September 2010
BERRO SOPHIE HELLER	Member of Management Board	11 September 2017
BRUNO SALMON	Member of Management Board	29 October 2003
JEAN-FRANCOIS PFISTER	Member of Management Board	3 October 2015
SYLVIE DAVID-CHINO	Member of Management Board	24 May 2016
VIRGINIE ZISSWILLER KORNILOFF	Member of Management Board	24 May 2016
BENOÎT CAVELIER	Deputy CEO	17 November 2018
JANNY GEROMETTA	Deputy CEO	17 November 2018

Head of the branch
EMMANUEL BOURG

Procuration
BLAŽENA VALKOŠÁKOVÁ
MILAN BUŠEK
DENIS PECCOUD

Changes in the commercial register		
Jacques Tenaille D'Estais	appointed as the chairmanof the Board of directors	17 November 2018
Alain Van Groenendael	removed as the chairman of the Board of directors	17 November 2018
Janny Gerometta	member and deputy CEO	17 November 2018
Benoit Cavelier	member and deputy CEO	17 November 2018
Franciska Decuypere	removed from the Board of Directors	17 November 2018

I.3 Organisational Structure

There has been no change in the organizational structure of the company in 2018.

II. BASIS OF PREPARATION

II.1 STATEMENT OF COMPLIANCE

These financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (version in force as at 31 December 2018).

In accordance with the processes of the BNP Paribas Group, the Bank did not apply some regulations of IAS 39 about hedge accounting and some adjustments which were not approved.

The new standards, amendments and interpretations adopted by the European Union but not compulsory for the year 2018 were not used by the entity.

II.2 PURPOSE OF FINANCIAL STATEMENTS

The BNP Paribas consolidation group, which also includes BNP Paribas Personal Finance SA, odštěpný závod, applies the International Financial Reporting Standards, adopted as binding for use in the European Union.

As the successor company, the Bank has fully taken over the accounting principles applied by the acquired company CETELEM ČR, a.s., which has issued the bonds accepted for trading on the free market of the Prague Stock Exchange, a.s.. For this reason only the International Financial Reporting Standards are being applied for the accounting and for the preparation of the financial statements.

III. SIGNIFICANT ACCOUNTING POLICIES AND SEGMENT INFORMATION

III.1 SIGNIFICANT ACCOUNTING POLICIES

NEW APPLICABLE ACCOUNTING STANDARDS

IFRS 9 Financial Instruments, issued by the IASB in July 2014, has replaced IAS 39 Financial Instruments: recognition and measurement, related to the classification and measurement of financial instruments. The new standard sets out new principles for the classification and measurement of financial instruments, impairment for credit risk on financial assets and for hedge accounting.

IFRS 9, which was adopted by the European Union on 22 November 2016, is mandatory for annual periods beginning on or after 1 January 2018.

According to IFRS 9, classification and measurement of financial assets depends on the business model and the contractual characteristics of the instruments. After initial recognition, financial assets are measured at amortized cost, at fair value through shareholders' equity (on a separate line), or at fair value through profit or loss.

IFRS 9 establishes a new credit risk impairment model based on expected losses. This model applies to loans and debt instruments measured at amortized cost or at fair value through shareholders' equity (on a separate line), to loan commitments and financial guarantees not recognized at fair value, as well as to lease receivables.

The new impairment model resulted in an increase in impairment for credit risk since all financial assets are subjected to a 12-month expected credit loss measurement and since the measurement of expected losses includes the impact of prospective scenarios. Moreover, the scope of assets for which there is a significant increase in credit risk is different from the scope of assets for which portfolio based impairment was recognized under IAS 39.

For the purpose of hedge accounting the Bank has decided not to adopt IFRS 9 principles, and to continue to apply IAS 39.

IFRS 15 Revenues from Contracts with Customers, issued in May 2014, superseded a number of standards and interpretations on revenue recognition (in particular IAS 18 Revenue and IAS 11 Construction Contracts). IFRS 15, adopted by the European Union September 22, 2016, is mandatory for annual period beginning on or after 1 January 2018.

IFRS 15 defines a single revenue recognition model based on five-step principles. These principles allow to identify the differences between the performance set out in the customer contracts and the assignment of transaction prices to them. Revenues from net banking income that fall within the scope of this Standard relate in particular to commissions received for banking and similar services provided (except those resulting from the effective interest rate), income from the growth of assets and revenues from services rendered in connection with lease agreements.

IFRS 15 is applicable retrospectively to 1 January 2018 and introduces the option not to provide comparative data for the prior period. BNP Paribas used this option.

IFRS 9 – impacts	IAS 39	IFRS 9 impacts	IFRS 9
(in CZK '000)	**31 December 2017**		**1 January 2018**
ASSETS			
Cash and cash equivalents	237,137		237,137
Financial assets at amortised cost			
Receivables from banks	977,986		977,986
Receivables from clients	12,546,658	-132,562	12,414,096
Financial assets at fair value			
Investment securities		11,603	11,603
Other long-term securities and investments	11,603	-11,603	
Property and equipment	15,099		15,099
Intangible assets	335,456		335,456
Tax assets – current tax	147,970		147,970
Tax assets – deferred tax	160,027	25,187	185,214
Other assets	138,844		138,844
TOTAL ASSETS	**14,570,780**	**-107,375**	**14,463,405**
LIABILITIES	**12,269,817**	**47,916**	**12,317,733**
Financial liabilities at amortised cost			
Liabilities to banks	10,280,410		10,280,410
Liabilities to customers	25,794		25,794
Debt securities issued	1,501,776		1,501,776
Provisions	14,211	47,916	62,127
Other liabilities	447,626		447,626
BRANCHES´ RESERVES	**2,300,963**	**-155,291**	**2,145,672**
Reserves allocated to branch	1,141,846	-144,260	997,586
Gains, losses from revaluation of securities	11,031	-11,031	
Gains or losses from revaluation of assets and liabilities	2,906		2,906
Deferred tax from revaluation	-552		-552
Profit/loss for the period	1,145,732		1,145,732
TOTAL LIABILITIES	**14,570,780**	**-107,375**	**14,463,405**

ACCOUNTING STANDARDS WITH LATER EFFECTIVENESS

IFRS 16 Leases, issued in January 2016, will supersede IAS 17 Leases and the interpretations relating to the accounting of such contracts. The new definition of leases relies on both the identification of an asset and the right to control the identified asset by the lessee.

From the lessor's point of view, the expected impact should be limited, as the requirements of IFRS 16 remain mostly unchanged from the current IAS 17.

For the lessee, IFRS 16 will require recognition in the Balance sheet of all leases, in the form of a right-of-use on the leased asset presented under fixed assets, along with the recognition of a financial liability for the rent and other payments to be made over the leasing period. The right-of-use assets will be amortized on a straight-line basis and the financial liabilities will be amortized on an actuarial basis over the lease period. The main change induced by this new standard is related to contracts which, under IAS 17, met the definition of operating leases, and as such, did not require recognition in the Balance sheet of the leased assets.

Adopted for use in the European Union as at 31 October 2017, IFRS 16 will become mandatory for annual periods beginning on or after 1 January 2019.

In 2018 the Bank continued to identify and analyse the lease agreements. The implementation of the standard will result in increase of assets and liabilities connected with leased assets so far treated as operating leases. It is expected that the biggest change will be due to leased real estate and less from IT and car lease.

III.2 CONSOLIDATION

Under the rules of the Group, the consolidation group comprises the accounting entities over which the Bank solely exercises control, jointly exercises control or is under the significant influence of the Bank with the exception of entities which are immaterial for the Group. The Bank is not obliged to prepare consolidated financial statement if its individual financial statement is sufficient for filling a true and fair view of the accounting and financial situation of the consolidation unit. The reason is that controlled entities are immaterial individually and in aggregate.

Immateriality means a situation of an equity interest in a company, where none of the following assumptions is met: i) a contribution of at least EUR 15 million from consolidated income; ii) a contribution of at least EUR 1 million to the income before tax; iii) a contribution of more than EUR 500 million to consolidated assets.

The Bank's equity interests do not meet any of the above conditions and are disclosed in "Other Long-term Securities and Investments".

III.3 PARTICIPATIONS WITH SIGNIFICANT INFLUENCE

Investments in participations with significant influence are valued by the equity method, i.e. on the basis of the share of equity held. To have a significant influence means to participate in the financial and operating policy decisions of another company in which the Bank holds an equity interest but which it does not control fully. To have significant influence, the Bank must hold directly or indirectly at least 20% of the voting rights.

In the financial statements, equity securities are presented in "Investment securities" in the Assets part of the Balance Sheet and revaluated to Profit and Loss. When the loss of a company in which the Bank holds an equity interest reaches or exceeds the equity interest, the value of the equity interest is reduced to nil and the Bank's interest is written off as a future loss. Recognition of further losses is discontinued except to the extent that the Bank is obliged to cover the loss under the law or under contract.

III.4 FINANCIAL ASSETS AND LIABILITIES

Financial assets are classified at amortised cost or at fair value through profit or loss depending on the business model and the contractual features of the instruments at initial recognition.

Financial liabilities are classified at amortised cost or at fair value through profit or loss at initial recognition.

III.4.1 Financial assets at amortised cost

Financial assets are classified at amortised cost if the following two criteria are met:

- business model objective is to hold the instrument in order to collect the contractual cash flows
- cash flows consist solely of payments relating to principal and interest on the principal.

Business model

Financial assets are managed within a business model whose objective is to hold financial assets in order to collect cash flows through the collection of contractual payments over the life of the instrument.

The realisation of disposals close to the maturity of the instrument and for an amount close to the remaining contractual cash-flows, or due to an increase in the counterparty's credit risk is consistent with a business model whose objective is to collect the contractual cash flows. Sales imposed by regulatory requirements or to manage the concentration of credit risk (without an increase in the asset's credit risk) are also consistent with this business model when they are infrequent or insignificant in value.

Financial assets at amortised cost include, without being limited to, the loans provided by the Bank. Loans and receivables are financial assets with fixed or pre-determinable payments, which are not tradable in an active market.

Cash flow

The cash flow criterion is satisfied if the contractual terms of the debt instrument give rise, on specified dates, to cash flows that are solely repayments of principal and interest on the principal amount outstanding.

The criterion is not met in the event of a contractual characteristic that exposes the holder to risks or to the volatility of contractual cash flows that are inconsistent with those of an non structured or 'basic lending' arrangement. It is also not satisfied in the event of leverage that increases the variability of the contractual cash flows.

Interests consist of consideration for the time value of money, for the credit risk, and for the remuneration of other risks (e.g. liquidity risk), costs (e.g. administration fees), and a profit margin consistent with that of a basic lending arrangement. The existence of negative interests does not call into question the cash flow criterion.

The time value of money is the component of interest - usually referred to as the 'rate' component which provides consideration for only the passage of time. The relationship between the interest rate and the passage of time shall not be modified by specific characteristics that would likely call into question the respect of the cash flow criterion.

Recognition and measurement

Upon acquisition, at the moment of entering into an agreement concerning the financial instrument in question, loans are measured at fair value, which includes the initial costs of acquisition of the asset plus the payments of fees and commissions received, accrued by the effective interest rate method. Trade and other current non-interest-bearing receivables are being recognized in the nominal value, which due to maturity approximates the fair value of the receivable.

Subsequently, loans are measured at amortized cost, i.e., the value of the financial asset at acquisition reduced by the instalments on the principal and further reduced or increased by the cumulative amortisation of the difference between the initial value and value at maturity,

measured on the basis of the effective interest rate, and further reduced by impairment losses, if any.

Income from loans includes interest and the amortisation of transaction costs and received fees (commissions that are included in the initial acquisition cost of the loans, using the effective interest rate method, and are recognised in revenues and expenses over the maturity of the asset).

The Bank does not report any other financial instruments re-measured to fair value with impact on the Income Statement.

III.4.2 Financial liabilities at amortised cost

Liabilities to banks and customers

Financial liabilities to banks and customers include interest-bearing bank loans, bank overdrafts.

Interest-bearing bank loans and overdrafts are measured at amortized cost using the effective interest rate. At the acquisition interest-bearing liabilities are recognized at fair value modified by the transaction costs, which are directly attributable to the liability. Trade and other current non-interest-bearing liabilities at the acquisition are recognized at nominal value, which due to maturity approximates the fair value of the liability.

Issued debt securities

Financial instruments issued by the Bank are classified as debt instruments in such case that there is a commitment of the Bank to deliver cash or another financial assets to the holder of the financial instrument.

Debt securities are valued by the emission value on the issue including transaction costs and subsequently measured at amortized cost used the effective interest rate method.

III.4.3 Financial assets and liabilities at fair value through profit or loss

The trading portfolio includes instruments held for trading, including derivatives.

Other financial assets measured at fair value through profit or loss include debt instruments that do not meet the “collect” or “collect and sale” business model criterion or that do not meet the cash-flow criterion, as well as equity instruments for which the fair value through shareholders’ equity option has not been retained.

All those financial instruments are measured at fair value at initial recognition, with transaction costs directly posted in profit or loss.

III.4.3.1 Derivatives and hedge accounting

Derivatives (e.g. Interest Rate Swaps) at acquisition are being recognized at fair value as at the contract date, and after they are being measured at fair value as at every closing date, whereby gain or loss from the revaluation has an impact to the Profit and loss, except when the derivative is classified as a hedging instrument. In case of the hedge accounting application, the impact on the result depends on the type of the hedging.

Cash flow hedges are particularly used to hedge interest rate risk on floating-rate assets and liabilities.

The Bank prepares formal documentation for hedging which details the hedging relationship, identifying the instrument, or portion of the instrument, the hedging strategy and the type of risk hedged, the hedging instruments, and the methods used to assess the effectiveness of the hedging relationship.

On inception and at least quarterly, the Bank assesses, in consistency with the original documentation, the actual (retrospective) and expected (prospective) effectiveness of the hedging relationship. Retrospective effectiveness tests are designed to assess whether actual changes in the fair value or cash flows of the hedging instrument and the hedged item are within a range of 80% to 125%. Prospective effectiveness tests are designed to ensure that expected changes in cash flows of the derivative over the residual life of the hedge adequately offset those of the hedged items. For highly probable forecast transactions, effectiveness is assessed largely on the basis of historical data for similar transactions.

The accounting treatment of derivatives and hedged items depends on the hedging strategy. In a cash flow hedging relationship, the derivative is measured at fair value in the Balance sheet, with changes in fair value taken to shareholders' equity on a separate line, "Gains or losses from revaluation of assets and payables" like the part "Other comprehensive income". The figures cumulated separately within the shareholder's equity are re-classified to the Profit and Loss, when the hedged item has an impact on the result, and on the same line in the Statement of Comprehensive Income under "Net interest income", where the impact of the hedged item is. The hedged items continue to be accounted for using the treatment specific to the category to which they belong.

If the hedging relationship ceases or no longer fulfils the effectiveness criteria, the cumulative amounts recognised in shareholders' equity as a result of the measurement of the hedging instrument remain in equity until the hedged transaction itself impacts profit or loss, or until it becomes clear that the transaction will not occur, at which point they are transferred to the Statement of Comprehensive Income. If the hedged item ceases to exist, the cumulative amounts recognised in shareholders' equity are immediately taken to the Statement of Comprehensive Income. Whatever the hedging strategy used, any ineffective portion of the hedge is recognised in the profit and loss account in the Statement of Comprehensive Income.

III.5 IMPAIRMENT OF FINANCIAL ASSETS

The impairment model for credit risk is based on expected losses applying to the following financial assets:

- loans and debt instruments measured at amortised cost
- loan commitments.

The impairment model identifies three 'stages' that correspond each to a specific status with regards to the evolution of counterparty credit risk since the initial recognition of the asset.

- **Stage 1** If at the reporting date, the credit risk of the financial instrument has not increased significantly since its initial recognition, this instrument is impaired at an amount equal to 12-month expected credit losses. Interest income is calculated on gross carrying amount.
- **Stage 2** The loss allowance is measured at an amount equal to the lifetime expected credit losses if the credit risk of the financial instrument has increased significantly since initial recognition, but the financial asset is not credit impaired. Interest income is calculated on gross carrying amount.
- **Stage 3** When an asset is "credit-impaired", the loss allowance is also measured

for an amount equal to the lifetime expected credit losses. Interest income is calculated on the amortised cost.

For the calculation o expected credit losses following parameters are used:

PD the Probability of Default is an estimate of the likelihood of default over a given horizon

EAD the Exposure at Default of an instrument is the anticipated outstanding amount owed by the obligor at the time of default, including repayment schedule of nominal and interest and expected future drawings of loan commitments

LGD the Loss Given Default is the difference between the contractual cash flows and expected cash flows,

Estimation of expected credit loss takes into account information about past events and current conditions as well as rational and convincing forecasts of future events and economic conditions. Estimating and applying information about future developments requires significant use of estimates.

The impairment is deducted from the gross carrying amount in the case of a financial asset measured at amortized cost and recognized as a liability in the event of an impairment for loan commitments.

III.6 FUNCTIONAL CURRENCY AND TRANSACTIONS IN FOREIGN CURRENCY

Foreign currency transactions are transactions denominated or requiring settlement in a currency other than the functional currency. A functional currency is CZK, which is the currency of the primary economic environment in which the Bank operates. Transactions denominated in other currencies (foreign currencies) than functional currency are being translated into the functional currency at the spot exchange rate, which is the exchange rate valid at the transaction date.

At each closing date monetary assets and liabilities held in foreign currencies are being revaluated at the closing exchange rate. Non-monetary items, that are measured at historical cost and have been initially acquired in the foreign currency, are not being revaluated at the closing date. Exchange rate differences arising from settlement of the items in a foreign currency or from their revaluation, are being recognized in the Profit and loss of the current period.

III.7 FINANCIAL ASSETS AND LIABILITIES OFFSETTING

Financial assets and liabilities are offset and the net amount is reported in the Balance Sheet only when the Bank has a legally enforceable right to offset the recognised amounts and intends to settle the respective asset and the respective liability on a net basis or to realise the asset and settle the respective liability at the same time.

III.8 INVENTORIES

With regard to its line of business, the Bank does not recognise inventories. Consumption of overhead material is charged to costs on the accrual basis. Material remaining unconsumed at the date of financial statements is recognised as ‘Other assets’.

III.9 Cost of Risk

Cost of risk includes allowances corresponding to the impairment of fixed-income assets, in particular receivables on loans and receivables from financial institutions. The cost of risk item also includes the reported losses caused by bad debt write-off and proceeds from written-off receivables, and damage caused by fraud.

III.10 Tangible and Intangible Assets

Property and equipment are stated in the Balance Sheet as operating assets. The Bank currently records operating assets that are used for the provision of services. Internal software which fulfils the capitalization rules is capitalized at the amount of direct development expenses including external costs and labour costs of employees directly participating in the project.

The assets for which substantially all the risks and rewards of ownership remain with the lessor are classified as operating lease and these assets are not recognised in the Bank's Balance Sheet. Rent payments are recognised in the Statement of Comprehensive Income over the duration of the lease.

Methods of valuation of non-current assets

Tangible and intangible non-current assets acquired are valued at acquisition cost at the date of the accounting transaction. The acquisition cost also includes the costs directly related to the acquisition of the asset.

Thereafter the value of non-current assets is reduced by accumulated depreciation and amortisation and further losses caused by impairment.

Allowances for non-current assets

As at each date of financial statements, the Bank assesses the book value of its tangible and intangible assets, taking into account its possible impairment. If there are signals that the book value of an asset is higher than its estimated realisable value, the Bank re-measures the asset to its realisable value by a one-time write-off. The asset impairment losses are recognised in the item of Impairment assets. A stock-take of the assets was performed and no reasons were found for reducing their value by allowances for tangible and intangible non-current assets.

Methods of depreciation/amortisation

In its accounting, the Bank depreciates its non-current assets on a straight-line basis according to the approved depreciation plan, which reflects an expert assessment of the economic and technical useful life of the assets. Improvements of leased assets are depreciated over the period of use of the assets. The depreciation is recognised through the asset depreciation part of the Statement of Comprehensive Income.

When parts of an asset have different useful lives, requiring replacement at different times, such components are depreciated as separate items (e.g. technical equipment of leased premises).

Impairment of non-current assets is assessed at least once a year. When impairment of an asset is identified, the Bank posts an allowance that reduces the value of the asset and is

recognised in profit or loss (impairment of assets). The allowances are reversed when the estimate of asset impairment is changed or when reasons for reducing the value of the asset no longer exist.

The loss or gain from the disposal of the tangible assets that were used for operating activities is recognised as 'impairment' (Statement of Comprehensive Income).

Accounting of Operating leasing - lessee

All leasing contracts and their conditions are being assessed whether the leasing relationship can be determined as a financial or an operating lease. In case the leasing contract transfers all the significant risks and rewards related to lease from a lessor to a lessee, the leasing contract is then determined as the financial lease. In the opposite case it is the operating lease.

The Bank uses for operational the operating lease - cars rent. The assets are not recognized in the Statement of the financial position of the Bank. Lease payments made under operating leases are taken to the Statement of Comprehensive income of the lessee on a straight-line basis over the lease term.

Depreciation/amortisation plan:

Name	Accounting depreciation Period of depreciation
Software and other intangible non-current assets	3 or 5 years
Office buildings / improvement	Term of lease (in fixed-term agreements)
- building	60 years
- façade	30 years
- technical equipment	20 years
- fixtures and fittings	10 years
Machines, instruments and equipment	5
Passenger cars	3
Equipment and furniture	5 or 8
Computers	3

III.11 Employee Costs and Benefits

Employee benefits are classified in one of four categories:

1) short-term benefits, such as salary, annual leave, incentive plans, profit-sharing, contribution from the social fund and additional payments;
2) long-term benefits, including compensated absences, and other types of cash based deferred compensation;
3) termination benefits;
4) post-employment benefits, including pension plans,

The Bank registers only short-term emoluments with maturity up to 12 months to its employees, specifically the wages, compensation for wages, other contributions, and benefits, expensed when paid.

Long-term benefits are benefits other than short-term benefits, post-employment benefits and termination benefits. This relates, in particular, to compensation deferred for more than 12 months, which is accrued in the financial statements for the period in which it is earned.

Provisions are created for potential liabilities arising from employees' termination for redundancy and for remuneration of management where the payment depends on the fulfilment of conditions in the future periods.

The Company has no others long-term liabilities and no pension liabilities to its employees. Under Czech legislation, the State is responsible for the payment of pensions to employees. The Bank pays regular contributions as required by the law, which are expensed when incurred.

III.12 PROVISIONS

A provision is recognised in liabilities when i) the Bank has a present or constructive obligation as a result of a past event, ii) it is probable that a transfer of economic benefits will be required to settle the obligation and iii) a reliable estimate can be made of the amount of the obligation. If the effect of discounting is material, provisions are determined by discounting the expected future cash flows, reflecting the current market-based time value of money.

III.13 CASH AND CASH EQUIVALENTS

Cash comprises cash on hand, accounts balances 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 encashment in the near future rather than as investment.

III.14 REVENUE ACCOUNTING

Interest income and expense related to all interest-bearing instruments are recognised in the Statement of Comprehensive Income in the relevant period, using the effective interest rate. Default interest is included in interest income once paid by the debtor. Fees related to loan provision are a part of the effective interest rate. Other fees and commissions are allocated to their relevant periods. Dividends from investments are recognised when shareholders' entitlement to dividend payment arises.

III.15 INCOME TAX AND DEFERRED TAX

The resultant tax amount stated in the Statement of Comprehensive Income includes the tax payable for the period and the deferred tax.

Deferred tax

The Bank measures the deferred tax liability on the basis of the temporary differences caused by the different accounting and tax treatment of certain items. The bank accounts for a deferred tax asset only in case the Bank expects to generate a future taxable income against which the temporary differences can be offset. The bank always accounts for the deferred tax liability. The corporate income tax rate enacted for the next taxation period, or the expected rate, is used for the measurement of deferred tax.

Current tax

Current tax is based in the taxable income of the current period, while the taxable income (profit/loss) differs from the income presented in the Statement of Comprehensive Income due to the existence of the tax-deductible and non-tax-deductible expenses and revenues, by which the accounting profit is being decreased or increased.

The Bank prepares its financial statements before filing the annual tax return and therefore it is not possible to fully eliminate a difference between the reported income tax payable and the

actual tax liability. Such a difference, if any, is recognised in the period when the tax return is filed and the tax paid. The amount of the current tax is based on the result for the current period, adjusted by items that are not taxable or tax deductible, and is measured using the tax rates enacted at the date of the financial statements.

The income tax for the current period and the deferred tax are recognised in the 'Income tax' section of the Statement of Comprehensive Income. Part of the deferred tax related to the fair value revaluation of hedging instruments is recognized in the Balance sheet in part Owners' equity ("Gains or losses from revaluation of assets and liabilities") and in the Statement of Comprehensive Income.

III.16 SEGMENT REPORTING

The Bank operates in the sector of loan provision to the retail segment. Its services are, for the most part, provided in the Czech Republic. Only a minor portion of its services are provided to other segments and therefore separate reporting by segment is not used.

III.17 BASIC PRINCIPLES OF THE ACCOUNTING RULES APPLICATION AND KEY SOURCES OF UNCERTAINTY WHILE CREATING ESTIMATES

Basic principles of the accounting rules application

When applying the accounting rules of the Bank stated above, the management is required to assess the content of the economical transactions and events and to make a decision about the usage of the accounting rules in a way, that the financial statement would provide its users useful information for their decision making.

Key sources of uncertainty while creating estimates

The preparation of financial statements in accordance with the IFRS requires the Bank's management to make estimates and determine assumptions that can affect reported expenses and revenues in the Statement of Comprehensive Income, the amounts of the assets and liabilities reported at the end of the reporting period in the Balance Sheet and the information published in the Financial Statement for the period. These estimates, which apply in particular to the valuation of assets, and determination of impairment of assets and provisions, are based on information available at the end of the reporting period. The actual results may significantly differ from these estimates mainly due to the changes in market conditions. That can have a significant impact on the financial statements and presented financial situation and performance in the future.

The main areas in which material differences may occur between the actual result and the estimate include, in particular, allowances for loans, revaluation of derivative instruments for cash flow hedge including measurement of its effectiveness and provisions for potential liabilities. Information about the key forward-looking assumptions and about other key sources of uncertainty in the estimates at the end of the reporting period, which involves a significant risk of causing material adjustments to the carried amounts of assets and liabilities in the next period, is provided within the relevant chapters.

IV. Additional information to the Statement of financial position

IV.1 Cash and Cash Equivalents, balances with Central bank

Cash and cash equivalents (in CZK '000)	31 December 2018	31 December 2017
Cash, balances with Central bank and valuables	10,506	237,137
TOTAL	**10,506**	**237,137**

IV.2 Receivables from Banks and Other Financial Institutions

Receivables from financial institutions (in CZK '000)	31 December 2018	31 December 2017
Bank accounts	34,598	47,986
Term-accounts	930,072	930,000
TOTAL	**964,670**	**977,986**
RECEIVABLES FROM FINANCIAL INSTITUTIONS (NET VALUE)	**964,670**	**977,986**

IV.3 Receivables from Clients

Receivables from clients (in CZK '000)	Stage 1	Stage 2	Stage 3	Total 31 December 2018	Total 31 December 2017
Loans provided	9,046,599	2,413,378	2,010,206	13,470,183	14,523,648
Allowances for receivables	-51,252	-165,000	-1,393,791	-1,610,043	-1,976,990
NET VALUE OF RECEIVABLES FROM CLIENTS	**8,995,347**	**2,248,378**	**616,415**	**11,860,140**	**12,546,658**

Change in allowances for receivables (in CZK '000)	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2018	-64,160	-258,946	-1,786,446	-2,109,552
New loans	-46,652			-46,652
Maturity	16,672	31,572	396,673	444,917
Transfer to (from) Stage 1	-4,878	51,494	23,898	70,514
Transfer to (from) Stage 2	5,572	-53,267	20,563	-27,132
Transfer to (from) Stage 3	678	28,037	-174,844	-146,129
Charge/Reversal	41,516	36,110	-345,419	-267,793
Reversal of used provisions	0	0	471,784	471,784
Balance as at 31 December 2018	**-51,252**	**-165,000**	**-1,393,791**	**-1,610,043**

IV.4 Investments securities

Name, registered office (in CZK '000)	% of share capital	Amount of equity for the 2018 accounting period *preliminary data	Accounting income for the 2018 accounting period *preliminary data
Společnost pro informační databáze, a.s. Praha 4, Antala Staška 510/38	27.96%	30,772	13,620

Společnost pro informační databáze, a.s. (SID, a.s.) was not included in the consolidation group because BNP Paribas Personal Finance SA, odštěpný závod does not have the position of a controlling or managing entity and because the investment in SID, a.s. is without any significance for the Bank in terms of the Balance sheet total, net turnover and equity.

In 2018, the value of this ownership interest was revaluated using the equity method at the closing date.

Name, registered office (in CZK '000)	% of share capital	Acquisition cost of financial asset	Valuation difference (equity method) * preliminary data	Value on re-measurement at 31 December 2017 (equity method) * preliminary data
Společnost pro informační databáze, a.s. Praha 4, Antala Staška 510/38	27.96%	572	8,031	8,603

The Bank is not a member with unlimited liability.

IV.5 Tax Assets: Deferred Tax

Deferred tax (in CZK '000)	31 December 2018			31 December 2017		
Item	Temporary difference	Tax rate	Deferred tax	Temporary difference	Tax rate	Deferred tax
Tangible and intangible non-current assets	-19,781	19%	-3,758	29,557	19%	5,616
Amortisation of fees		19%		-95,277	19%	-18,103
Allowance for receivables	587,699	19%	111,663	848,538	19%	161,222
TOTAL ASSETS	**567,918**		**107905**	**782,818**		**148,736**
Amortisation of fees		19%		1,071	19%	203
Liabilities arising from industrial relations	61,504	19%	11,686	61,263	19%	11,640
Provision for commitments given	24,660		4,685			
TOTAL LIABILITIES	**86,164**		**16,371**	**62,334**		**11,843**
Revaluation (hedging derivatives)	**-1,046**		**-199**	**-2,905**		**-552**
TOTAL DEFERRED TAX ASSET	**653,036**		**124,077**	**842,309**		**160,027**

IV.6 Property and Equipment

Tangible non-current assets (in CZK '000)	Buildings and constructions	Machines, instruments and equipment and furnishings	Computers	Passenger cars	Tangible non-current assets total
ASSETS AS AT 1 JANUARY 2017 AT COST	**53,314**	**25,030**	**100,634**	**1,358**	**180,337**
Additions to non-current assets	12,630	7,728	3,139		23,497
Disposals of non-current assets		-18,272	-33,035	-763	-52,070
Transfer of completed capital projects	-154	-9,969	-21		-10,144
ASSETS AS AT 31 December 2017 AT COST	**65,790**	**4,517**	**70,717**	**595**	**141,620**
Accumulated depreciation as at 1 Jan 2017	-53,314	-20,903	-93,757	-1,358	-169,332
Current year depreciation	-4,877	-381	-5,848		-11,106
Current year provisions	1,863				1,863
Net book value of non-current assets disposed of during the period		18,254	33,037		51,291
Accumulated depreciation of non-current assets disposed of during the period				763	763
Accumulated depreciation and provisions as at 31 Dec 2017	-56,328	-3,030	-66,568	-595	-126,521
Net book value of tangible non-current assets as at 31 December 2017	**9,462**	**1,487**	**4,149**		**15,099**
ASSETS AS AT 1 JANUARY 2018 AT COST	**65,790**	**4,517**	**70,717**	**595**	**141,620**
Additions to non-current assets	40,876	3,266	8,489		52,631
Disposals of non-current assets	-21,403	-579	-12,242	-595	-34,819
Transfer of completed capital projects	-14,817	-530	-1,825		-17,172
ASSETS AS AT 31 December 2018 AT COST	**70,446**	**6,674**	**65,139**		**142,260**
Accumulated depreciation as at 1 Jan 2018	-56,328	-3,030	-66,568	-595	-126,521
Current year depreciation	-8,063	-707	-4,780		-13,550
Current year provisions	1,956		1,617		3,573
Net book value of non-current assets disposed of during the period	20,025	183	12,239		32,447
Accumulated depreciation of non-current assets disposed of during the period				595	595
Accumulated depreciation and provisions as at 31 Dec 2018	-42,410	-3,554	-57,492		-103,456
Net book value of tangible non-current assets as at 31 December 2018	**28,036**	**3,120**	**7,647**		**38,804**

IV.7 Intangible Assets

Intangible non-current assets (in CZK '000)	Software	Additions to intangible non-current assets	Intangible non-current assets
ASSETS AS AT 1 JANUARY 2017 AT COST	**373,927**	**218,720**	**592,647**
Additions to intangible non-current assets		120,631	120,631
Disposals of intangible non-current assets	-16,873		-16,873
Transfer of completed capital projects	317,680	-317,680	
ASSETS AS AT 31 December 2017 AT COST	**674,734**	**21,671**	**696,405**
Accumulated amortisation as at 1 January 2017	-353,426		-353,426
Current year amortisation	-24,396		-24,396
Net book value of intangible non-current assets disposed of during the period	16,873		16,873
Accumulated amortisation as at 31 December 2017	-360,949		-360,949
Net book value of intangible non-current assets as at 31 December 2017	**313,785**	**21,671**	**335,456**
ASSETS AS AT 1 JANUARY 2018 AT COST	**674,734**	**21,671**	**696,405**
Additions to intangible non-current assets		122,980	122,980
Disposals of intangible non-current assets	-38,811		-38,811
Transfer of completed capital projects	66,161	-66,161	
ASSETS AS AT 31 December 2018 AT COST	**702,084**	**78,490**	**780,574,**
Accumulated amortisation as at 1 January 2018	-360,949		-360,949
Current year amortisation	-81,716		-81,716
Current year provisions	535		535
Net book value of intangible non-current assets disposed of during the period	38,811		38,811
Accumulated amortisation as at 31 December 2018	-403,319		-403,319
Net book value of intangible non-current assets as at 31 December 2018	**298,765**	**78,490**	**377,255**

IV.8 Other Assets

Accruals and other assets (in CZK '000)	31 December 2018	31 December 2017
Trade receivables	134,230	107,600
Prepaid expenses	52,030	28,088
Hedging Derivatives – (Interest Rate SWAP)	1,321	3,156
TOTAL ACCRUALS AND OTHER ASSETS	**187,581**	**138,844**

Temporary asset accounts contain prepaid expenses (prepaid overhead consumables, technical support for information systems, etc.), and other assets, including trade receivables related to other income and receivables from an Interest Rate SWAP.

IV.8.1. Hedging derivatives

Hedging derivatives (in CZK '000)	31 December 2018		31 December 2017	
	Positive Fair Value	Negative Fair Value	Positive Fair Value	Negative Fair Value
Hedging of cash flow				
Interest rate SWAP	1,321	-	3,156	-
TOTAL HEDGING DERIVATIVES	**1,321**	**-**	**3,156**	**-**

Total nominal value of derivatives used for the purpose of interest risk hedge was 100 million CZK as at 31 December 2018. The derivatives value decreased due the decision of the central ALM Treasury BNP Paribas Personal Finance from France against year 2017, when their value as at 31 December 2017 was 1,000 million CZK.

Derivatives for hedging purposes are primarily concluded on the basis of contract with BNP Paribas and are measured at fair value based on the methods used by BNP Paribas. Positive fair value is stated in the Statement of the Financial Position in the line "Other assets", negative fair value is presented in line "Other liabilities".

Cash flows are expected in accordance with the maturity of the hedged instruments (bonds are due in 2019). In the accounting period, the statement of Comprehensive income showed a cost of realized interest rate derivatives of 37 thousand CZK and revenues of 2,085 thousand CZK. In 2017, it was a cost of 712 thousand CZK and a revenue of 389 thousand CZK. No other transactions or accounting operations during the accounting period were realized.

IV.9 LIABILITIES TO BANKS AND CLIENTS

Liabilities to financial institutions (in CZK '000)	31 December 2018	31 December 2017
Bank accounts (overdraft)		2,574
Secured bank loans	3,837,044	3,950,862
Unsecured bank loans	4,773,549	6,329,548
TOTAL LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS	**8,610,593**	**10,280,410**

Secured bank loans are covered by the guarantee provided by the parent company BNP Paribas S.A.. Unsecured bank loans are provided by related parties.

Changes of Liabilities' from financing transactions (in CZK '000)	BANKS LOANS	DEBT SECURITIES
OPEN BALANCE AS AT 1 JANUARY 2018	**10,280,410**	**1,501,776**
Cash - liabilities repayment	-15,302,708	-18,640
New drawdowns	13,635,461	
Others changes in current accounts	-2,570	23,933
CLOSING BALANCE AS AT 31 DECEMBER 2018	**8,610,593**	**1,507,249**

Liabilities to customers (in CZK '000)	31 December 2018	31 December 2017
Current accounts	122,318	9,929
Saving accounts	1,370,238	15,865
TOTAL LIABILITIES TO CUSTOMERS	**1,492,556**	**25,794**

Liabilities to customers as at 31.12.2017 were reported in the previous year in other liabilities.

IV.10 Issued Debt Securities

Debt Securities (in CZK '000) Title	Issue date	Maturity date	Total nominal value	Interest rate	31 December 2017	31 December 2017
CETELEM ČR VAR/19	8. 10. 2014	8. 10. 2019	1 500 000	6M Pribor+0,46 %	1,507,249	1,501,776
DEBT SECURITIES					**1,507,249**	**1,501,776**

IV.11 Provisions

Provisions (in CZK '000)	31 December 2018	31 December 2017
Provision for the tangibles	4,811	4,811
Provision for litigation	1,950	4,850
Provision for payroll	4,503	4,550
Provision for loan commitments		
Stage 1	5,670	
Stage 2	22,224	
Stage 3	2,930	
TOTAL PROVISIONS	**42,088**	**14,211**

Change of provisions (in CZK '000)	Other	Stage 1	Stage 2	Stage 3	Total
Balance as at 1 January 2018	14,211	7,883	34,909	5,124	62,127
Maturity		-2,460	-4,622	-1,685	-8,767
Transfer to (from) Stage 1		459	-14,805	-474	-14,820
Transfer to (from) Stage 2		-457	8,474	-377	7,640
Transfer to (from) Stage 3		-64	-1,977	2,154	113
Charge/Reversal	-2,947	309	245	-1,812	-4,205
Closing balance as at 31 December 2018	**11,264**	**5,670**	**22,224**	**2,930**	**42,088**

In 2018 the Bank created provisions for the Bank's contingent liabilities arising from remuneration of management where the payment depends on the fulfilment of conditions in the future periods. During the year 2018 this provision was partially dissolved.

IV.12 TAX RECEIVABLES: CURRENT TAX

Income tax payable (in CZK '000)	31 December 2018	31 December 2017
Current period income tax	-99,257	-119,682
Income tax advance	179,429	267,652
INCOME TAX ASSETS	**80,172**	**147,970**

IV.13 OTHER LIABILITIES

Accruals and other liabilities (in CZK '000)	31 December 2018	31 December 2017
Accrued income	13	43
Prepaid expenses	138,588	157,217
Trade payables and other liabilities	307,193	290,366
ACCRUALS AND OTHER LIABILITIES	**445,794**	**447,626**

Accrued revenue consists of payments received from clients in respect of a future period and amortised by the effective interest rate.

Prepaid expenses consist of trade payables affected by the time lag occurring during the operations related to loan provision as at the book closing date (time lag between the date on which loans are granted and the date on which the relevant funds are debited to the Bank's bank accounts to be credited to authorised dealers' and clients' accounts).

Trade payables and other payables comprise payables arising from labour-law relations, specifically unpaid wages, unpaid insurance and the down payment for employees' income tax for December 2018, payable in January 2019, the tax liability in respect of indirect taxes payable in January 2019, and liabilities to suppliers, including estimated items. Estimated items comprise the costs related to the current period, the amount of which was not precisely known as at the date of the financial statements. They include, in particular, unbilled supplies of services and goods (services purchased in connection with loan provision, supplies of utilities, postal charges, telecommunications services, database administration etc.).

As at 31 December 2018, the Bank had no payables overdue for more than 180 days, nor did it have any other liabilities not stated in the Balance Sheet.

The item "Trade payables and other liabilities" as at 31.12.2017 in the previous annual report

contained liabilities to customers of 25 794 thousand CZK. These liabilities to customers are now reported under "Liabilities to customers".

IV.14 EQUITY

As at 31 December 2018, the Bank's equity was 1,553,528 thousand CZK; as at 31 December 2017 amounted to 2,300,963 thousand CZK. The equity comprises Reserves allocated to branch, Profit for the current period, and other comprehensive gains and losses from revaluation of hedging derivatives.

Incomes, losses from revaluation and revaluation of assets and liabilities represent revaluation of shares in SID, a.s. and revaluation of hedging derivatives at fair value and deferred tax from revaluation.

On 3 April 2018 the founder decided to transfer part of retained earnings in the amount of 1,145,732 thousand CZK.

Until the Balance sheet preparation date the founder has not decided on a capital transfer the year 2018.

V. STATEMENT OF COMPREHENSIVE INCOME: EXPLANATORY NOTES

V.1 NET INTEREST INCOME

Net interest income (in CZK '000)	31 December 2018			31 December 2017		
	Income	Expense	Net income	Income	Expense	Net income
Client transactions						
Credit and loans	1,578,455		1,578,455	1,866,141		1 866,141
Deposits		-97,236	-97,236		-14	-14
Transactions with banks and other financial institutions						
Deposits, interest and loans	2,085	-24,150	-22,065	11,158	-80,986	-69,828
NET INTEREST INCOME /(EXPENSE)	**1,580,540**	**-121,386**	**1,459,154**	**1,877,299**	**-81,000**	**1,796,299**

Net interest income comprises all income and expenses related to financial instruments and reported using the method of amortisation of costs (interest, fees, commissions, and transaction costs), the amount of which is measured using the effective interest rate method.

V.2 FEES AND COMMISSIONS

Fees and commissions (in CZK '000)	31 December 2018			31 December 2017		
	Income	Expense	Net	Income	Expense	Net
Client transaction charges	189,228		189,228	218,707	-3,149	215,558
Payment transaction charges	4,319	-204	4,115	4,725		4,725
Fees for foreign currency operations		-3,045	-3,045	12		12
Commissions from insurance	192,449		192,449	186,792		186,792
Other income/expenses		-21,432	-21,432	22,483	-30,603	-8,120
NET INCOME ON FEES	**385,996**	**-24,681**	**361,315**	**432,719**	**-33,752**	**398,967**

Charge and commission income and expense comprise, in particular, the fees, commissions and contract penalties related to the Banks's core business – the provision of loans; they do not constitute the initial direct income and expense reflected in the measurement of interest income using the effective interest rate.

V.3 DIVIDEND INCOME

In 2018, the Bank received dividends at the amount of 3,947 thousand CZK. In 2017 the Bank received dividends at the amount of 3,769 thousand CZK.

V.4 OTHER INCOME AND EXPENSE

Net income from other activities includes the Bank's income and expenses related to the provision of non-core services. In 2018, other net income amounted to 73,239 thousand CZK,

in 2017 other net income to 4,199 thousand CZK.

V.5 Personnel Costs

Employee costs (in CZK '000)	31 December 2018	31 December 2017
Wage costs	-357,990	-344,133
Personnel costs	-31,479	-32,952
Social and health insurance	-111,384	-107,383
Social fund (Short-term benefits)	-10,650	-7,500
TOTAL PAYROLL COSTS	**-511,503**	**-491,968**

The wage costs for the year 2017 also include a net change in reserve items that are of the nature of personnel costs. This change from the previous year amounted to 1 012 thousand CZK.

Year	Total	Of whom, managers
2017	**496**	**7**
2018	**537**	**6**

V.6 Operating Costs

Operating costs (in CZK '000)	31 December 2018	31 December 2017
Costs of payment instruments	-18,344	-10,670
Rent	-51,185	-43,909
Travel costs	-11,964	-10,957
Information technology	-386,633	-337,810
Low-value tangible and intangible assets	-9,391	-9,563
Other services	-221,583	-198,150
Other taxes and charges	-8,746	-10,742
Others	75,201	68,646
NET OPERATING COSTS	**-632,645**	**-553,155**

Other operating costs for the year 2017 also include a net change of reserve items. This change from the previous year amounted to CZK 1 thousand CZK.

V.7 Depreciation and allowances for Property, Plant and Equipment

Depreciation and allowances for property and equipment (in CZK '000)	31 December 2018	31 December 2017
Buildings and equipment	-6,107	-3,014
Computers	-3,163	-5,848
Vehicles		
Other tangible assets	-707	-381
TOTAL DEPRECIATION AND ALLOWANCES FOR PPOPERTY AND EQUIPEMENT	**-9,977**	**-9,243**

V.8 Amortisation and allowances for Intangible Assets

Amortisation and allowances for intangible assets (in CZK '000)	31 December 2018	31 December 2017
Software	-81,183	-24,396
TOTAL AMORTISATION AND ALLOWANCES FOR INTANGIBLE ASSETS	**-81,183**	**-24,396**

V.9 Impairment of Receivables

Cost of risk for the current period (in CZK '000)	31 December 2018	31 December 2017
Stage 1	12,908	
Stage 2	93,946	
Stage 3	-67,110	
TOTAL COST OF RISK	**39,743**	**25,691**

Cost of risk for the current period by type of asset (in CZK '000)	31 December 2018	31 December 2017
Loans to and receivables from clients	39,743	25,691
TOTAL ALLOWANCE	**39,743**	**25,691**

The Bank wrote off the loss-making receivables whose value decreased due to permanent impairment caused by fraud or death of the debtor, and the write-off of which is, under the income tax act, tax allowable, and also receivables which the Company, given its long-term experience, does not expect to recover or the Company is not able to collect actively because the period expired. The amount written-off was 308,974 thousand CZK in 2018 and CZK 311,537 thousand in 2017. In 2018, the income from written-off outstanding amounted to 114,738 thousand CZK, in 2017 to 56,663 thousand CZK.

V.10 Impairment of Assets

Asset impairment means a realised loss or gain from the disposal of the non-current assets used for operating activities and intended for replacement.

Others (in CZK '000)	31 December 2018	31 December 2017
Impairment of assets	-1,186	313
Others	-72	
CELKOVÉ NÁKLADY	**-1,258**	**313**

V.11 PROVISIONS

Provisions (in CZK '000)	31 December 2018	31 December 2017
Provisions for loan commitments		
Stage 1	2,213	
Stage 2	12,685	
Stage 3	2,194	
CELKOVÉ NÁKLADY NA RIZIKO	**17 092**	

Reporting of reserve items has changed in 2018, which are reported according to the nature of the reserve. The difference from the previous year is -1 012 thousand CZK, which is reported in the personnel costs, and 1 thousand CZK, which is reported in operating costs.

V.12 INCOME TAX

Income tax (in CZK '000)	31 December 2018	31 December 2017
Profit before tax under IFRS	714,924	1,150,476
IFRS adjustments		-38,725
Profit before tax under CAS	714,924	1,111,751
- Non-tax deductible income	-934,664	-571,642
- Non-tax deductible costs	742,715	90,256
Income tax rate	19%	19%
- Tax deductions	108	88
Current income tax (provision for income tax)	-99,257	-119,682
The rest of income tax for previous year	917	-8,712
Total income tax	**-98,340**	**-128,394**
Other items – temporary differences	654,082	845,152
The change of deferred tax against previous year	-323,632	650,790
Tax rate for deferred tax calculation	19%	19%
Deferred tax	**-61,490**	**123,650**
INCOME TAX	**-159,830**	**-4,744**

As at 31 December 2018, the effective tax rate was 22.36 %.

VI. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

VI.1 OVERALL PRESENTATION OF RISKS

The management strategy of BNP Paribas Personal Finance SA, odštěpný závod is to apply a prudent and balance approach in all areas of taken risks – credit risk, market risk, particularly in the area of liquidity risk, interest rate risk, operational risk and regulatory risk. The Bank's core business in the Czech Republic is the provision of consumer loans to private individuals and the provision of services related thereto. The Bank is mainly exposed to risks concerning to this segment. The objective of risk management is to maintain stable long-term profitability of the Company through various risk management tools, especially statistical models and processes, skilled employees and the application of the rules of BNP Paribas Group.

The Bank has been and still can be exposed particularly to the external environment influence due to a significant deterioration in market, economic and regulatory conditions, in particular the deterioration in the credit or liquidity market, increasing protection of consumer or from macroeconomic situation (recession, decline in household consumption, unemployment, etc.).

Market failure and a sharp economic decrease, which may occur rapidly and therefore they cannot be fully predicted, could impact the business environment for the financial institutions for a short or long period of time. They could have had a significant adverse impact on the financial situation of the Bank, its business, economical result or the cost of risk.

The following major risks have been identified in the context of these activities:

- **Credit risk –** in terms of receivables from clients or business partners represents an existing or threatening risk of loss in economic value due to the failure of clients to meet their obligations, it is associated with changing creditworthiness of a debtor;
- **Interest rate risk (market risk)** – the Bank provides loans to private individuals and/or business owners under terms and conditions that are fixed contractually when the loan is being granted. Interest rate risk is a change in market interest rates during the contractual relationship. To ensure the stability of net interest income, the tariff rate must be ensured against any fluctuations in the economic environment, especially against changes in the market rates (interest rate risk);
- **Liquidity risk –** represents potential loss due to lack of sufficient financial means to cover liabilities from the business. The Bank must ensure that mainly sufficient funds to cover the loans provided to its clients are available to it throughout its life (liquidity risk);
- **Operational risk –** risk of loss due to shortcomings or failures of internal processes, the human factor or the system, or risk of loss due to external factors, which lead or could lead to the loss of opportunity or to the loss of profit. Operational risk includes legal risks, bud excludes strategic and reputational risks.
- **Regulatory risk** – risk of loss due to legal regulation changes which influence significantly entrepreneurship of the Bank.

VI.2 CREDIT RISK

Credit risk represents an existing or potential risk of loss of economic value of receivables on loans due to clients' default. It is associated with deterioration in the borrowers' credit quality, which may lead to losses for the Bank. The estimated probability of a credit event (litigation, failure), as well as expected effectiveness of recovery actions in case of credit event (litigation, failure) are key parameters of credit quality measurement. The loan portfolio does

not contain any significant individual items: it consists of a large number of loans with relatively small amounts to be repaid, and with a small correlation between loans.

The risk of other counterparties, where exists or may arise financial obligatory to the Bank, is also monitored within credit risk management.

Risk of clients' insolvency

The risk of insolvency proceedings comprises the risk of bankruptcy being declared in respect of the client's assets (or the bankruptcy is not being declared due to the insufficient assets to cover management costs), resulting in an initiation of mechanisms foreseen by law for the discharge of debts. Therefore, the Bank is exposed to a risk of financial losses due to a lower recoverability, limited amount of recoverable debt and due to a longer period of receivables recovery. The risk of clients' insolvency is regularly monitored within the uniform system for evaluating credit risk.

Risk of early repayment

The risk of early repayment is the risk that clients could pay their liabilities earlier and higher amount than expected, resulting in a financial loss for the Bank. The risk of early repayment of granted loans is regularly observed and monitored. In the current period was not achieved significant deviation from the anticipated development.

Impact of the macroeconomic development on the credit risk management

The credit risk development can be adversely affected by the macroeconomic development. The credit risk in the area of providing consumer loans is particularly sensitive to rising unemployment, prises and the gradually increasing indebtedness of households even leading to excessive indebtedness and growing number of personal bankruptcies. The Bank´s used criteria for an approval of loans are focused to minimize the losses caused by the aforementioned negative effects. A part of risk management standard procedures is an assistance service for clients having problems with the repayment of their loans.

VI.2.1 Credit risk management

In order to manage the credit risk, the Bank uses the uniform methodology defined by the central risk management and is adjusted in procedures of the Group applied by the BNP Paribas Personal Finance. The methods and tools for risk management depend on the type of loans. Selection and ongoing monitoring of distribution channel is critical for consumer loans. Loans are provided to clients in accordance with the segmentation by using scoring models and expert systems. Credit risk of business partners is restricted by monitoring of maximum limits of risk set for each vendor.

External databases are used for appraisal of creditworthiness of clients and business partners. Used databases are Solus and CBCB – Czech Banking Credit Bureau and both are operated by interest associations of legal entities.

The highest internal body for credit risk management in particular areas, for assessing and approving limits on credit risk for all credit transactions and products is a **Risk Committee**. The Risk Committee assesses and approves the principles of business policy with respect to credit risk management; assesses and approves non-standard loan transactions exceeding the limits defined for system assessment and approval of credit transactions; defines and approves the system of measurement and management of credit risk, including the level structure of credit portfolio of the Bank to achieve specified levels of financial goals; compares and assesses actual development of credit risk with defined goals; monitors and manages changes

in setting rules for loan approval and approves corrective measures in case of exceeding set limits. During risk management of other counterparties, where exists or may arise financial obligatory to the Bank, monitors mainly compliance with the exposure to individual counterparties. The Risk Committee has one subcommittee which main purpose is consulting, evaluating and taking action in the area connected with providing funding to cooperating business partners.

The Risk Direction is a separate organisational unit, independent of the Banks's business and financial activities and is responsible for overseeing the Banks's credit risk, including:

- Determination of the conditions for lending and conditions of co-operation with trading partners;
- Provision of system support for loan transactions;
- Credit risk monitoring, measuring and reporting;
- Realizing remedial measures when limits are exceeded or adverse trends emerge;
- Management of data infrastructure and the analytical systems that support risk management;
- Definition of procedures for the prevention of fraudulent operations;
- Contributing to the formulation of the Company's internal rules and work procedures;
- Review of the credit risk scoring models.

VI.3 MARKET RISK (RISK OF LOSS FROM ASSETS AND LIABILITIES MANAGEMENT)

All financial instruments and positions of the Bank are exposed to market risk, i.e. the risk that a future change in the market conditions may impair the value of or may disadvantage a certain instrument.

The Bank uses methods and procedures for credit risk and currency risk management applied by the BNP Paribas Group. The purpose is to manage the risk of the fluctuations in net interest income which are caused by changes in interest rates, foreign exchange rates, and the maturities of financial instruments, through the asset/liability gap analysis and the approved limits in each of the groups.

VI.3.1 Market Risk Management

The Committee for assets and liabilities management is the supreme authority for the management of assets and liabilities; discusses the analysis of the structure of assets and resources to cover them. The Committee mainly monitors and manages interest rate risk and liquidity risk; assesses actual amount of available resources and proposes requirements of refinancing for the specified following period; interprets risk and in case of need takes decision; decides about the securing from; supervises compliance of limits set for a different types of refinancing and their correspondence with the Group's policy; reviews the availability of resources, their amount in relation to business plans and plans for future development of the Bank; seeks and evaluates alternative refinancing options and monitors compliance with the capital adequacy required by law and discusses its amount with competent units of the Group.

VI.3.2 Interest Rate Risk

Interest rate risk is the risk of a change in the value of a financial instrument as a result of a change in the market interest rates. The period of time for which the financial instrument's

interest rate is fixed indicates the extent to which the instrument is exposed to the interest rate risk resulting from different maturities. Interest rate risk is also caused by the different maturities of underlying floating-rate financial instruments. The Bank provides, for the most part, fixed-rate loans with fixed maturity, which bear no interest rate risk attributable a variable nature of their pricing conditions. Interest rate risk is also minimised by the selection of a refinancing form corresponding to the financial asset's profile at the time of its inception, refinancing sources with the floating interest rate are provided in the form of hedging derivatives.

VI.3.3 Currency Risk

Currency risk emerges when the economic value of a foreign-currency financial instrument is affected by changes in foreign exchange rates. To eliminate this risk, such financial asset must be matched by a liability denominated in the same currency in which the asset was provided. The currency risk management is governed by the principle that customer products are funded by refinancing sources in the same currency. The Bank does not record foreign-currency assets and liabilities in amounts at which a change caused by exchange rate fluctuations could cause material impact on Profit and Loss. The functional currency of the Bank is the Czech crown and its activities are carried out mainly in Czech crowns.

VI.3.4 Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to obtain sufficient readily available funds to meet its liabilities resulting from financial contracts. Assignable financial instruments (assets/liabilities) with a variable interest rate, identical underlying rate, but different maturity, cause the liquidity risk. The liquidity risk results from various maturities of assets and liabilities, and it comprises the risk that the Bank would not be able to finance its assets as of the relevant maturity date and in the corresponding rate, and the risk that the Issuer would not be able to fulfil its liabilities as they become due.

The Bank's approach to liquidity management is based on providing for sufficient liquidity to pay all of its liabilities as they fall due under both ordinary and extraordinary circumstances without incurring any material losses. The Bank monitors on a regular basis the maturities of the various financial assets and liabilities and the information supporting the planned cash flows. The daily liquidity position is recorded and is regularly tested against various scenarios reflecting both normal and adverse market conditions.

The Bank creates a liquidity reserve in the form of short-term deposit in case of the liquidity crisis.

The Bank uses different refinancing methods. For the most part, financing is provided for through bank loans from third parties, bank loans within the Group, debt securities, and the Bank's own funding. Support by the BNP Paribas Group, also in the form of hedging liabilities of the Bank, is one of the pillars of the Bank's liquidity management; it improves financing flexibility and reduces the risks inherent in the dependence on other sources and the risk of potential adverse impacts.

Financial assets and liabilities by maturity as at 31 December 2018 (in CZK '000)	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	TOTAL
Loans to and other receivables from clients	943,736	1,305,384	4,807,769	5,394,091	895,381,	13,346,361
FINANCIAL ASSETS BY MATURITY	943,736	1,305,384	4,807,769	5,394,091	895,381	13,346,361
Liabilities to financial institutions	423,562	1,239,932	3,307,066	3,500,033	140,000	8,610,593
Bonds			1,507,249			1,507,249
FINANCIAL LIABILITIES BY MATURITY	420,000	1,220,000	5,137,249	3,180,000	110,000	10,067,249
NET POSITION	**523,736**	**85,384**	**-329,480**	**2,214,091**	**785,381**	**3,279,112**

Financial assets and liabilities by maturity as at 31 January 2017 (in CZK '000)	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	TOTAL
Loans to and other receivables from clients	908,192	1,435,598	5,365,555	4,025,736	91,298	11,826,377
FINANCIAL ASSETS BY MATURITY	908,192	1,435,598	5,365,555	4,025,736	91,298	11,826,377
Liabilities to financial institutions	705,000	1,590,000	4,205,000	3,670,000	80,000	10,250,000
Bonds				1,498,294		1,498,294
FINANCIAL LIABILITIES BY MATURITY	705,000	1,590,000	4,205,000,	5,168,294	80,000	11,748,294
NET POSITION	**203,192**	**-154,402**	**1,160,555**	**-1,142,558,**	**11,298**	**78,083**

VI.4 Operational Risk

Operational risk is the risk resulting from inadequacy or failures of internal processes, people and systems or from external events, which had, could have or could have had the consequence of the lost or opportunity cost.

Operational risk comprises the human resource risks, the compliance risk, legal risks, tax risks, information system risks, outage risks, risks related to financial information disclosure, and the reputation risk (public reputation of the Bank).

VI.4.1 Operational risk management

The main aim of operational risk management is the preparedness for critical situations and minimisation of potential losses of the Bank by increasing the efficiency of management and control system, identification of strengths and weaknesses of the control mechanisms and creating the early warning system.

The operational risk management in the Bank takes into account:

- Own risk profile – own general exposure to the potential operational risk events;
- Risk tolerance – the degree of exposure to the operational risk, which the Bank is able to accept.

The Bank set up these objectives and principles of operational risk management:

- Involvement of all employees in the operational risk management.

- Reduce the likelihood of operational risk incidents that could threaten:
    - The good name of the Bank;
    - The confidence of the clients, shareholders, investors, employees and supervising authorities towards the Bank;
    - The quality of services and products;
    - The profitability of its business;
    - The efficiency of processes.
- Maintaining effective management and control system with appropriate level of formalization.
- Set up an appropriate balance between risks taken and the cost of operational risk management system.

The Bank has put in place operational risk management standards and processes for compliance with these principles and objectives including:

- Monitoring of compliance with statutory regulations and other legal requirements.
- Definition and separation of each individual's competences.
- Compliance with the principles of independent multiple transactions' authorisations and their ex post checking and monitoring.
- Documentation of controls and procedures, including regular identification and assessment of operational risks.
- Regular reporting of operational risk incidents, assessment of its losses and definition of appropriate action plans.
- Measures to mitigate the impacts of risks, including insurance if considered to be effective.
- Preparation of crisis plans to manage emergency situations.
- System of training and professional development.
- Ethics and business standards.

The Internal Control Committee is the supreme authority for operational risk management. The agenda of the Committee is following:

- Discussion and evaluation of activities related to operational risk and security risk (physical and informational) including business continuity management
- Status of operational risk incidents (historical and potential) and their coverage by internal controls.

VI.4.2 Regulatory risk

The business environment is being increasingly affected by changes in legislation and the interpretations thereof by the governmental authorities competent to do so. Fully in line with the principles applied within the EU, the growing interest in boosting consumer protection, in particular, has a bearing on the Bank. Higher quality information provided to consumers, and hence their improved competence, also plays a major role. Organisations for consumer right protection are also important agents of change.

As an international banking entity (branch of the bank based in EU member state) , the Bank has been subject to supervision since mid-2015 over its founder in France. In the Czech Republic, over its branch through which the bank operates on the Czech market, the Czech National Bank exercises supervisory power. It is mainly in the area of consumer protection, payment, insurance distribution and AML.

The Bank is obliged to satisfy a number of regulatory requirements of the Czech Republic, France, as well as directly applicable EU legal norms. This is particularly the general legislation, and also those set out in special legislation on consumer credit, insurance distribution and personal data protection, regulations on labour law, and in laws and regulations on payment services, capital markets, taxes, bookkeeping and reporting. Changes in the above legislation can have a major impact on the market environment in which the Bank operates. However, these changes are not always fully predictable.

Any change in legislation or governmental authorities' decision-making practice, which results in a material change of the conditions for lending, any intervention with the position of lenders or with their capital, or the imposition of new obligations and restrictions – all of this can have unfavourable impacts on the Bank's business, results, financial standing, liquidity and business prospects.

In order to eliminate the regulatory risk, the Bank has in place a mechanism for monitoring legislative amendments and evaluating their impacts. Either on its own or as a member of professional organisations, the Bank monitors and evaluates legislative plans and also specific proposals put forth by the stakeholders in the law-making process in the Czech Republic, France and the EU. Since the legal framework within which the Bank in the Czech Republic carries on its business is continuously evolving, its future shape cannot be fully predicted, and the impacts on the Banks's activity in the Czech Republic therefore cannot be evaluated to the full extent.

From the point of view of the Consumer Credit Act, the Bank fulfils the statutory condition for the provision of consumer credit exclusively through staff holding a certificate of successful completion of a professional examination issued by an accredited person under the Consumer Credit Act. In the field of consumer credit distribution, the Bank cooperates only with independent intermediaries and tied agents authorized to mediate loans on the basis of an authorization issued by the CNB.

Where the Bank's business practices fail to meet the requirements of Consumer Credit Act or Payment Transaction Act, which are mainly placed on the particulars to be contained in agreements; advertising, and on performing the information obligations prior to and during the course of the relationship, or generally in the area of fulfilment of dealing with the customer during the relationship or assessment of the creditworthiness of the client, an administrative fine can be levied on the Bank, next to any claims made by clients.

As a result of contravening the Consumer Credit Act, the Bank can also face financial losses from credit transactions, as a result of the breach of the obligation to assess the creditworthiness of consumers or it may be held liable for the Bank's trade partners (credit intermediaries) failing to perform their own information obligations to clients.

The Bank also takes care to ensure compliance with legislation in other areas such as the protection of personal data.

The General Data Protection Regulation (GDPR), which entered into force in May 2018, introduced, amended and clarified a number of obligations in the field of personal data protection, significantly increased penalties for violations (up to 4% of world turnover). The main changes include the mandatory appointment of an authorized person for the protection of personal data, the proper notification of the customers regarding the processing of personal data, the opt-in mode for the granting of consent to the processing of personal data or strengthening the rights of the data subjects towards their administrators.

The Bank consistently evaluates changes in the regulatory environment with impact on debt

recovery processes. In particular, an amendment to the Insolvency Act, which makes available the possibility of debt relief to a wider circle of debtors, is crucial. In addition, the amendment allows the court, after five years of debt relief, to deprive the debtor of his outstanding debts, despite the fact that the debtor has not yet paid the 30% of his obligations.

In addition, the Bank also monitors proposals for amendments to the enforcement procedure aimed at introducing local exequatur, merging executions and adjusting the amount of non-recoverable amount in order to increase the borrowers' motivation to engage in a proper working process.

In December 2018, a new law on the distribution of insurance and reinsurance that implemented the EU IDD Directive entered into force. In the sense of the Act, the Bank offers both clients the option of becoming an insured, and acts as an insurance intermediary with a home Member State other than the Czech Republic. In both cases, the Bank is required to comply with its statutory obligations, in particular as regards the fulfillment of the information obligation to consumers.

Bank as a regulated banking subject has an obligation to continuously fulfill quality criteria for setting up and functioning of the internal control system, demands on management processes, risk management, the existence of appropriate technical, personnel and organizational requirements for prudent provision of payment services, payment security, or the protection of banking secrecy, all at the level of branch in the Czech Republic.

Along with the requirements of the new legal legislation, the Bank is constantly taking further steps to improve the security and integrity of its systems on its own. There are broad measures in place with respect to the amendment to the Cybersecurity Law.

As at the date of the financial statements, the Bank is not involved in any exceptional case or dispute such as would have a material impact on its financial situation, activity, results, or assets and liabilities. The Banks’s dispute agenda focuses on collecting of overdue receivables from clients.

The Bank is subject to the control of the processing of personal data by the Personal Data Protection Bureau and subject to verification of the fulfillment of obligations in the area of payment services provided by the Czech National Bank.

In the case of the two above-mentioned controls, control findings were identified by the supervisory and supervisory authorities with varying degrees of infringement. Therefore, the imposition of administrative sanctions cannot be ruled out.

VII. Other Information

VII.1 Off-balance sheet Receivables and Payables

As at 31 December 2018, the potential receivables arising from approved lines of credit and loan commitments to clients amounted to CZK 11,813,602 thousand and as at 1 January 2018 they amounted to CZK 13,646,732 thousand. Liabilities arising from approved lines of credit do not necessarily imply future disbursements, because a part of the future liabilities will be discharged without the funds being drawn in full.

Loan commitments to customers (in CZK '000)	31 December 2018	1 January 2018
Stage 1	10,676,224	12,408,549
Stage 2	947,396	1,040,541
Stage 3	189,982	197,642
TOTAL	**11,813,602**	**13,646,732**

VII.2 Contingent Assets and Liabilities

The Bank is not aware of any material contingent liabilities and does not record any contingent assets. As of the date of financial statements, the Bank does not register any exceptional case of dispute. The Bank is not aware of any risks resulting from potential administrative proceedings conducted by the inspectional or supervisory bodies.

VII.3 Related Parties

VII.3.1 Income and Costs

Relationships with the related parties Income Statement items (in CZK '000)	31 December 2018		31 December 2017	
	Parent company	Other related parties	Parent company	Other related parties
Interest expenses	-51,000	-4	-32,387	-669
Interest revenues	3,553	2,324	11,158	141
Commissions and fees	-3,306	192,148	-3,149	186,791
Services provided		104,336		66,881
Services received	-168	-229,416	-361	-143,439
TOTAL	**-50,921**	**69,388**	**-24,739**	**109,705**

VII.3.2 Amounts Receivable from and Payable to Related Parties

Relationships to related parties Balance Sheet items (in CZK '000)	31 December 2018	31 December 2017
Assets		
Term-accounts	936,078	930,000
Other assets	97,494	72,165
Receivables IRS	1,320	3,156
TOTAL ASSETS	**1,034,892**	**1,005,321**
Liabilities		
Amounts payable on loans	4,773,549	6,329,548
Other liabilities	82,316	37,126
TOTAL LIABILITIES	**4,855,865**	**6,366,674**

The transactions with related parties include relations with the founder BNP Paribas Personal Finance with a registered office at 1 boulevard Haussmann, 75009 Paris, France.

VII.3.3 Transactions with Members of the Bank's Management

Bank's Management	Receivables in respect of the loans and credit lines provided	Personnel expenses (wages, statutory payments)	Other benefits
31. 12. 2018	0	29,768	3,336
31. 12. 2017	144	38,588	5,380

Other benefits include income quantified under Act No 586/1992 for the purpose of determining income tax. They include, in particular, the free-of-charge availability of a car for both business and private use and contributions to private pension schemes and with-profits life assurance policies. Personnel costs fall into the category of short-term employee benefits.

The Bank's management were not granted any loans, credit or security by the Bank under conditions other than at arm's length in the relevant accounting period or in any previous periods. The interest rates and the terms and conditions of the loans provided to such persons corresponded to the terms and conditions offered by financial institutions at similar times and locations.

VII.4 Cost of Audit Fees

Information about the total cost of fees paid to auditor's company of the financial year ended 31 December 2018 is listed in the notes of consolidated financial statements of the parent company.

VII.5 SUBSEQUENT EVENTS

No other events that could significantly affect the Bank's results and development were recorded between the end of the reporting period, 31 December 2018, and the date of the financial statements.

Prague, 29 March 2019

Statutory authority	Person responsible for the Financial Statements
Emmanuel BOURG Head of Branch	Blažena VALKOŠÁKOVÁ Financial Director