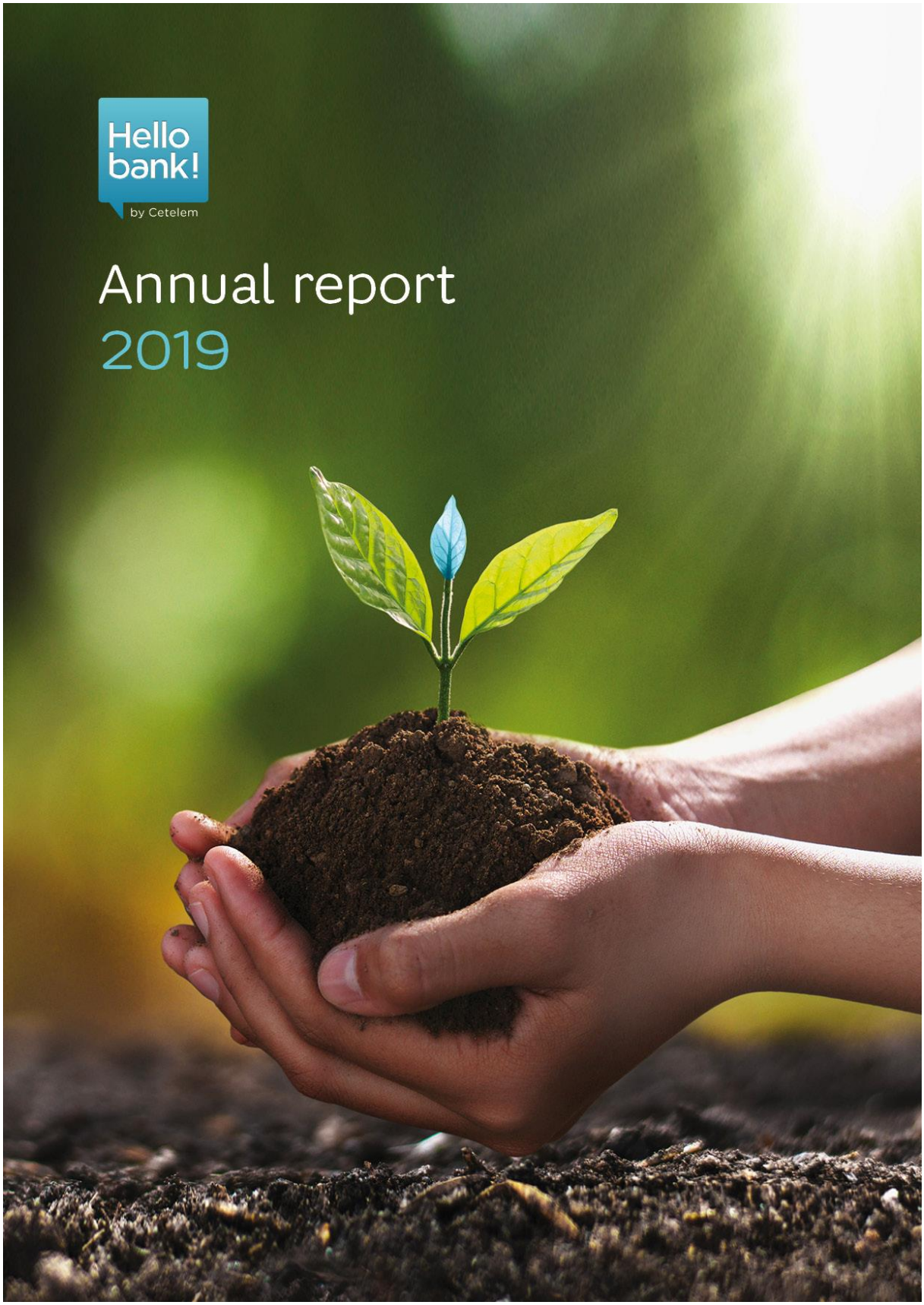
Hello bank!
by Cetelem

Annual report 2019



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1. FOREWORD

Dear ladies and gentlemen,

last year brought a lot of joy of success, new challenges and motivation for further development - both for us and for the life of our companies. Personally, I am very pleased with the opportunity to lead the Czech representation of BNP Paribas Personal Finance since August 2019 and it is my honour to present you with our financial results.

From the perspective of the Czech economy, this was a period of continued prosperity, as evidenced by its year-on-year growth 2.4%. Consumer optimism, a 7% increase in wages and the still very low unemployment rate, which was among the lowest in the EU, also supported expenditure. Confidence in the economy, the appetite for spending and the demand for housing finance were also reflected in the higher volume of borrowed funds of Czech households, by approximately 6% year on year. The volume of deposits increased by almost 7%.

Our bank completed more than two years of operation under the trademark Hello bank! The year 2019 was for us marked by stability, further development of services and fulfilment of the vision for easier everyday management of finance of ordinary consumers. It was also a year full of technological developments, not only in the context of the PSD2 regulatory directive. Well-arranged product and service parameters have gained the trust of our clients, along with a very competitive price offer and a user-friendly digital process. In year-on-year terms, we provided clients with a 4.5% higher volume of loans, including consolidation. In instalment sales, we financed goods in excess of CZK 1.5 billion in 1,800 stores and e-shops of our business partners. Despite the negative sentiment on the credit card market, which declined by approximately 7%, we managed to open more than 85,000 credit cards and maintain our market leading position in the volume of receivables from clients. Our deposit products and online banking on a computer or mobile phone have also found their place among clients. This is confirmed by 40,000 current and savings accounts opened till the end of the year, as well as more than 280,000 Internet banking subscriptions per month. I am pleased that the business results achieved in 2019 are beginning to generate the expected performance. Nevertheless, the overall financial indicators are mainly influenced by high IT investments and transformation costs of our company. We are gradually fulfilling the goals and confidence we have in the transformation to Hello Bank! contributed by our parent company BNP Paribas and we are contributing to its multiannual strategic business development plan set by 2022.

I am very pleased that also the areas that are not only measurable by numbers and financial analyses are increasingly entering the changing world of banking. In addition to providing banking services and technologies, responsible financing of our clients and ensuring their maximum service, we also feel committed to environmental and social issues. Together with constant innovations and efforts to bring the best to our clients, these are a challenge for the coming period not only for us but also for the entire BNP Paribas Group. The first step and our answer is Positive Impact Strategy - setting up an effective business model that balances our business and sustainable development. At its heart is a relevant product offering aimed at financing projects with positive environmental impact. But we also need to start with ourselves by recycling, reducing carbon footprint and paper consumption through the ongoing digitization of our services. Education, enlightenment and leadership are good examples. Thus, in setting our business goals, we need to enrich our strategy with social

responsibility indicators, fully in line with the United Nations Sustainable Development Goals. I believe that this new opportunity will strengthen us not only by implementing these priorities into the strategy of the entire BNP Paribas Group, but by gentle behaviour of each of us, we will do something for a better life for our company and for future generations.

However, we would not have achieved progress and success if it had not been with involved people. My big thanks go to all our employees for their work commitment, professional approach, openness to innovation and the humanity that makes us a team. However, we would certainly not be able to achieve our goals without our clients and business partners, to whom we owe our trust and favour. Last but not least, it is the support of our parent company BNP Paribas, whose stability we rely on and thanks to which we can develop our unique business model on the Czech market.

In 2020 we will make every effort to remain a reliable partner for you, and I believe that we will continue to enjoy mutual cooperation.

Bruno Leroux

Branch manager
BNP Paribas Personal Finance SA

2. OTHER INFORMATION

No other internal 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. However, it can be expected that the future economic performance of the bank will be strongly influenced by the worldwide pandemic Covid-19 with a consequent impact on the economic environment Given the strong international background, the Bank, 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

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 2019 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 2019
Audited period:	from 1 January 2019 to 31 December 2019
Financial reporting framework:	International Financial Reporting Standards as adopted by the European Union
Date of issue:	31 March 2020
Auditor:	Jiří Šimek Licence number 2024 Mazars Audit s.r.o. Licence number 158

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 2019, and the income statement and statement of comprehensive income, statement of changes in equity and 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 2019, 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 of 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.

Prague, 31 March 2020

Mazars Audit s.r.o.

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 2019 (CZK '000)			
Description	*Ref.*	*31 December 2019*	*31 December 2018*
ASSETS			
Cash and cash equivalents	IV.1.	118,533	10,506
Financial assets at amortised cost			
Receivables from banks	IV.2.	966,008	964,670
Receivables from clients	IV.3.	11,184,254	11,860,140
Financial assets at fair value			
Investment securities	IV.4.	9,941	8,603
Other long-term securities and investments	IV.4.	-	-
Property and equipment	IV.6.	195,511	38,804
Intangible assets	IV.7.	329,777	377,255
Tax assets – current tax	IV.12.	93,402	80,172
Tax assets – deferred tax	IV.5.	54,320	124,077
Other assets	IV.8.	190,844	187,581
TOTAL ASSETS		**13,142,590**	**13,651,808**
LIABILITIES		**11,855,399**	**12,098,280**
Financial liabilities at amortised cost			
Liabilities to banks	IV.9.	8,007,081	8,610,593
Liabilities to customers	IV.9.	3,265,177	1,617,152
Debt securities issued	IV.10.	-	1,507,249
Provisions	IV.11.	30,968	42,088
Other liabilities	IV.13.	552,173	321,198
BRANCHES´ RESERVES		**1,287,191**	**1,553,528**
Reserves allocated to branch	IV.14.	996,617	997,586
Gains, losses from revaluation of securities	IV.14.	-	-
Gains or losses from revaluation of assets and liabilities	IV.14.	-	1,047
Deferred tax from revaluation	IV.14.	-	-199
Profit/loss for the period	IV.14.	290,574	555,094
TOTAL LIABILITIES		**13,142,590**	**13,651,808**

5. STATEMENT OF COMPREHENSIVE INCOME

Statement of Comprehensive Income for the year ending 31 December 2019 (in CZK '000)			
Description	*Ref.*	*31 December 2019*	*31 December 2018*
Interest income	V.1.	1,438,704	1,580,540
Interest expense	V.1.	-191,034	-121,386
NET INTEREST INCOME		**1,247,670**	**1,459,154**
Income from fees and commissions	V.2.	365,328	385,996
Fee and commission expenses	V.2.	-25,820	-24,681
NET INCOME FROM FEES & COMMISSIONS		**339,508**	**361,315**
Dividend income	V.3.	3,707	3,947
Gains and losses from investments	V.3.	1,337	-3,000
Other income/expense	V.4.	47,367	73,239
OPERATING INCOME		**1,639,589**	**1,894,655**
Personnel costs	V.5.	-537,331	-511,503
Operating costs	V.6.	-625,980	-632,645
Depreciation of property and equipment	V.7.	-44,524	-9,977
Amortisation of intangible assets	V.8.	-99,455	-81,183
OPERATING COSTS		**-1,307,290**	**-1,235,308**
OPERATING INCOME BEFORE ASSET IMPAIRMENT AND PROVISIONS		**332,299**	**659,347**
Impairment of receivables	V.9.	-13,947	39,743
Net charge/release of provisions	V.11.	11,148	17,092
Others	V.10.	38	-1,258
PROFIT BEFORE TAX		**329,538**	**714,924**
Income tax	IV.12.	-38,964	-159,830
- current tax expense	IV.12.	31,219	-98,340
- deferred tax income	IV.12.	-70,183	-61,490
PROFIT FOR THE PERIOD, AFTER TAX		**290,574**	**555,094**
Gains, losses from revaluation of securities		-1,047	-1,859
Gains or losses from revaluation of assets and liabilities – re-classifiable		-	-
Deferred tax from revaluation		199	353
OTHER COMPREHENSIVE INCOME		**-848**	**-1,506**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**289,726**	**553,588**
Comprehensive income for the period, attributable to:			
- founder		289,726	553,588

6. STATEMENT OF CHANGES IN EQUITY

Changes in equity (in CZK '000)	Reserve fund & other capital funds & retained profit *)	Revaluation differences	Total
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**
Impact of adopting IFRS 16	-969	-	-969
1 January 2019	**1,551,711**	**848**	**1,552,559**
Capital transfer	-555,094	-	-555,094
Income for the accounting period	290,574	-	290,574
Other comprehensive income	-	-848	-848
31 December 2019	**1,287,191**	**-**	**1,287,191**

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 2019 (in CZK '000)		
Description	*31 December 2019*	*31 December 2018*
CASH AT THE BEGINNING OF THE PERIOD	**975,176**	**1,215,123**
PROFIT BEFORE TAX	**329,538**	**714,925**
Adjustment for non-cash transactions	*-2,239,865*	*-1,789,361*
Fixed asset depreciation/amortisation	143,979	95,266
Change in allowances and provisions	-690,935	-494,288
Gain from the disposal of fixed assets	-38	1,186
Proceeds from dividends and profit sharing	-3,707	-3,947
Net interest expense and income	-1,486,506	-1,739,626
Adjustments for other non-cash transactions, if any	-202,658	352,048
	-1,910,327	**-1,074,436**
Change in the non-cash portion of working capital	*1,590,293*	*2,137,827*
Change in receivables and deferred expenses	1,341,800	746,333
Change in current liabilities and deferred revenues	230,975	1,391,494
	-337,552	**1,063,391**
Interest paid	-181,540	-47,111
Interest income	1,684,772	1,736,226
Income tax paid	17,989	-30,542
NET CASH FLOW FROM OPERATING ACTIVITIES	**1,183,669**	**2,721,964**
Fixed asset acquisition costs	-54,131	-155,975
Dividends and profit shares received	3,707	3,947
Proceeds from the disposal of fixed assets	38	194
NET CASH FLOW FROM INVESTING ACTIVITIES	**-50,386**	**-151,834**
Other change in financing activities	-468,824	-1,664,345
Change in cash and equivalents related to transactions with founder	-555,094	-1,145,732
NET CASH FLOW FROM FINANCING ACTIVITIES	**-1,023,918**	**-2,810,077**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**109,365**	**-239,947**
CASH AT THE END OF THE PERIOD	**1,084,541**	**975,176**

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 2019

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	Member of Management Board	17 November 2018
JACQUES TENAILLE D'ESTAIS	Chairman of the Management Board	17 November 2018
CHARLOTTE DENNERY	Member of Management Board	28 November 2019
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
PERRET ISABELLE NOTO	Member of Management Board	28 January 2019

Head of the branch
BRUNO LEROUX

Procuration
BLAŽENA VALKOŠÁKOVÁ
MILAN BUŠEK

Changes in the commercial register		Date of change
PERRET ISABELLE NOTO	appointed as the Member of Management Board	9 July 2019
DENIS PECCOUD	removed as proxy	28 August 2019
EMMANUEL BOURG	removed as Head of the branch	28 August 2019
BRUNO LEROUX	removed as the Head of the branch	28 August 2019
DOMINIQUE FIABANNE	removed as the Member of Management Board	14 November 2019
Charlotte DENNERY	appointed as the Member of Management Board	5 March 2020
BERRO SOPHIE HELLER	removed as the Member of Management Board	5 March 2020

I.3 Organisational Structure

There has been no change in the organizational structure of the company in 2019.

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 2019).

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 2019 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 16 Leasing

The Standard, issued in January 2016, supersedes IAS 17 Leases and interpretations relating to the accounting of these contracts. The new definition of leasing is based on both the identification of the asset and the right to control the identified asset by the lessee.

From the perspective of the lessor, the expected impact should be limited, as the requirements of IFRS 16 remain largely unchanged compared to the current IAS 17.

For a lessee, IFRS 16 will require all lease contracts in the Statement of Financial Position in the form of the right to use leased assets held as fixed assets together with the recognition of the finance lease obligation and other payments made during the lease term. Use rights will be amortized on a straight-line basis and financial liabilities will be accrued over the lease term. The main change caused by this new standard concerns contracts that under IAS 17 met the definition of operating leases and as such did not require recognition in the statement of financial position.

This IFRS 16, adopted in the European Union as at 31 October 2017, is mandatory for starting 1 January 2019 or later.

The application of the Standard results in an increase in the assets and liabilities associated with lease contracts recognized as operating leases.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

The amendment is effective for annual periods beginning on or after 1 January 2019.

Changes in existing requirements in IFRS 9 relating to termination rights to allow amortized cost measurement (or, depending on the business model to fair value through other comprehensive income), even in the case of negative offsetting.

The Bank has no significant impact on the financial statements because it does not have prepaid financial assets with negative compensation.

IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation is effective for annual periods beginning on or after 1 January 2019. Earlier use was allowed but was not accepted by the Bank.

This Interpretation addresses the determination of taxable profit, tax bases, unused tax losses, unused tax credits and tax rates when there are doubts in the tax assessment under IAS 12. In particular, it deals with:

- whether the tax assessment is to be carried out collectively,
- assumptions applied in tax audits,
- determination of taxable profit (loss), tax base, unused tax losses, unused tax credits and tax rates,

- the effect of changes in facts and circumstances.

The application of the Interpretation does not have a material impact on the financial statements because the entity is not operating in a complex transnational tax environment and has no significant uncertain tax positions.

The following new Standards, interpretations and amendments are not yet effective for the annual reporting period starting 1 January 2019 and have not been endorsed by the European Union:

IFRS 17 Insurance contracts

Effective for annual periods beginning on or after 1 January 2022.

Amendments to IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognized when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while

- a partial gain or loss is recognized when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

Amendments to IAS 19 to Plan Amendment, Curtailment or Settlement

If there is amendment, curtailment or settlement of the plan, it is mandatory that the current service cost and net interest for the period after the revaluation is determined using the assumptions used for revaluation. Additionally, amendments were included to clarify the effect of the change, curtailment or settlement of the plan on the asset limitations requirements.

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.

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).

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 shareholders' 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 expected impairment loss method takes into account the present value of all losses due to the default of the borrower.

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).

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
- facade	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.

III.18 IMPACT OF FIRST TIME ADOPTION OF IFRS 16

As of 1 January 2019, the Bank applies the new accounting standard IFRS 16 Leases. The Bank has decided to apply a simplified requirement for a retrospective transition with a cumulative effect on equity. This impact on equity results from the difference between:

- Right of use and its amortization, as if the standard had been in use since the contract was established, discounted at the standard date of first application;
- Lease liabilities discounted at the date of first application.

The discount rate used to measure both the right of use and the lease obligation is an incremental borrowing rate based on the residual maturity of each contract at the date of initial application of the Standard.

In applying the simplified retrospective transition method, the Bank applied the main simplification measures offered by the Standard, in particular the absence of accounting for use rights for contracts with a residual maturity of less than twelve months at the date of transition.

In setting this standard, the Bank has identified the right to use the leased asset. Goods are considered to be leased if the contract grants the lessee the right to control the use of an asset over a specified period of time for consideration. In any case, the Bank assessed:

- the identifiable nature of the asset, which assumes that the lessor has no material right of replacement at the date of conclusion of the contract;
- the effective nature of the control on the asset, which presumes for the lessor the right to obtain substantially all of the economic benefits arising from use of the asset, as well as the ability to decide on its use.

Where the lease also contains a non-rental component such as the provision of services, only the share of the rental corresponding to the rental component is taken into account by the Group in the valuation of the Right of Use. The identification of rental or non-rental component is carried out on the basis of their individual contract price or otherwise on the basis of the observable comparable information.

For the calculation of the lease liability, the Group retains amounts, excluding value added tax, of the following elements:

- fixed rents,
- variable rents dependent on an index, such as the construction index, or an interest rate,
- as well as all expected residual value guarantee payments, the exercise price of call options and termination penalties.

Rents based on usage level or performance of a good are excluded from the calculation of the lease liability.

The lease contracts identified are essentially property leases encompass operating offices.

The Group made the choice not to apply the exemption to the accounting of initial deferred tax assets (DTA) and deferred liabilities (DTL) permitted by paragraphs 15 and 24 of IAS 12 "Income taxes". Consequently, distinct deferred tax assets and deferred tax liabilities will be accounted for with regards to the balance sheet amounts of rights of use and lease liabilities of the lessee.

The main impacts on the balance-sheet are a negative effect of 969 thousands CZK in equity, increase of fixed assets by 194 190 thousands CZK, decrease of other assets by 7 025 thousands CZK, the recognition of a lease liability as part of other liabilities of 209 307 thousands CZK, decrease of other liabilities by 20 946 thousands CZK a increase of deferred tax assets by 227 thousands CZK after compensation of deferred tax asses and deferred tax liabilities. The following table presents the balance-sheet accounts impacted by the first application of IFRS 16.

IFRS 16 – impacts (in CZK '000)	31 December 2018	IFRS 16 impacts	1 January 2019
ASSETS			
Cash and cash equivalents	10,506		10,506
Financial assets at amortised cost			
Receivables from banks	964,670		964,670
Receivables from clients	11,860,140		11,860,140
Financial assets at fair value			
Investment securities	8,603		8,603
Other long-term securities and investments			
Property and equipment	38,804	194,190	232,994
Intangible assets	377,255		377,255
Tax assets – current tax	80,172		80,172
Tax assets – deferred tax	124,077	227	124,304
Other assets	187,581	-7,025	180,556
TOTAL ASSETS	**13,651,808**	**187,392**	**13,839,200**
LIABILITIES	**12,098,280**	**188,361**	**12,286,641**
Financial liabilities at amortised cost			
Liabilities to banks	8,610,593		8,610,593
Liabilities to customers	1,492,556		1,492,556
Debt securities issued	1,507,249		1,507,249
Provisions	42,088		42,088
Other liabilities	445,794	188,361	634,155
BRANCHES´ RESERVES	**1,553,528**	**-969**	**1,552,559**
Reserves allocated to branch	997,586	-969	996,617
Gains, losses from revaluation of securities	-		-
Gains or losses from revaluation of assets and liabilities	1,047		1,047
Deferred tax from revaluation	- 199		- 199
Profit/loss for the period	555,094		555,094
TOTAL LIABILITIES	**13,651,808**	**187,392**	**13,839,200**

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 2019	31 December 2018
Cash, balances with Central bank and valuables	118,533	10,506
TOTAL	**118,533**	**10,506**

IV.2 Receivables from Banks and Other Financial Institutions

Receivables from financial institutions (in CZK '000)	31 December 2019	31 December 2018
Bank accounts	35,466	34,598
Term-accounts	930,542	930,072
TOTAL (NET VALUE)	**966,008**	**964,670**

IV.3 Receivables from Clients

Receivables from clients (in CZK '000)	Stage 1	Stage 2	Stage 3	Total 31 December 2019	Total 31 December 2018
Loans provided	9,061,693	1,874,094	1,178,695	12,114,482	13,470,183
Allowances for receivables	-38,430	-95,629	-796,169	-930,228	-1,610,043
NET VALUE OF RECEIVABLES	**9,023,263**	**1,778,465**	**382,526**	**11,184,254**	**11,860,140**

Change in allowances (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	-	-	471,784	471,784
Balance as at 31 December 2018	**-51,252**	**-165,000**	**-1,393,791**	**-1,610,043**
Balance as at 1 January 2019	-51,252	-165,000	-1,393,791	-1,610,043
New loans	-43,590	-	-	-43,590
Maturity	13,280	23,716	693,836	730,832
Transfer to (from) Stage 1	-3,485	37,113	608	34,236
Transfer to (from) Stage 2	3,487	-30,062	9,727	-16,848
Transfer to (from) Stage 3	520	17,521	-146,027	-127,986
Charge/Reversal	42,610	21,083	-819,296	-755,603
Reversal of used provisions	-	-	858,774	858,774
Balance as at 31 December 2019	**-38,430**	**-95,629**	**-796,169**	**-930,228**

IV.4 INVESTMENTS SECURITIES

Name, registered office (in CZK '000)	% of share capital	Amount of equity for the 2019 accounting period *preliminary data	Accounting income for the 2019 accounting period *preliminary data
Společnost pro informační databáze, a.s. Praha 4, Antala Staška 510/38	27.96%	35,557	18,393

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 2019, 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 2019 (equity method) * preliminary data
Společnost pro informační databáze, a.s. Praha 4, Antala Staška 510/38	27.96%	572	9,369	9,941

The Bank is not a member with unlimited liability.

IV.5 TAX ASSETS: DEFERRED TAX

Deferred tax (in CZK '000)	31 December 2019			31 December 2018		
Item	Temporary difference	Tax rate	Deferred tax	Temporary difference	Tax rate	Deferred tax
Tangible and intangible non-current assets	-231,017	19%	-43,893	-19,781	19%	-3,758
Allowance for receivables	207,443	19%	39,414	587,699	19%	111,663
TOTAL ASSETS	**-23,574**		**-4,479**	**567,918**		**107,905**
Liabilities arising from labour relations	64,530	19%	12,260	61,504	19%	11,686
Lease liabilities	159,446	19%	30,295	-	-	-
Provision for commitments given	16,725	19%	3,178	24,660	19%	4,685
Tax losses	68,770	19%	13,066	-	19%	-
TOTAL LIABILITIES	**309,471**		**58,799**	**86,164**		**16,371**
Revaluation (hedging derivatives)	**-**	19%	**-**	**-1,046**	19%	**-199**
TOTAL DEFERRED TAX ASSET	**285,897**		**54,320**	**653,036**		**124,077**

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 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 January 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 December 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**
IFRS 16 impact					
Increase of assets as at 1 January 2019	278,298	-	-	-	278,298
Increase of accumulated depreciation as at 1January 2019	-84,108	-	-	-	-84,108
ASSETS AS AT 1 JANUARY 2019 AT COST	**348,744**	**6,674**	**65,139**	**-**	**420,557**
Increase of right of use assets	4,886	-	-	-	4,886
Additions to non-current assets	418	1,800	-	-	2,218
Disposals of non-current assets	-	-	-	-	-
Transfer of completed capital projects	-58	-6	-	-	-64
ASSETS AS AT 31 December 2019 AT COST	**353,990**	**8,468**	**65,139**	**-**	**427,597**
Accumulated depreciation as at 1 January 2019	-126,518	-3,554	-57,492	-	-187,564
Current year depreciation	-4,895	-1,089	-3,644	-	-9,628
Current year provisions	-	-	1,047	-	1,047
Net book value of non-current assets disposed of during the period	-	-	-	-	-
Accumulated depreciation of non-current assets disposed of during the period	-	-	-	-	-
Accumulated depreciation and provisions as at 31 December 2019	-167,354	-4,643	-60,089	-	-232,086
Net book value of tangible non-current assets as at 31 December 2019	**186,636**	**3,825**	**5,050**	**-**	**195,511**

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 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**
ASSETS AS AT 1 JANUARY 2019 AT COST	**702,084**	**78,490**	**780,574**
Additions to intangible non-current assets	-	51,977	51,977
Disposals of intangible non-current assets	-	-	-
Transfer of completed capital projects	108,343	-108,343	-
ASSETS AS AT 31 December 2019 AT COST	**810,427**	**22,124**	**832,551**
Accumulated amortisation as at 1 January 2019	-403,319	-	-403,319
Current year amortisation	-99,464	-	-99,464
Current year provisions	9	-	9
Net book value of intangible non-current assets disposed of during the period	-	-	-
Accumulated amortisation as at 31 December 2019	-502,774	-	-502,774
Net book value of intangible non-current assets as at 31 December 2019	**307,653**	**22,124**	**329,777**

IV.8 OTHER ASSETS

Accruals and other assets (in CZK '000)	31 December 2019	31 December 2018
Trade receivables	162,177	134,230
Prepaid expenses	28,667	52,030
Hedging Derivatives – (Interest Rate SWAP)	-	1,321
TOTAL ACCRUALS AND OTHER ASSETS	**190,844**	**187,581**

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 2019		31 December 2018	
	Positive Fair Value	Negative Fair Value	Positive Fair Value	Negative Fair Value
Hedging of cash flow				
Interest rate SWAP	-	-	1,321	-
TOTAL HEDGING DERIVATIVES	**-**	**-**	**1,321**	**-**

As at 31 December 2019, the Bank did not register derivatives used to hedge against interest rate risk to the extent that the hedging instruments / bonds were repaid in accordance with the maturity date.

Total nominal value of derivatives used for the purpose of interest risk hedge was 100 million CZK as at 31 December 2018.

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 revenues of realized interest rate derivatives of 1,027 thousand CZK. In 2018, it was a cost of 37 thousand CZK and a revenue of 2,085 thousand CZK.

IV.9 LIABILITIES TO BANKS AND CLIENTS

Liabilities to financial institutions (in CZK '000)	31 December 2019	31 December 2018
Secured bank loans	6,336,791	3,837,044
Unsecured bank loans	1,670,290	4,773,549
TOTAL LIABILITIES TO BANKS AND OTHER FINANCIAL INSTITUTIONS	**8,007,081**	**8,610,593**

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)	Bank loans	Securities
OPEN BALANCE AS AT 1 JANUARY 2019	**8,610,593**	**1,507,249**
Cash - liabilities repayment	-7,592,641	-1,507,249
New drawdowns	6,989,129	-
CLOSING BALANCE AS AT 31 DECEMBER 2019	**8,007,081**	**-**

Liabilities to customers (in CZK '000)	31 December 2019	31 December 2018
Current accounts	156,287	122,318
Saving accounts	3,033,893	1,370,238
Other liabilities	74,997	124,596
TOTAL LIABILITIES TO CUSTOMERS	**3,265,177**	**1,617,152**

The Bank decided to change the reporting of other liabilities related to current and savings accounts. Starting from 2019, it includes these other liabilities in the liabilities to customers and not in the line other liabilities in the statement of financial position. This change resulted in an increase in the value of liabilities to customers by 124,596 thousand CZK and decrease of other liabilities by the amount of 124,596 thousand CZK.

Other liabilities to clients include mainly overpayments recorded in client contracts and received payments from clients not yet assigned to individual contracts. Due attention is given to these items in order to return them in time, or to identify and associate them with the client contract.

IV.10 Issued Debt Securities

Debt Securities (in CZK '000) Title	Issue date	Maturity date	Total nominal value	Interest rate	31 December 2019	31 December 2018
CETELEM ČR VAR/19	8. 10. 2014	8. 10. 2019	1 500 000	6M Pribor+0,46 %	-	1,507,249
DEBT SECURITIES					**-**	**1,507,249**

IV.11 PROVISIONS

Provisions (in CZK '000)	31 December 2019	31 December 2018
Provision for the tangibles	4,811	4,811
Provision for litigation	1,950	1,950
Provision for payroll	4,531	4,503
Provision for loan commitments		
Stage 1	4,303	5,670
Stage 2	12,768	22,224
Stage 3	2,605	2,930
TOTAL PROVISIONS	**30,968**	**42,088**

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**
Balance as at 1 January 2019	11,264	5,670	22,224	2,930	42,088
Maturity	-	-1,504	-3,016	-898	-5,418
Transfer to (from) Stage 1	-	333	-10,088	-253	-10,008
Transfer to (from) Stage 2	-	-267	4,897	-178	4,452
Transfer to (from) Stage 3	-	-57	-1,471	1,766	238
Charge/Reversal	28	128	222	-762	-384
Closing balance as at 31 December 2019	**11,292**	**4,303**	**12,768**	**2,605**	**30,968**

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 2019 this provision was partially dissolved.

IV.12 TAX RECEIVABLES: CURRENT TAX

Income tax payable (in CZK '000)	31 December 2019	31 December 2018
Current period income tax	-	-99,257
Income tax advance	93,402	179,429
INCOME TAX ASSETS	**93,402**	**80,172**

IV.13 OTHER LIABILITIES

Accruals and other liabilities (in CZK '000)	31 December 2019	31 December 2018
Accrued income	119	13
Prepaid expenses	10,849	13,992
Trade payables and other liabilities	347,457	307,193
Lease liabilities	176,597	-
Lease stimuls	17,151	-
ACCRUALS AND OTHER LIABILITIES	**552,173**	**321,198**

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 2019, payable in January 2020, the tax liability in respect of indirect taxes payable in January 2020, 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 2019, the Bank had no payables overdue for more than 180 days, nor did it have any other liabilities not stated in the Balance Sheet.

IV.14 EQUITY

As at 31 December 2019, the Bank's equity was 1,287,191 thousand CZK; as at 31 December 2018 amounted to 1,553,528 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 17 April 2019 the founder decided to transfer part of retained earnings in the amount of 555,094 thousand CZK.

Until the Balance sheet preparation date the founder has not decided on a capital transfer the year 2019.

V. STATEMENT OF COMPREHENSIVE INCOME: EXPLANATORY NOTES

V.1 NET INTEREST INCOME

Net interest income (in CZK '000)	31 December 2019			31 December 2018		
	Income	Expense	Net income	Income	Expense	Net income
Client transactions						
Credit and loans	1,437 677	-	1,437,677	1,578,455	-	1,578,455
Deposits	-	-159,178	-159,178	-	-97,236	-97,236
Transactions with banks and other financial institutions						
Deposits, interest and loans	1,027	-31,856	-30,829	2,085	-24,150	-22,065
NET INTEREST INCOME /(EXPENSE)	**1,438,704**	**-191,034**	**1,247,670**	**1,580,540**	**-121,386**	**1,459,154**

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 2019			31 December 2018		
	Income	Expense	Net	Income	Expense	Net
Client transaction charges	180,899	0	180,899	189,228	-	189,228
Payment transaction charges	925	-491	434	4,319	-204	4,115
Fees for foreign currency operations	0	-3,619	-3,619	-	-3,045	-3,045
Commissions from insurance	183,504	0	183,504	192,449	-	192,449
Other income/expenses	0	-21,710	-21,710	-	-21,432	-21,432
NET INCOME ON FEES	**365,328**	**-25,820**	**339,508**	**385,996**	**-24,681**	**361,315**

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 2019, the Bank received dividends at the amount of 3,707 thousand CZK. In 2018 the Bank received dividends at the amount of 3,947 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 2019, other net income amounted to 47,367 thousand CZK, in 2018 other net income to 73,239 thousand CZK.

V.5 Personnel Costs

Employee costs (in CZK '000)	31 December 2019	31 December 2018
Wage costs	-376,123	-357,990
Personnel costs	-29,502	-31,479
Social and health insurance	-121,056	-111,384
Social fund (Short-term benefits)	-10,650	-10,650
TOTAL PAYROLL COSTS	**-537,331**	**-511,503**

Number of employees - average number of employees:

Year	Total	Of whom, managers
2018	**537**	**6**
2019	**544**	**6**

V.6 Operating Costs

Operating costs (in CZK '000)	31 December 2019	31 December 2018
External services and other operating costs	**-439,179**	**-479,208**
IT a telecom	-176,093	-175,827
Marketing	-158,534	-178,011
Other services and costs netto	-104,552	-125,370
Services and other costs with related parties	**-186,801**	**-153,437**
IT a telecom	-170,235	-151,544
Other services and costs netto	-16,566	-1,893
NET OPERATING COSTS	**-625,980**	**-632,645**

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

Depreciation and allowances for property and equipment (in CZK '000)	31 December 2019	31 December 2018
Buildings and equipment	-40,838	-6,107
Computers	-2,597	-3,163
Vehicles	-	
Other tangible assets	-1,091	-707
TOTAL DEPRECIATION AND ALLOWANCES FOR PPOPERTY AND EQUIPEMENT	**-44,524**	**-9,977**

V.8 Amortisation and allowances for Intangible Assets

Amortisation and allowances for intangible assets (in CZK '000)	31 December 2019	31 December 2018
Software	-99,455	-81,183
TOTAL AMORTISATION AND ALLOWANCES FOR INTANGIBLE ASSETS	**-99,455**	**-81,183**

V.9 Impairment of Receivables

Cost of risk for the current period (in CZK '000)	31 December 2019	31 December 2018
Stage 1	12,822	12,908
Stage 2	69,371	93,946
Stage 3	-96,140	-67,110
TOTAL COST OF RISK	**-13,947**	**39,743**

Cost of risk for the current period by type of asset (in CZK '000)	31 December 2019	31 December 2018
Loans to and receivables from clients	-13,947	39,743
TOTAL ALLOWANCE	**-13,947**	**39,743**

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 407,006 thousand CZK in 2019 and 308,974 thousand CZK in 2018. In 2019, the income from written-off outstanding amounted to 60,072 thousand CZK, in 2018 to 114,738 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.

Impairment of assets (in CZK '000)	31 December 2019	31 December 2018
Impairment of assets	-	-1,186
Others	-38	-72
Total	**-38**	**-1,258**

V.11 PROVISIONS

Provisions (in CZK '000)	31 December 2019	31 December 2018
Provisions for loan commitments		
Stage 1	1,367	2,213
Stage 2	9,456	12,685
Stage 3	325	2,194
Total	**11,148**	**17 092**

V.12 INCOME TAX

Income tax (in CZK '000)	31 December 2019	31 December 2018
Profit before tax under IFRS	**329 538**	**714,924**
IFRS adjustments	-	-
Profit before tax under CAS	**329 538**	**714,924**
- Non-tax deductible income	-1 485 694	-934,664
- Non-tax deductible costs	1 086 928	742,715
Income tax rate	19%	19%
- Tax deductions	108	108
Current income tax (provision for income tax)	-	-99,257
The rest of income tax for previous year	31 219	917
Total income tax	**31 219**	**-98,340**
Other items – temporary differences	285 897	654,082
The change of deferred tax against previous year	-368 185	-323,632
IFRS 16 impact	-1 197	-
Tax rate for deferred tax calculation	19%	19%
Deferred tax	**-70 183**	**-61,490**
INCOME TAX	**-38 964**	**-159,830**

As at 31 December 2019, the effective tax rate was 11.82 %.

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.

Moreover for determination of impairment the Bank takes into account various macroeconomic scenarios (baseline, adverse) and defines impairment as scenario weighted outcome.

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 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 2019 (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	531,459	626,547	2,579,268	4,513,503	3,863,705	12,114,482
FINANCIAL ASSETS BY MATURITY	531,459	626,547	2,579,268	4,513,503	3,863,705	12,114,482
Liabilities to financial institutions	301,535	1,307,464	3,648,018	2,750,064	-	8,007 081
Bonds	9,342	266	28,696	133,329	4,964	176,597
FINANCIAL LIABILITIES BY MATURITY	301,535	1,307,464	3,648,018	2,750,064	-	8,007,081
NET POSITION	**229,924**	**-680,917**	**-1,068,750**	**1,763,439**	**3,863,705**	**4,107,401**

Financial assets and liabilities by maturity as at 31 January 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**

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 target of operational risk management is to identify, assess bank´s operational risks and to take measures to mitigate potential losses. To manage the operational risk bank has implemented 3 lines of defence organization together with strong control 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;
- 4 eyes principle application in transactions' authorisations and their ex post checking and monitoring;
- regular identification and assessment of operational risks;
- Formalisation and implementing of procedures, checks and other organisational elements designed to help to control risk, such as segregation of duties, management of access rights or information barriers;
- Implementation of controls to identify and monitor operational risk areas and set-up of action plans for correction of deficiencies;
- 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;
- Establishment of a reporting system so that the management body is aware of the deficiencies, risks and actions taken to mitigate those risks;
- 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, AML, 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 is active in providing financial services to consumers. It will therefore be affected by legislative plans aimed at the possible introduction of interest or APRC, which will have to

be taken into account in the construction of product pricing. In 2019 such legislation was not adopted.

Similarly, the proposed restriction of advertising on consumer loans or the possible amendment of the Civil Code defining the exact order of repayment of debt may also have an impact on the Ba In lending to consumers, the bank will have to take into account the new European Banking Authority (EBA) guidelines for lending and monitoring of loans, which should come into effect in mid-2020, bringing detailed requirements for banks' consumer lending processes and procedures.

The Bank has consistently evaluated changes in the legal environment with an impact on debt recovery processes. In this respect, the amendment of the Insolvency Act was particularly important. The first amendment makes the possibility of debt relief available to a wider circle of debtors. In addition, this amendment provides debtors with two ways to resolve their indebtedness in insolvency proceedings. The first possibility of debt relief is to repay at least 60% of all debts within three years of the bankruptcy decision. The second possibility of debt relief is the repayment of at least 30% of the debts within five years or less if approved by the court. The second amendment dealt with debts, most of which (2/3) arose in the period before the 18th year of the debtor's life or came from loans concluded before the 21st year of the debtor's life.

The government regulation regulating the amount of non-seizable amount was also amended with the aim of increasing the motivation of debtors not to avoid gainful employment in the framework of regular labor relations or business.

The Bank continues to follow ongoing discussions regarding changes to distrainment proceedings aimed at introducing, in particular, the territorial jurisdiction of distrainers and the consolidation of distraints in one distrainer, as well as developments in the field of collective redress.

Throughout 2019, the Bank continued its intensive implementation of new obligations in the area of payment services, in particular regarding the security of electronic payment transactions or banking applications, as envisaged in the PSD2 legislation. The most significant changes included the introduction of strong client authentication (SCA) when logging into the bank's Internet banking, as well as improving the security of payments made through the Bank's mobile application. New reporting obligations to the Czech National Bank have been introduced, such as notifications of the reasons for rejecting third party requests for payment account information and indirect payment order submissions, as well as annual reporting of payment services fraud.

In 2020, the Bank will continue to implement SCA for card payment transactions as foreseen in the EBA opinion on the deadline for moving to strong client validation for e-commerce card transactions.

In the area of payments, the Bank has also started implementing changes resulting from the amendment of Regulation 924/2009. The aim is to align charges for cross-border and domestic payment transactions and to improve consumer awareness of the currency conversion service at an ATM or point of sale. In the case of the so-called SEPA payments, the new legislation was implemented in 2019, while card transactions are under preparation for 2020.

The newly adopted legislation in 2019 brought not only new obligations to the bank, but also business opportunities, when an amendment to the Act on Banks, allowing the provision of electronic identification services for bank clients, reached the final stage of approval in

Parliament.

As the Bank is an obliged entity pursuant to Act No. 253/2008 Coll., its activities will also affect the implementation of the V. AML Directive in the Czech legal order. From the banking point of view it brings changes especially in the area of client identification.

In addition, the Bank is informed of its intention to introduce into the Czech legal system the institute of a protected account, to which debtors with banks would deposit protected amounts not punishable by execution.

The Bank has adapted its methodological procedures and model arrangements for contracting with key suppliers of goods and services, issuing guidelines to the European Banking Authority (EBA) on outsourcing.

The Bank also pays attention to ensuring compliance with legislation and interpretative guidelines in other areas, such as personal data protection.

The Bank's position as a regulated banking entity implies an obligation to continuously meet the quality criteria for the setting and functioning of the internal management and control system, the requirements for process management, risk management, the existence of appropriate technical, personnel and organizational prerequisites for prudent payment services bank secrecy, all at the branch level in the Czech Republic.

Not only in accordance with the new legislation, the Bank is continuously taking further steps to increase the security and integrity of its systems. Extensive measures are in place in the context of the adaptation of the rules on cyber security.

The newly planned obligation of banks to collect and report information on payments for the purpose of preventing VAT fraud in the framework of e-commerce will also be important for the Bank's activities when necessary adjustments in the bank's payment systems will require its personnel and financial capacities.

At the balance sheet date, the Bank has no exceptional case or litigation that could have a material impact on its financial position, performance, results or assets. The Bank's litigation agenda focuses on the recovery of receivables from clients overdue.

In 2019, the Bank performed an inspection of the processing of personal data by the Office for Personal Data Protection and the fulfillment of obligations in the area of payment services provision by the Czech National Bank. Based on the conclusions of both of the above-mentioned controls, the Bank implemented appropriate remedial measures in such a way that the supervisory findings of the supervisory authorities, resp. supervision.

At present, the Bank is subject to the Czech National Bank's control of the fulfillment of its obligations in the area of consumer loans. Given the initial stage of the review, its outcome cannot now be predicted.

VII. Other Information

VII.1 Off-balance sheet Receivables and Payables

Loan commitments to customers (in CZK '000)	31 December 2019	31 December 2018
Stage 1	10,182,508	10,676,224
Stage 2	767,130	947,396
Stage 3	260,838	189,982
TOTAL	**11,210,476**	**11,813,602**

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.

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 2019		31 December 2018	
	Parent company	Other related parties	Parent company	Other related parties
Interest expenses	-38,601	0	-51,000	-4
Interest revenues	1,028	14,616	3,553	2,324
Commissions and fees	-3,980	179,414	-3,306	192,148
Services provided	0	82,197	-	104,336
Services received	-316	-248,916	-168	-229,416
TOTAL	**-41,869**	**27,311**	**-50,921**	**69,388**

VII.3.2 Amounts Receivable from and Payable to Related Parties

Relationships to related parties Balance Sheet items (in CZK '000)	31 December 2019	31 December 2018
Assets		
Term-accounts	930,611	936,078
Other assets	134,958	97,494
Receivables IRS	-	1,320
TOTAL ASSETS	**1,065,569**	**1,034,892**
Liabilities		
Amounts payable on loans	1,670,290	4,773,549
Other liabilities	121,066	82,316
TOTAL LIABILITIES	**1,791,356**	**4,855,865**

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. 2019	-	30,327	2,972
31. 12. 2018	-	29,768	3,336

Other benefits include income quantified under Act No 586/1992 Coll., 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 2019 is listed in the notes of consolidated financial statements of the parent company.

VII.5 SUBSEQUENT EVENTS

At the end of 2019, COVID-19 (Coronavirus) reports from China appeared for the first time. In the first months of 2020, the virus spread worldwide and negatively affected many countries. Although the situation is changing at the time of these financial statements, it seems that the negative impact on world trade, on companies and on individuals may be more serious than originally expected. The Bank's management evaluates the situation, works with multiple development scenarios and prepares an estimate of the impact for each of them. As the situation is still evolving, the Bank's management does not think that it is possible to provide quantitative estimates of the potential impact of the current situation on the Company. Any negative influence resp. losses will be included in the accounting and financial statements in 2020.

Prague, 31 March 2020

Statutory authority	Person responsible for the Financial Statements
Bruno LEROUX Head of Branch	Blažena VALKOŠÁKOVÁ Financial Director