ANNUAL REPORT 2016

J&T BANKA

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SELECTED FINANCIAL INDICATOR

Selected financial indicators – individual

in MCZK	2016	2015	2014	2013	2012
ANNUAL FIGURES					
Profit before tax	1,854	1,963	1,575	748	1,153
Tax	(302)	(230)	(332)	(117)	(234)
Profit for the year	1,552	1,733	1,243	631	919
BALANCE AT YEAR-END					
Equity	18,943	16,799	14,376	12,917	7,233
Deposits and loans from banks	3,338	4,343	4,537	4,736	10,828
Deposits from customers	93,833	117,058	100,356	82,018	62,086
Due from financial institutions	21,105	33,661	6,295	2,940	6,369
Loans and advances to customers	69,714	70,042	66,311	56,383	39,330
Total assets	123,554	146,990	126,041	104,768	85,087
FINANCIAL RATIOS					
Return on Equity	8.68%	11.12%	9.11%	6.26%	14.84%
Return on Assets	1.15%	1.27%	1.08%	0.66%	1.18%
Capital adequacy	17.75%	15.83%	14.54%	17.09%	12.90%
Operating expenses/operating income	39.75%	39.08%	46.14%	53.54%	44.24%
Average number of employees	454	443	434	378	407
Assets per employee	272	332	290	277	209
Administrative expenses per employee	(3,6)	(3,7)	(3,7)	(3,7)	(3,1)
Profit after tax per employee	3,4	3,9	2,9	1,7	2,3

Selected financial indicators – consolidated

in MCZK	2016	2015	2014	2013	2012
ANNUAL FIGURES					
Profit before tax	1,360	2,186	1,383	685	1,193
Tax	(407)	(310)	(381)	(151)	(272)
Share of profit of equity-accounted investees	(50)	167	340	321	–
Profit from continuing operations	953	1,876	1,342	855	921
Profit from discontinued operations	–	–	–	214	95
Profit for the year	**953**	**1,876**	**1,342**	**1,069**	**1,016**
BALANCE AT YEAR-END					
Equity	19,128	16,945	15,343	14,046	7,417
Deposits and loans from banks	3,174	4,259	4,616	5,083	11,248
Deposits from customers	103,053	121,812	106,946	85,823	64,032
Due from financial institutions	23,423	34,379	7,164	3,556	6,865
Loans and advances to customers	76,139	74,668	71,170	60,004	41,150
Total assets	133,114	154,851	133,801	110,237	88,401
FINANCIAL RATIOS					
Return on Equity	5.28%	11.62%	9.13%	9.96%	16.06%
Return on Assets	0.66%	1.30%	1.10%	1.08%	1.26%
Capital adequacy	15.88%	13.91%	13.44%	15.85%	11.87%
Operating expenses/operating income	47.83%	44.65%	57.58%	59.26%	47.99%
Average number of employees	717	689	688	487	499
Assets per employee	186	225	194	226	177
Administrative expenses per employee	(3,0)	(3,1)	(2,8)	(3,4)	(2,9)
Profit after tax per employee	1,3	2,7	2,0	2,2	2,0

FOREWORD

Dear clients, business partners, and friends,

2016 was a very successful year for J & T BANKA, a.s., confirmed not only by the reported result of operations and the Private Bank of the Year 2016 award but also by a detailed look on the Bank's overall activities in the past year. We were successful in meeting our mission – to establish long-term partnerships with clients and to search together attractive investment opportunities and participate in their realisation through financing.

In 2016, we carried out corporate bond issues worth almost CZK 20 billion, enabling the issuers to finance the future development of their operations. At the same time we gave investors the opportunity to participate in the results of these business operations. In addition to bonds, the Bank's clients also significantly invested in mutual funds. The volume of assets under the management of J&T mutual funds grew by more than CZK 7 billion in 2016. In searching for new investment opportunities, we also successfully developed the J&T Ventures fund which enables clients to invest in newly established companies.

We provided financial and organisational support to a number of great sports and cultural events and brought extraordinary experiences to our clients and partners.

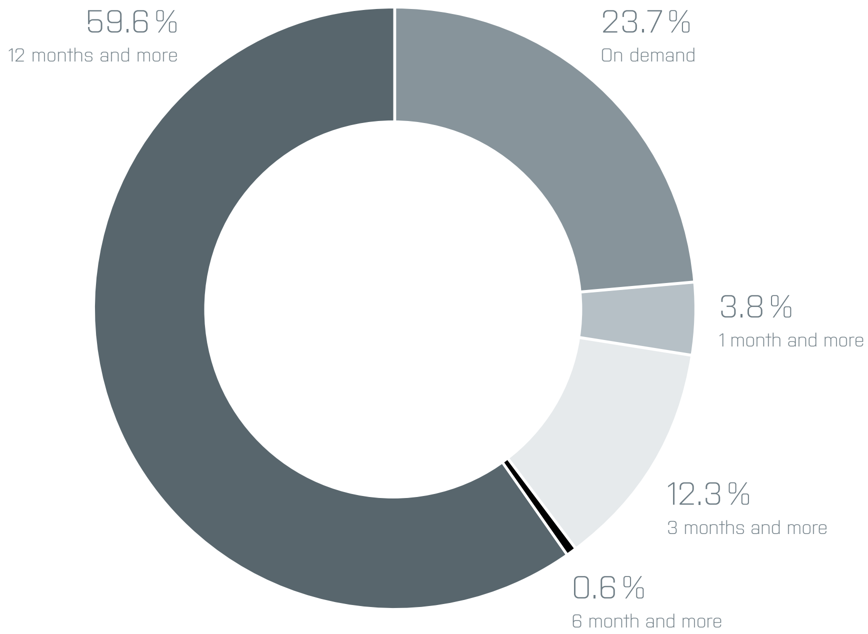
The J&T Banka Prague Open tennis tournament is an annual festive event for Czech and Slovak tennis fans and we are proud to announce that in 2016 we agreed to extend our partnership at least until 2019. The J&T Banka CSI Olomouc horse show-jumping event, on the other hand, brings big pleasure to horse fans. The fully occupied stands on the course in 2016 confirmed the fact that this competition has become the main event of the domestic horse show-jumping season.

We provided our clients with an opportunity to attend extraordinary cultural events thanks to our partnership with the Slovak National Gallery, the Rudolfinum gallery and the Czech Philharmonic Orchestra. It also was a pleasure to be the general partner of a series of Karel Gott's chamber concerts in Malostranská beseda.

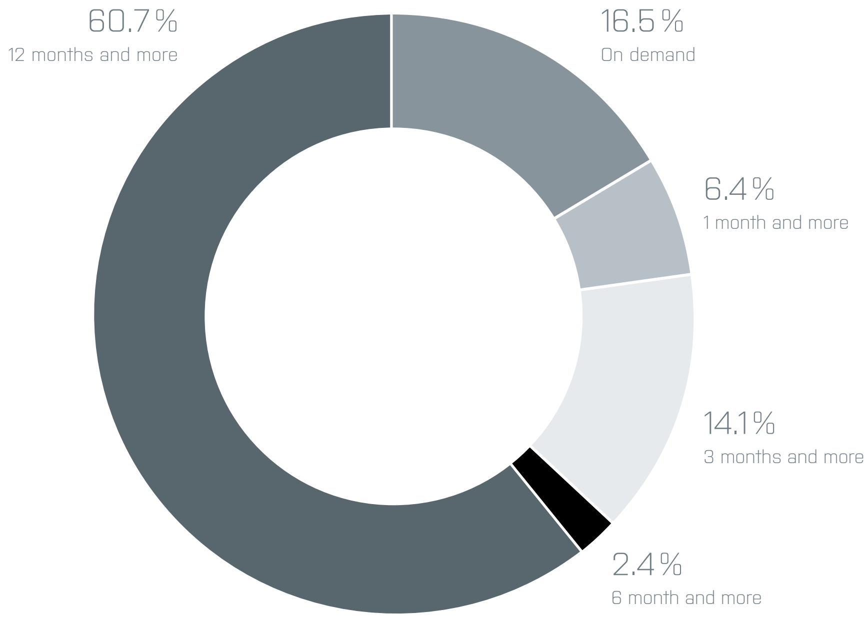
To conclude, let me thank all those who were involved in achieving our success in 2016. I would like to thank all our employees for their excellent work, and our clients for their confidence which we highly appreciate.

Štěpán Ašer, MBA
Chief Executive Officer of J & T Banka, a.s.

DEPOSITS ACCORDING TO MATURITY / 2016



DEPOSITS ACCORDING TO MATURITY / 2015



REPORT OF THE BOARD OF DIRECTORS

Financial results – Bank

The Bank concluded the year 2016 with total assets of CZK 123.55 billion. The profit for 2016 of CZK 1.55 billion thus drew on the extraordinary results of the previous years.

The year-on-year decrease in net profit by 10.4% was significantly influenced by a one-off transaction from 2015 which was the sale of the ownership interest in Poštová banka, a. s. at the end of 2015 (extraordinary income of CZK 0.74 billion). After having deducted this extraordinary income from the Bank´s profit for 2015, the Bank confirmed its growth potential in 2016 as well.

Net interest income decreased by 3.9% to CZK 2.78 billion (2015: CZK 2.89 billion), primarily as a result of a stagnation in the volume of the 2016 loan portfolio. In response to the development in interest income and to the situation in the market and in accordance with the effective management of liquid cash policy, in 2016 the Company adopted the decision to gradually decrease interest rates on deposits. The drop in interest income by 14.4% was compensated by a year-on-year drop in interest expense by 26.7%.

On the other hand, net income from fees and commissions rose by 75.8% to CZK 0.84 billion (2015: CZK 0.48 billion), primarily thanks to an increase in client investments. The increase in the volume of client investments came as a result of the planned decrease in interest rates on deposits.

The fees for new bond issues and fees from bill of exchange programmes represented the major portion of fee income. In 2016, the Bank launched 11 new bond issues in the total volume of CZK 19.39 billion in the market and sold J&T private investor mutual funds units totalling CZK 7.09 billion (assets under management of J&T Investiční společností, a.s.).

In 2016, the Bank succeeded in effectively reducing operating expenses, which decreased year-on-year by 4.7% to CZK 1.69 billion (2015: CZK 1.77 billion). As a result, the Bank also reduced the indicator of administrative expenses per employee from CZK 3.7 million in 2015 to CZK 3.6 million in 2016. The Bank has kept the ratio of operating expenses to total assets under the level of 1.5%, which ranks it among the best banks in the market.

At the end of 2016, the Bank's equity totalled CZK 18.94 billion (a year-on-year increase by CZK 2.14 billion). The year-on-year increase in equity by 12.8% was caused in particular by an increase in retained profits by CZK 1.24 billion (from the profit for 2015) and by launching an issue of yield perpetuity certificates denominated in EUR, designated primarily for the Slovak market (an increase by CZK 0.86 billion).

In the third quarter of 2016, the Bank increased its ownership interest in Vaba d.d. banka Varaždin by subscribing new shares at the total nominal value of HRK 76 million. As a result, the Bank's ownership interest in Vaba d.d. banka Varaždin rose to more than 82%.

The Bank is sufficiently equipped with capital and prepared for further growth and development. As at 31 December 2016, its capital adequacy amounted to 17.75% (2015: 15.83%).

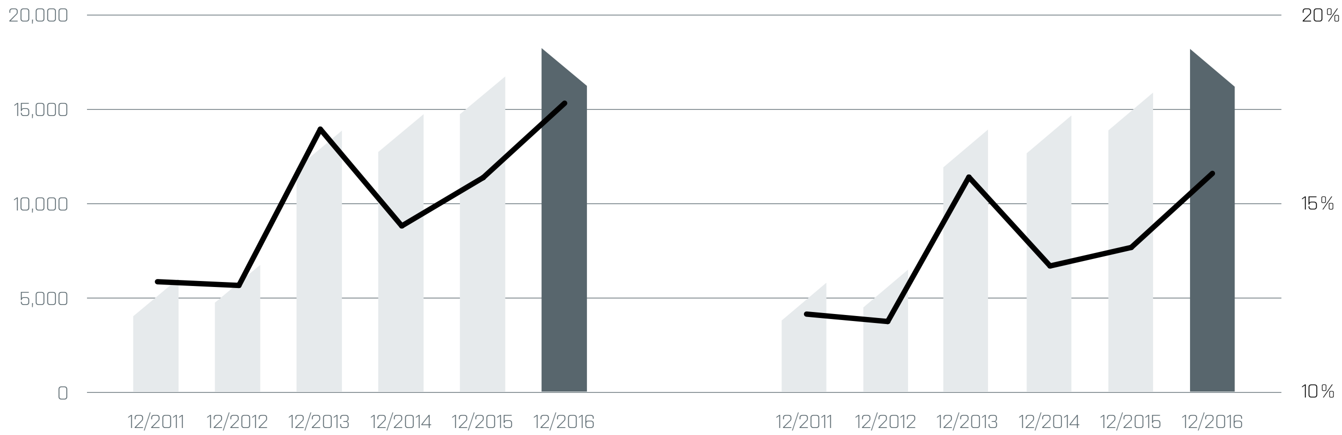
The year-on-year decrease in the Bank's total assets by 15.9% is due primarily to a drop in client deposits. The drop in client deposits (by CZK 23.23 billion) was in accordance with the Bank's strategic objectives for 2016 and the following years. The client deposits were managed with respect to their volume and their optimum time structure. The outflow of liquid assets was planned and expected by the Bank.

As at 31 December 2016, the volume of client deposits totalled CZK 93.8 billion, which is a year-on-year decrease by 19.8%. The decrease in client deposits is apparent primarily in terms of fixed-term deposits (a decrease by CZK 26.31 billion in 2016) which were, however, transferred primarily to investments (an increase by CZK 16 billion in 2016). With regard to the development of market interest rates, the Bank expects this trend to continue in the following years as well.

The volume of the loan portfolio was CZK 69.71 billion in 2016. The volume of loans and receivables from clients stagnated

CAPITAL ADEQUACY /
INDIVIDUAL DATA

CAPITAL ADEQUACY /
CONSOLIDATED DATA

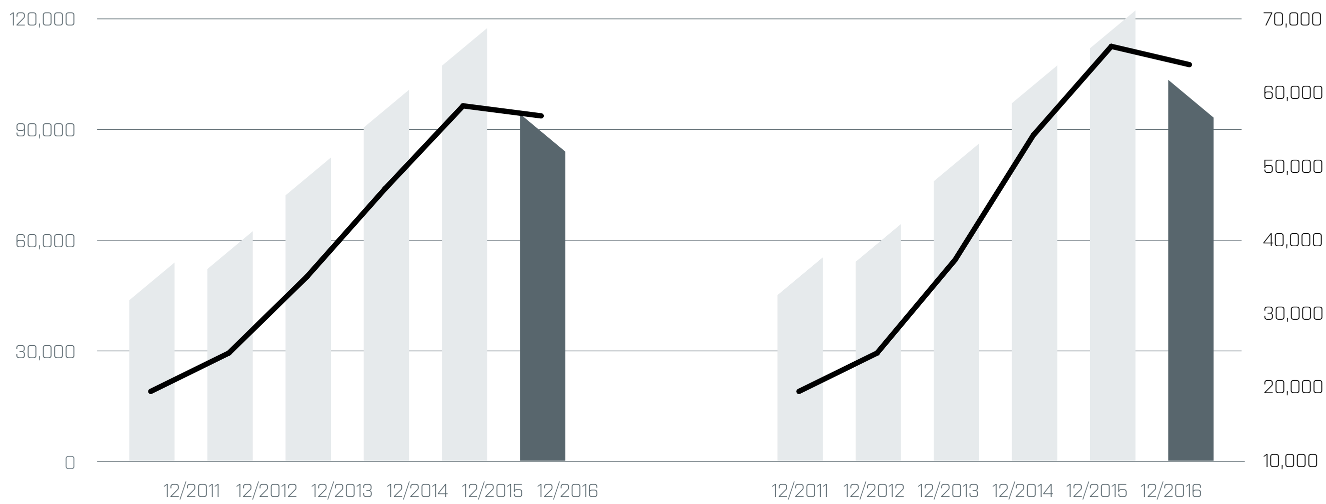


Regulatory capital (in MCZK)

Capital adequacy (%)

CLIENT DEPOSITS AND NUMBER OF CLIENTS /
INDIVIDUAL DATA

CLIENT DEPOSITS AND NUMBER OF CLIENTS /
CONSOLIDATED DATA



Amounts owed to customers (in MCZK)

Number of clients

or slightly decreased year-on-year (by CZK 0.33 billion). The stagnation was also reflected in the volume of the Bank's interest income.

The Bank reduced the volume of available-for-sale financial assets year-on-year by CZK 6.32 billion, from CZK 14.85 billion as at 31 December 2015 to CZK 8.53 billion as at 31 December 2016 (a decrease was reported primarily in terms of the volume of bonds held).

In 2016, the total number of the Bank's clients slightly decreased to 53 461 which is a year-on-year decrease by 1 262. Individuals continue to be the key segment for the Bank.

Financial results – Group

The Group concluded 2016 with total assets amounting to CZK 133.11 billion (a 14% decrease). Profit after tax decreased year-on-year by 49.2% and amounted to CZK 0.95 billion for the period concerned.

The year-on-year decrease in net profit was mainly due to a decrease in net trading income, primarily due to a significant strengthening of RUB and the revaluation of assets denominated in foreign currencies in 2016. In 2016, the net trading income on the Group level amounted to CZK totalled CZK 46 million (2015: CZK 1.02 billion).

The net interest income remained almost the same as in 2015 by showing a slight decrease of almost 2% (to a total of CZK 3.22 billion). Net fee and commission income rose by 65.4% to CZK 1.04 billion primarily as a result of an increase in the fee income (a year-on-year increase by CZK 0.46 billion). Operating expenses decreased by 3.2% to CZK 2.23 billion in 2016.

The volume of client deposits within the Group decreased by 15.4% to CZK 103.05 billion in 2016 and the volume of the portfolio of loans and receivables from clients increased by 2.0% to CZK 76.14 billion.

At the end of 2016, the Group's equity amounted to CZK 19.13 billion, representing a year-on-year increase by 12.9%. The sufficient capital amount will enable the Group to grow and develop also in future years. The capital adequacy on the consolidated basis was 15.88% at the end of the year.

At the end of 2016, the Group had 59 933 clients, which is a year-on-year decrease by 2 299.

Financial markets

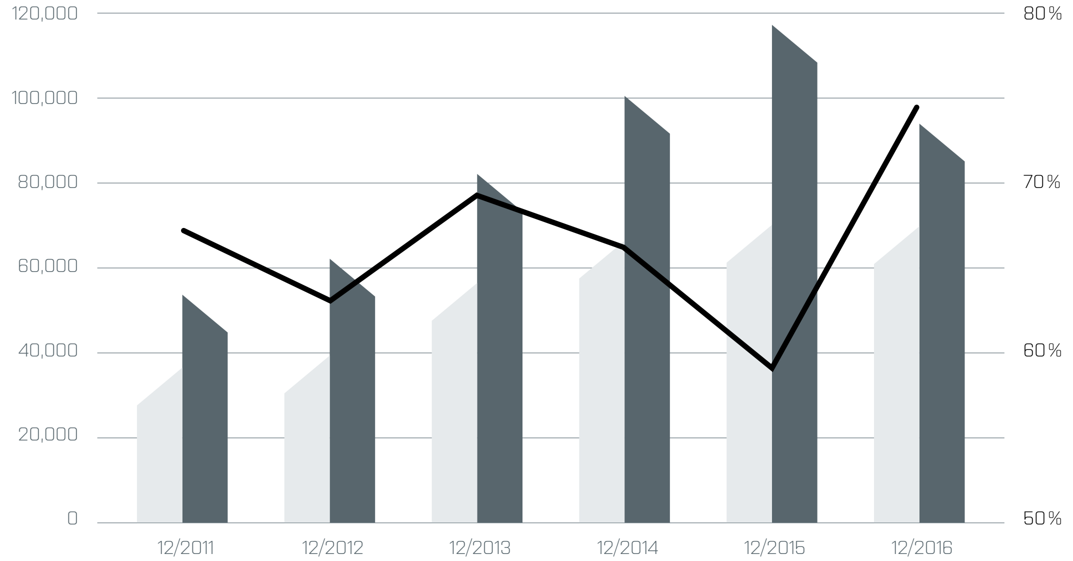
In 2016, the Bank utilised the renaissance trend of the bond markets. It mediated a record volume of debt financing for corporate clients through the capital market by placing a total of 11 bond issues on the Prague and Bratislava Stock Exchanges in the total volume of CZK 19.39 billion. All of the newly launched securities found their investors not only among private clients but on an increasingly higher level also among professional investors including the regulated financial institutions.

The Bank continues to support the liquidity of all bond issues by acting as a responsible market creator. Thanks to this approach, it defended its first position among the bond traders in the Prague Stock Exchange statistics. The most traded issues in the Prague Stock Exchange system were the bonds issued by CPI, a real estate group, and by EPH, an energy giant.

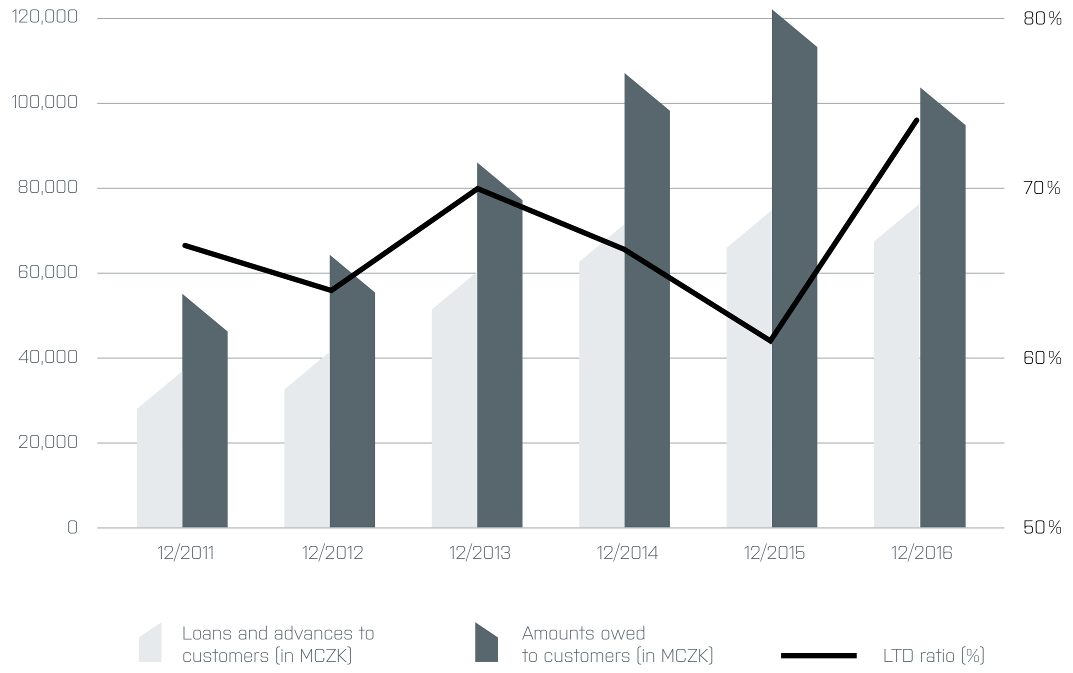
As for trading in shares, the Bank observed the continuing diversion of interest from domestic markets to foreign stock exchanges. Positive exceptions were the shares of Moneta Money Bank that have become the preferred item of the stock exchange after a successful IPO. They have also become a common part of client portfolios. Together with the Bank, active clients successfully invested in companies monitored by the Bank's analysts, such as Apple, AVG, OPAP, Samsung, VISA or gold mining companies.

The Bank was also very successful in terms of asset management. The low interest rates on savings accounts and fixed-term deposits similarly as the Bank's product offer focusing on the rather conservative domestic clients have attracted more than CZK 7 billion to J&T funds which is a year-on-year increase in assets under management by 40% to almost CZK 25 billion. The J&T MONEY fund which enables

CLIENT DEPOSITS AND LOANS / INDIVIDUAL DATA



CLIENT DEPOSITS AND LOANS / CONSOLIDATED DATA



the clients to participate in investment ideas of the J&T group won the title of the best mixed fund for a third time in a row. The fund was selected among several hundreds of domestic and foreign funds by Fincentrum and Forbes analysts thanks to its high yield and low volatility level.

Products

In 2016, the Bank launched eight new bond or debt certificate issues in the market and three issues were newly offered to clients in a public offer. As for the new investment opportunities, we can mention the bonds of Energetický a průmyslový holding, the real estate group CPI, the solar power plant project of ESIN or the bonds of the parent company J&T Finance Group. We can also mention the zero-coupon debt certificates Rustonka 2021. Any generated cash will be used in the construction of office buildings at Invalidovna in Prague.

Already in March 2016, the Company successfully subscribed also the second issue of subordinated yield perpetuity certificates of the Bank denominated in Czech crowns.

In terms of mutual funds, the Bank confirmed its qualities thanks to the successful J&T MONEY fund. This fund which won several awards already doubled the value of assets under management to CZK 6.7 billion in 2016. More than CZK 2 billion was invested in the J&T BOND fund at the end of 2016.

The investment opportunities in funds offered by the Bank are successfully growing. We have begun to cooperate with significant partners among the top mutual funds, e.g. the largest global asset manager BlackRock and the major investment company Fidelity Investments.

Information technologies

Significant improvements were made in the field of information systems to ensure the provision of better quality client services.

These changes included launch of a project of new architecture of bank information systems, primarily implementation of a new integration platform of automated tools for software testing and implementation of smaller specialised applications which cover the traditional functionalities of big banking systems more flexibly. The objective is to respond more flexibly to the requirements of the market and regulators, increase quality of programme equipment and simplify internal processes.

In 2016, internet banking underwent another change. The Bank's client application now offers the functionality of permanent investments, letting clients automatically allocate their assets to securities. Electronically submitted applications for the activation, prolongation or termination of products or services were extended. In autumn 2017, a unique savings account concept will be introduced to electronic banking.

In the period subject to the audit, the Bank also focused on the implementation of new regulatory requirements into systems primarily in terms of reporting and financial markets. A new application for the automatic monitoring of suspicious bank and investment transactions from the point of view of AML (anti money-laundering measures) has been prepared. The banking systems were also integrated into external registers so that client data can be automatically read and reviewed and to monitor negative external events in respect of clients who have been provided a loan.

To simplify the acquisition and administration of clients, the Bank introduced the Partner portal application for external advisors from partner financial networks. This solution also offers the option to certify advisors and to provide them with a follow-up product information support.

The Bank finished the implementation of the system supporting electronic education and certification of both external advisors from partner financial networks and of the Bank's internal employees.

In connection with increased traffic on client lines, the Bank implemented a new application enabling the automation and optimisation of the service processes, and the creation and monitoring of marketing campaigns in client centres.

In terms of IT security, the Bank extended the features of the central tool for security supervision and fully implemented the tool for administration and security of mobile devices.

Human resources
To maintain the high standard of services to clients, the development in the field of human resources is a necessity for the Bank. We are well aware of the fact that motivated and well-educated employees are a crucial corporate value. We see the people behind the work and focus on them. The current management style focuses on sustainable development and on a balance between the company and the employee as well as on an appropriate work-life balance.

The Bank invested in the development of the internal learning system focused in particular on financial thinking and soft skills. In 2016, the Bank began to develop an e-learning solution which will be implemented in 2017. The Bank is open to young talents; it supports university students, is involved in Career Days projects. . It also serves as the general partner of the GMC student contest. For the fourth consecutive year, it organised a trainee programme for university students and graduates, which enjoys an ever-growing interest.

At the end of the year, the Prague Head Office had 345 employees, and its Slovak branch employed 130 people. The male versus female employee ratio is 54% to 46% in the Czech Republic and 42% to 58% in our Slovak branch.

Support of the arts and sports
Thanks to the general partnership with Galerie Rudolfinum (the Rudolfinum Gallery), the Bank together with other partners succeeded in ensuring a free entry to the exhibition "Last Year in Marienbad" for the general public and after a longer pause an exhibition of Jiří Černický, a Czech artist, was held in the gallery.

The Bank is also the general partner of the Jindřich Chalupecký Award; in addition to supporting this award, it also supports the project "Do You Have a Knack for Art?" ("Máš umělecké střevo?"). In 2016, the society of the Jindřich Chalupecký Award laureates from the Magnus Art Collection was extended by the works of Matyáš Chochola. On the verge of the year, the "Up For Grabs!" ("Neváhej a ber") exhibition was held in the Moravian Gallery in Brno, presenting a significant part of the works from the Magnus Art Collection.

In cooperation with the Art & Antiques magazine, we again issued the J&T Banka Art Index which has already gained its place among important reports about the Czech art scene. Although it is not an instruction which would tell you the works of which artists are worth investing in, it brings an annual survey of personalities which you should keep watching as they are successful both in the Czech and foreign art scenes.

The cooperation with the Czech Philharmonic Orchestra provides the philharmonic players with an opportunity not only to play a top-quality violoncello which the Bank purchased and borrowed to the the Czech Philharmonic Orchestra but also with a partnership with the concertmaster Josef Špaček thanks to which among others hundreds of clients and employees of the Bank could listen to the violin recitals of one of the best violinists in the world.

Repeated victories of Czech female tennis players in the Fed Cup have shown that they are dominating the tennis world. J&T Banka Prague Open championship presents the best Czech female tennis players. And in 2016, the winner was again a Czech tennis player, Lucie Šafářová. Thousands of tennis fans, excellent services for both the players and guests, a great atmosphere and a good weather were a commitment for further years of cooperation between the Bank and the championship which was extended until 2019.

Beautiful horses, concentrated jockeys, a great weather, and thousands of fans, these are the traditional features of the international J&T Banka CSI Olomouc horse show-jumping race. The traditional partnership between the Bank and the race which will continue in the following years as well has brought a race to the Czech Republic which gradually becomes a stable part of the European horse-racing scene and attracts more and more good-quality contestants.

In 2016, the Bank has become the partner of the most successful Bohemian basketball team, Basketball Nymburk. Basketball requires quick decision-making and accuracy which are some of the features it has in common with the banking industry.

Outlooks for 2017

The bank would like to continue to strengthen its position of an investment expert. A number of new bond emissions are planned for 2017, and the bank also is planning to offer new investment and savings plan opportunities and to significantly enrich the product offer by including third-party products in order to provide access to investments to clients who only just started to build up their financial background.

As regards credit transactions, the bank has significantly strengthened the sales team and the priority for 2017 will be the enlargement of the credit portfolio by including new business transactions, in particular in the SME sector. The bank's added value in the new business transactions should be the readiness to address clients' needs individually and the speed with which the credit cases are being assessed.

Through its subsidiary Health Care Financing, a.s., acquired in January 2017, the bank seeks new opportunities to provide small standardised loans both to individuals and corporations. We believe that the loan market still offers opportunities in small, specific segments, yielding above-average income-to-risk ration. The role of Health Care Financing, a.s. will be to market simple products based on the knowledge of the needs in these specific segments.

From the macroeconomic point of view, we perceive a number of external risks and insecurities which may have adverse impact on the economy of the countries in which the bank operates. The economies of the developed countries reporting clearly increasing cash excess, speeding up the increase of long-term assets' prices. A strong imbalance in the economic cycle of individual euro zone countries persists, accompanied with high indebtedness and weak banking sectors of some of the countries. Other insecurities have added up to these long-standing risks, such as Brexit negotiations and the future of free trade. All these aspects together form a rather explosive mix which might shake the steady development of the Czech and Slovak economies at any time. In the context, the discontinuation of Czech National Bank's interventions of the Czech crown seems insignificant and should, in our opinion, only cause a temporarily increase exchange rate volatility and should thus have no dramatic impact on our business. We continuously monitor and analyse the risk which could affect the steady development at any time. We believe that we are well prepared for any possible uncertainties and that despite the new challenges arising, 2017 will be as successful for the bank as the previous year.

Declaration

To the best of our knowledge, this annual report presents a true and fair view of business activities, financial position and the results of operations of the Bank and the Group in 2016 and of the outlook of the future development of the financial position, business activities and results of their operations.

Patrik Tkáč
Chairman of the Board of Directors

Štěpán Ašer
Member of the Board of Directors
and Chief executive officer, J&T Banka, a. s.

Patrik Tkáč

Štěpán Ašer

Igor Kováč

Tomáš Klimíček

BANK'S MANAGEMENT

Board of Directors:

Patrik Tkáč
Board chairman

Štěpán Ašer
Board member

Igor Kováč
Board member

Tomáš Klimíček
Board member (as of 1 December 2016)

Procuration:

Vlastimil Nešetřil

Milan Sležka

Alena Tkáčová

Supervisory board

Jozef Tkáč
Supervisory Board chairman

Ivan Jakabovič
Supervisory Board vice-chairman

Dušan Palcr
Supervisory Board member

Jozef Šepetka
Supervisory Board member

Jozef Spišiak
Supervisory Board member

Board of Directors

The Board of Directors is the Bank's statutory body which manages the Bank's business activities and acts in its name in a manner laid down in the Articles of Association and the Commercial Register. The Board of Directors decides all matters of the Bank unless they fall within the powers of the general meeting or the Supervisory Board under the law or the Articles of Association or resolutions of the general meeting.

The Board of Directors is elected by the Supervisory Board. The Czech National Bank reviews professional skills, credibility and experience of all members of the Board. The members of the Board elect its chairman. The general meeting decides on the remuneration of the members of the Bank's Board of Directors. Individual members of the Board are elected for five years (their re-election is possible).

The Board of Directors is responsible for the establishment of a comprehensive and appropriate internal governance system and for ensuring the setting of the Bank's overall strategy, the rules which clearly define ethical and professional principles and expected models of behaviour of employees and for the determination of human resources management standards. The Board of Directors is also responsible for ensuring the determination, observance and application of requirements for credibility, knowledge and experience of persons through which it ensures the performance of its activities and for the consistent application of proper management, administrative, accounting and other procedures by the Bank.

The Bank's Board of Directors approves and regularly assesses primarily the Bank's overall strategy, organizational structure, the risk management strategy including risks arising from the macroeconomic environment in which the Bank operates even depending on the economic cycle including principles of assuming, identifying, measuring, monitoring, reporting and limiting the occurrence or impacts of risks to which the Bank can be exposed. It approves the strategy related to capital, strategy of the information and communication system development, principles of the internal control system, including principles preventing any occurrence of a possible conflict of interests. It also approves compliance and internal audit, security principles including security principles for information and communication systems, a set of limits including the total acceptable risk rate and potential internally determined capital, liquidity and other prudential provisions or premiums which the Bank uses to mitigate risks within the risk rate acceptable for it.

The Bank's Board of Directors also approved new products, activities, systems and other matters being of significant importance for the Bank or having other potential substantial impact on it (the Board of Directors can delegate this power to a specialized committee determined by it). It approves the strategic (four-year) and periodical (annual) internal audit plan.

At 31 December 2016, the Bank's Board of Directors had 4 members:

Patrik Tkáč
Chairman of the Board

Appointed to the Board of Directors on: 3 June 1998
Term of office to: 22 July 2018

He graduated from the Faculty of National Economy of the University of Economics in Bratislava. In 1994, he obtained a broker's licence from the Slovak Ministry of Finance and in the same year he co-founded J&T Securities, s.r.o., an investment firm. He is a leading representative of the J&T Group and chairman of the Board of Directors of J&T BANKA, a.s. where he is in charge of the Financial Markets Division.

In addition, in the past five years he is or was involved in the following companies:

Current engagements:
J&T FINANCE GROUP SE, ID: 27592502, Prague 8, Pobřežní 297/14, postcode 186 00, Board of Directors – vice-chairman.

Nadační fond J&T, ID: 27162524, Prague 1, Malostranské nábřeží 563/3, postcode 118 00, Managing Board – member.

ATLANTIK finanční trhy, a.s., ID: 26218062, Prague 8, Pobřežní 297/14, postcode 186 00, Supervisory Board – chairman.

J&T IB and Capital Markets, a.s., ID: 24766259, Prague 8, Pobřežní 297/14, postcode 186 00, Supervisory Board – member.

CZECH NEWS CENTER a.s., ID: 2346826, Prague7, Komunardů 1584/42, postcode 170 00, Supervisory Board – chairman.

VABA d.d. banka Varaždin, ID: 675539, Aleja kralja Zvonimira 1, 42000 Varazdin, Croatia Supervisory Board – member.

J&T Family Office, a.s., ID: 3667529, Prague 1 Malá Strana, Malostranské nábřeží 563/3, postcode 118 00, Supervisory Board – member.

Nadace Sirius, ID: 28418808, Prague 1, Všehrdova 560/2, postcode 118 00, Founder..

PBI, a.s., ID: 03633527, Prague 8, Sokolovská 394/17, Karlín, postcode 186 00, Board of directors – member.

Neaktuální:
ART FOND - Stredoeurópsky fond súčasného umenia, a. s., ID: 47979160, Bratislava, Dvořákovo nábrežie 8, postcode 811 02, Slovakia, Board of Directors – chairman.

Štěpán Ašer, MBA
Board member, Chief Executive Officer

Appointed to the Board of Directors on: 30 May 2006
Term of office to: 2 June 2021

He graduated from the School of Business and Public Management at George Washington University in Washington, in finance and financial markets. He holds an MBA at the Rochester Institute of Technology. He has been working in finances in the Czech Republic since 1997, first as an analyst, a portfolio manager in Credit Suisse Asset management. In 1999 – 2002, he was a member of the Board of Directors of Commerz Asset Management responsible for the portfolio management and sales. In Česká spořitelna he focussed on institutional clients in the asset management. Since 2003, he has been working in J&T BANKA, a.s. Štěpán Ašer is responsible for Trade Division, Credit Transactions Division, Operations Division, the Information Systems Division and the Administrative Division.

In addition, in the past five years he is or was involved in the following companies:

Current engagements:
J&T INVESTIČNÍ SPOLEČNOST, a.s., ID: 47672684, Prague 8, Pobřežní 297/14, postcode 186 00, Supervisory Board – member.

ATLANTIK finanční trhy, a.s., ID: 26218062, Prague 8, Pobřežní 297/14, postcode 186 00, Board of Directors – chairman.

J&T IB and Capital Markets, a.s., ID: 24766259, Prague 8, Pobřežní 297/14, postcode 186 00, Supervisory Board – chairman.

J&T Bank, a.o., ID: 1027739121651, Moscow, Kadshevskaya, Russian Federation, Supervisory Board – member.

PBI, a.s., ID: 03633527, Prague 8, Sokolovská 394/17, Karlín, postcode 186 00, Supervisory Board – member.

Igor Kováč
Board member

Appointed to the Board of Directors on: 16 February 2011
Term of office to: 16 February 2021

In 1998, he graduated from the Faculty of National Economy of the University of Economics in Bratislava. He has spent his entire professional career in finance. Since 2000, he has been working in the banking industry. He joined Hypovereinsbank Slovakia where he worked as a Senior Controller. In 2002 – 2008, he worked in Volksbank Slovakia as the manager of the Economic Department. Since 2008, he has been working in J&T BANKA, a.s. Igor Kováč is responsible for the Finance Division.
In addition, in the past five years he is or was involved in the following companies:

Current engagements:
J&T IB and Capital Markets, a.s., ID: 24766259, Prague 8, Pobřežní 297/14, postcode 186 00, Supervisory Board – member.

J&T INVESTIČNÍ SPOLEČNOST, a.s., ID: 47672684, Prague 8, Pobřežní 297/14, postcode 186 00, Supervisory Board – member.

J&T SERVICES ČR, a.s., ID: 28168305, Prague 8, Pobřežní 297/14, postcode 186 00, Supervisory Board – member.

VABA d.d. banka Varaždin, ID: 675539, Aleja kralja Zvonimira 1, 42000 Varazdin, Croatia, Supervisory Board – member.

J&T Bank, a.o., ID: 1027739121651, Moscow, Kadshevskaya, Russian Federation, Supervisory Board – chairman.

Tomáš Klimíček
Board member

Appointed to the Board of Directors on: 1 December 2016
Term of office to: 1 December 2021

In 2010, he graduated from the Faculty of Finance and Accounting of the University of Economics. In 2008-2011, he worked in PricewaterhouseCoopers Audit, s.r.o. He joined J&T BANKa, a.s. in 2011, and became the Head of the Credit Risk Management department in 2012. Tomáš Klimíček's responsibility as board member is Risk Management.

In the last five years, he was not involved in any other companies.

Supervisory Board

The Supervisory Board is the Bank's control body. Its activity is regulated by legal regulations and the Bank's Articles of Association. The Supervisory Board supervises the activity of the Board of Directors and the implementation of the Bank's business activity. The members of the Supervisory Board are elected and removed by the general meeting (resp. the sole shareholder). According to the Articles of Association the Supervisory Board has 6 members. At 31 December 2016, it had five members. The members of the Supervisory Board are elected for a five-year term.

Jozef Tkáč
Chairman of the Supervisory Board (not an employee of the Bank)

Appointed to the Supervisory Board on: 3 June 1998
Term of office to: 15 October 2018

After he graduated from the University of Economics, he joined the Main Institute of the State Bank of Czechoslovakia ("SBCS") in Bratislava. In 1989, the Slovak Government and the SBCS authorized him to prepare activities of an investment bank in Slovakia. In 1990, he became the leading director of the Main Institute for the Slovak Republic in Investiční banka, s.p.ú., Praha and after Investiční banka Praha was privatized and divided, he became president of Investičná a rozvojová banka, a.s. in Bratislava. After a change in the bank's owners and the end of the privatization of Investičná a rozvojová banka, a.s. he became president of the J&T Group and chairman of the Board of Directors of J&T FINANCE GROUP.

In addition, in the past five years he is or was involved in the following companies:

Current engagements:
J&T FINANCE GROUP SE, ID: 27592502, Prague 8, Pobřežní 297/14, postcode 186 00, Board of Directors – chairman.

Geodezie Brno, a.s. in liquidation, ID: 46345906, Brno, Dornych 47, postcode 602 00, Supervisory Board – chairman.

ATLANTIK finanční trhy, a.s., ID: 26218062, Prague 8, Pobřežní 297/14, postcode 186 00, Supervisory Board – member.

Poštová banka, a.s., ID: 31340890, Bratislava, Dvořákovo nábrežie 4, postcode 811 02, Supervisory Board – member

J&T SERVICES ČR, a.s., ID: 28168305, Prague 8, Pobřežní 297/14, postcode 186 00, Supervisory Board – chairman.

Equity Holding, a.s., ID: 10005005, Prague 8, Pobřežní 297/14, postcode 186 00, Board of Directors – chairman.

Previous engagement:
J&T Investment Pool - I - SKK, a.s., ID: 35888016, Bratislava, Lamačská cesta 3, postcode 841 04, Board of Directors – vice-chairman.

Ivan Jakabovič
Supervisory Board vice-chairman (not an employee of the Bank)

Appointed to the Supervisory Board on: 3 June 1998
Term of office to: 15 October 2018

He graduated from the Faculty of Economic Informatics of the University of Economics in Bratislava. He obtained a broker's licence from the Slovak Ministry of Finance. In 1994, he co-founded J&T Securities, s.r.o., an investment firm.

In addition, in the past five years he is or was involved in the following companies:

Current engagements:
J&T FINANCE GROUP SE, ID: 27592502, Prague 8, Pobřežní 297/14, postcode 186 00, Board of Directors – vice-chairman.

KOLIBA REAL a.s., ID: 35725745, Bratislava, Dvořákovo nábrežie 8, postcode 811 02, Slovakia, Board of Directors – chairman.

J & T Investment Pool - I- CZK, a.s., ID: 26714493, Prague 8, Pobřežní 297/14, postcode 186 00, Supervisory board – member.

Energetický a průmyslový holding, a.s., ID: 28356250, Prague 1, Pařížská 130/26, Josefov, postcode 110 00, Supervisory board – chairman.

EP Energy, a.s., ID: 29259428, Prague 1, Pařížská 130/26, Josefov, postcode 110 00, Supervisory board – chairman.

EP Industries, a.s., ID: 29294746, Prague 1, Pařížská 130/26, Josefov, postcode 110 00, Supervisory board – member.

EP Power Europe, a.s., ID: 27858685, Prague 1, Pařížská 130/26, Josefov, postcode 110 00, Supervisory board – member.

Previous engagements:
První zpravodajská a.s., ID: 27204090, Prague 8, Pobřežní 297/14, postcode 186 00, Supervisory Board – member.

Nadační fond J&T, ID: 27162524, Prague 1, Malostranské nábřeží 563/3, postcode 118 00, Managing Board – member.

J&T Investment Pool - I - SKK, a.s., ID: 35888016, Bratislava, Lamačská cesta 3, postcode 841 04, Slovakia, Board of Directors – chairman.

Dušan Palcr
Supervisory Board member (not an employee of the Bank)

Appointed to the Supervisory Board on: 15 June 2004
Term of office to: 15 October 2018

He graduated from the Faculty of Business and Economics of Mendel University in Brno. From 1996 to 1998, he worked in banking supervision in the Czech National Bank. He joined the J&T Group in 1998. He was a member of the Board of Directors of J&T BANKA, a.s. in charge of the Finance and the Banking Operations Department. Since 2003, he has been a member of the Board of Directors of J&T FINANCE GROUP SE (formerly J&T FINANCE, a.s.).

In addition, in the past five years he is or was involved in the following companies:

Current engagements:
J&T FINANCE GROUP SE, ID: 27592502, Prague 8, Pobřežní 297/14, postcode 186 00, Board of Directors – vice-chairman.

AC Sparta Praha fotbal, a.s., ID: 46356801, Prague 7, Tř. Milady Horákové 1066/98, 170 00, Supervisory Board – chairman.

MERIDIANSPA ŠTVANICE, a.s., ID: 25921436, Prague 8, Pobřežní 620/3, postcode 186 00, Board of Directors – chairman.

COMMITTEES OF THE BANK

Committees of the bank

Executive Committee

The Executive Committee (the "EC") has been established by the Bank's Board of Directors to be the Board of Director's advisory body. Its main objective and purpose is to support the operational management of the Bank's activities at a collective body level. The EC's decisions are binding on all employees of the Bank. The EC especially prescribes procedures for providing banking services, sets rules for the Bank's internal operations, approves new products, procedures and the Bank's activities, discusses and approves changes in the Bank's price lists, business terms and conditions, discusses the Bank's overall strategy or its partial strategies and submits them to the Bank's Board of Directors for approval. The EC also discusses and approves the Bank's organizational and operational projects, discusses changes in competences and rights to sign for the Bank and submits them to the Board of Directors for approval. It is responsible for implementing approved strategies, principles and objectives and for elaborating procedures for their fulfilment and the Bank's everyday management. It monitors the functionality and effectiveness of the organizational structure including the separation of inconsistent functions and the prevention of a potential conflict of interests from occurring and suggests respective changes in the Bank's organizational structure to the Bank's Board of Directors. It cooperates with the Board of Directors in ensuring the proper and efficient operation of the governance system, it suggests remedial measures related to identified shortcomings to the Board of Directors and ensures the implementation of measures taken by the Bank's Board of Directors. It decides on the implementation of legislative changes and a way of their including to the Bank's activity. The EC is has sufficient personnel and competences to fulfil such tasks. The EC's members are appointed and removed by the Bank's Board of Directors.

The Executive Committee has 6 members. As at 31 December 2016, it had the following members:

- Nešetřil Vlastimil, chairman of the EC, executive director
- Macaláková Anna, member of the EC, director and the head of the organizational unit of J&T Banka in Slovakia
- Drahotský Daniel, member of the EC, director of the Financial Markets Division
- Kešnerová Mária, member of the EC, director of the Financial Division
- Klimíček Tomáš, member of the EC, member of BoD
- Křenková Alena, member of the EC (with no voting right), manager of the Internal Audit and Control Department

(As of 17 January 2017, the Executive Committee has been abolished.)

Assets and Liabilities Committee

The Assets and Liabilities Committee ("ALCO") has been established by the Bank's Board of Directors. ALCO's main objective and purpose is to facilitate the Bank's asset and liability management process in terms of liquidity, interest rates, the Bank's profitability and capital adequacy. ALCO especially monitors liquidity, the Bank's interest and FX risks, observance of internal and external limits in those areas, analyses possible scenarios of the future development, monitors the observance of internal and regulatory capital adequacy limits at an individual and consolidated level, resp. prudential consolidation. ALCO also evaluates an impact of legislative changes on the Bank's assets and liabilities, responds to the situation in financial markets, analyses prices and products offered by competitive banks and their influence on the Bank's trades and prices. It monitors maturity of significant asset and liability transactions, evaluates an impact of expected new trades on the risk, limits and profitability, it decides on interest rates of deposit and credit products, measures taken in the market risk management, prudential business activities and in trades, it approves emergency plans in case of crisis of liquidity, capital and profitability.

ALCO also has at least 3 members appointed and removed by the Bank's Board of Directors. As at 31 December 2016, ALCO had the following members:

- Kováč Igor, chairman of ALCO, Board member

- Tkáč Patrik, member of ALCO, chairman of the Board of Directors
- Ašer Štěpán, member of ALCO, Board member
- Jakabovič Ivan, member of ALCO, partner of J&T Finance Group SE
- Macaláková Anna, member of ALCO, director and head of the organizational unit J&T Banka in Slovakia

Investment Committee
The Investment Committee (the "IC") has been established by the Bank's Board of Directors as an advisory body of the Board of Directors. Its main objective and purpose is to support investments assigned in the business portfolio, the Bank's currency and commodity positions. The IC especially discusses and approves limits or other parameters for the business portfolio trades, the Bank's currency and commodity positions to an extent specified by the Bank's internal rules governing limits for making the Bank's transactions. The IC prescribes a set of liquidity risk figures and approves the Bank's emergency liquidity plan and approves the enlistment of a security for trading as a part of the client portfolio management. It regularly evaluates the observance of set limits.

The IC always has at least 3 members appointed and removed by the Bank's Board of Directors. As at 31 December 2016, the IC had following members:
- Drahotský Daniel, chairman of the IC, director of the Financial Markets Division
- Vodička Petr, member of the IC, manager of the Financial Markets Department
- Kováč Igor, member of the IC, Board member
- Míšek Radoslav, member of the IC, manager of the Risk Management Department

Information Systems Committee
The Information Systems Committee (the "ISC") has been established by the Bank's Board of Directors. The ISC's main objective and purpose is to manage the development of banking information systems by the Bank. The ISC sets out the development strategy of information systems and information technology ("IS/IT"), discusses and specifies priorities of individual IS/IT projects and other changes in the IS/IT area in the context of business plans, regulatory requirements and the Bank's strategic development. The ISC discusses and approves IS/IT projects including their changes, results of tenders in the IS/IT area, evaluates cooperation with IS/IT suppliers.

The ISC has at least 3 members appointed and removed by the Bank's Board of Directors. As at 31 December 2016, the ISC had the following members:
- Martinek Miloslav, chairman of the ISC, director of the Information Systems Division
- Nešetřil Vlastimil, member of the ISC, executive director
- Macaláková Anna, member of the ISC, director and head of the organizational unit J&T Banka in Slovakia
- Drahotský Daniel, member of the ISC, director of the Financial Markets Division
- Kešnerová Mária, member of the ISC, director of the Finance Division

Business Continuity Committee
The Business Continuity Committee (the "BCC") has been established by the Bank's Board of Directors. The BCC's main objective and purpose is to organize and coordinate activities in the Bank in case of any emergency.

The BCC has at least 3 members appointed and removed by the Bank's Board of Directors. As at 31 December 2016, the BCC had the following members:
- Slobodník Michal, chairman of the BCC, manager of the Security Department
- Nešetřil Vlastimil, member of the BCC and vice-chairman of the BCC, executive director
- Martinek Miloslav, member of the BCC, director of the Information Systems Division
- Tkáčová Alena, member of the BCC, director of the Trade CR Division
- Macaláková Anna, member of the BCC, director and head of the organizational unit J&T Banka in Slovakia

- Sležka Milan, member of the BCC, director of the Operation CR Division
- Vršková Eva, member of the BCC, manager of the Front Office Department SR (organizational unit of J&T Banka SR)
- Málek Petr, member of the BCC, manager of the Marketing Department CR

Security Committee

The Security Committee (the "SC") has been established by the Bank's Board of Directors. The SC's main objective and purpose is to manage security risks. The SC is responsible for working out and submitting proposals for the risk mitigation to an acceptable level, for the check and evaluation of the Bank's security risks and supervision over the implementation of approved proposals for the elimination of security risks by the Bank's Board of Directors.

The SC has at least 3 members appointed and removed by the Bank's Board of Directors. As at 31 December 2016, the SC had the following members:

- Nešetřil Vlastimil, chairman of the SC, executive director
- Slobodník Michal, member of the SC, manager of the Security Department
- Krejčí Oldřich, member of the SC, security consultant
- Skála Zbyněk, member of the SC, manager of the IS/IT Governance Department

Operational Risk and Damage Committee

In 2016, the Operational Risk and Damage Committee ("ORDC") has been established by the Bank's Board of Directors. The ORDC's main objective and purpose is to discuss damage and bank's operational risk at the level of a collective body with adequate personnel and competencies to fulfil this task. The ORDC is responsible for working out and submitting proposals for the risk and damage mitigation to an acceptable level, for the check and evaluation of Bank's operational risk and supervision over the implementation of approved proposals for the elimination of operational risk and damage by the Bank's Board of Directors.

The ORDC has at least 6 members appointed and removed by the Bank's Board of Directors. As at 31 December 2016, the ORDC had the following members:

- Mastný Miloslav, chairman of the ORDC, director of the Administration Division
- Sležka Milan, member of the ORDC, director of the Operation CR Division
- Míšek Radoslav, member of the ORDC, manager of the Risk Management Department
- Šustová Jitka, member of the ORDC, manager of the Economic Department CR
- Tomeš Libor, member of the ORDC, manager of the Process and Project Management Department
- Maxim Ján, member of the ORDC, Compliance officer SR (organisational unit J&T Banka Slovakia)
- Machová Ivana, member of the ORDC (with no voting right), internal auditor
- Karásek Ondřej, member of the ORDC (with no voting right), Risk Management Department
- Slobodník Michal, member of the ORDC (with no voting right), manager of the Security Department
- Skála Zbyněk, member of the ORDC, manager of the IS/IT Governance Department

Remuneration committee

In 2016, the Remuneration Committee ("RC") has been established by the Bank's Supervisory Board. The RC's main objective and purpose is to support the Supervisory Board in defining and assessing the system and guidelines for the remuneration of Bank's employees. The RC drafts system amendments and remuneration policy for the Bank's supervisory board, regularly assesses the adherence to the remuneration policy and submits the assessment summary to the Bank's supervisory board, reviews the compliance of the remuneration policy with the Bank's current business model and with the Bank's business cycle. The RC submits the output of the assessment to the Bank's supervisory board, suggests classifying particular job positions as positions with an impact on Bank's risk profile to the Bank's supervisory board, and supports the Supervisory board in assessing the efficiency and functionality of the remuneration policy.

The RC has 4 members appointed and removed by the Bank's Supervisory Board:
As at 31 December 2016, the RC had the following members:
- Jakabovič Ivan, chairman of the RC, partner of the J&T Finance Group SE
- Ašer Štěpán, member of the RC, member of BoD
- Kováč Igor, member of the RC, member of BoD
- Vinšová Eva, member of the RC, HR director

Audit Committee
According to the decision of the sole shareholder, on 22 December 2009 Jozef Tkáč, Ivan Jakabovič and Dušan Palcr were appointed as members of the Bank's Audit Committee. Activities of the Audit Committee are governed by valid legal regulations and the Bank's Articles of Association. .

ORGANISATIONAL CHART

BOARD OF DIRECTORS OF THE BANK

- Office of the Chairman of the Board of Directors
- **TOP MANAGEMENT**

UNIT CZECH REPUBLIC / EXECUTIVE DIRECTOR

- Family Office Supporr Section
- **Bank Management Department**
- **China Desk Department**
- **Advisors Department**
- Advisors Section 1.
- Advisors Section 2.
- Advisors Section 3.
- **Marketing Department ČR**
- **New Issues Department**

DIVISION LENDING BUSINESS CR

DIVISION SALES CR

- **Sales Development and Support Department CR**
- Back office Section
- Sales Support Section
- **Private Banking Department CR**
- Private Banking Section 1
- Private Banking Section 2
- Private Banking Section 3
- Private Banking Section 4
- Private Banking Section 5
- Russian Desk Section
- Branch Brno
- Branch Ostrava
- **Client Center Department CR**
- **External Sale Department CR**
- External Sale Front Office Section
- External Sale Support Section

DIVISION OPERATION CR

- **Banking Operations and International Banking Department CR**
- Banking Operations Section
- International Banking Section
- Payment Cards, Internet Banking and Back Office Clear Deal Section
- **Credit and Loans Department CR**
- **Financial Markets Back Office Department CR**

UNIT SLOVAK REPUBLIC / HEAD OF THE BRANCH

- **Unit SR Management Department**

DIVISION SALES SR

- **Private Banking Department SR**
- Premium Banking Section
- **Komfort Department SR**
- **Marketing and Comunication Department SR**
- **Business Call Centrum Department SR**

DIVISION OPERATION SR

- The High Tatras Exposition
- The Košice Exposition
- Process and Product Management Section SR
- **Front Office Department SR**
- **Back Office Department SR**
- Back Office Comfort Section
- Back Office PrB and PB Section
- Payment Cards and Internet Banking Section
- Comfort line Section
- **Credit and Loans Department SR**
- **Financial Markets Back Office Department SR**

UNIT SHARED SERVICES

DIVISION FINANCIAL MARKETS	DIVISION FINANCE	DIVISION RISK MANAGEMENT	DIVISION INFORMATION SYSTEMS	DIVISION ADMINISTRATION	
Investment Center Section	**Treasury Department**	**Risk Management Department**	**Infrastructure and Support Systems Department**	**Legal Department CR**	**Internal Audit and Inspection Department**
Financial Markets Department CR – Other Person´s Account	Liquidity Management Section	**Credit Risk Management Department**	Database Section	**Legal Department SR**	**Process and Project Management Department**
Financial Markets Department CR – Own Account	**Financial Analysis Department**		Supporting Applications Section	**Compliance and AML Department**	**Safety Department**
Financial Markets Department SR	**Economy Department CR**		**Customer and Internal Interfaces Department**		**Magnus Department**
Client Portfolio Management Department	Accounting Section		ePortal Section		
Research Department	Reporting Section		**Reporting Support Department**		
	Economy Department SR		Financial Reporting Section		
	Accounting Section		Operational Reporting Section		
	Reporting Section		**Banking Applications Department**		
			Bank and Information System Section		
			Financial and Securities Systems Section		
			IS/IT Governance Department		

REPORT OF THE SUPERVISORY BOARD

In 2016, the Supervisory Board of J&T BANKA, a.s. had five members. The Supervisory Board performed its activity in compliance with applicable law, in particular the Business Corporations Act, the Act on Banks and the Bank's Articles of Association.

In 2016, the Supervisory Board held a total of seven sessions, four of which were ordinary and three extraordinary. At the ordinary sessions, the Board discussed especially regular reports on the Bank's activity and its financial situation submitted by the Bank's Board of Directors and all other matters arising from respective legal regulations. The extraordinary sessions dealt with the (re-) appointment of Board of Director's members.

The Supervisory Board has reviewed financial statements as of 31 December 2016 audited by the Bank's external auditor, KPMG Česká republika Audit, s.r.o. According to the auditor's report issued on 30 March 2017, the financial statements present, in all material respects, a true and fair view of the assets and liabilities of J&T BANKA, a.s. as of 31 December 2016 and expenses, income and the results of its operations and cash flows for the year 2016 in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The Supervisory Board states that the Bank's business activities were performed in compliance with applicable law and the Bank's Articles of Association. The Supervisory Board has reviewed the audited report on relations between related parties in 2016 worked out by the Board of Directors. The Supervisory Board confirms that it has no objections to the report.

The Supervisory Board agrees with the results of the annual financial statements for 2016 and with the settlement of the profit/loss, i.e. the distribution of profit of J&T BANKA, a.s. for 2016 as proposed by the Bank's Board of Directors and has recommended that the sole shareholder exercising the powers of the general meeting approves the financial statements.

Prague, 30 March 2017

CORRESPONDENT BANK

Československá obchodní banka, a.s.
Prague, Czech Republic
SWIFT: CEKO CZ PP
Currency: CZK, EUR, USD, GBP, CAD, HUF, HRK, CHF, PLN, TRY, RON, AUD, RUB

ING Belgium SA/NV
Brussels, Belgium
SWIFT: BBRU BE BB
Currency: EUR

Deutsche Bank Trust Company Americas
New York, USA
SWIFT: BKTR US 33
Currency: USD

ING Bank N.V.
Prague, Czech Republic
SWIFT: INGB CZ PP
Currency: CZK, EUR, USD, GBP, CAD, HUF, CHF, PLN, TRY, RON, AUD, RUB, SEK, NOK

J&T Bank, a.o.
Moscow, Russian Federation
SWIFT: TRRY RU MM
Currency: RUB

Poštová banka, a.s.
Bratislava, Slovak Republic
SWIFT: POBN SK BA
Currency: EUR

UniCredit Bank Czech Republic and Slovakia, a.s.
Prague, Czech Republic
SWIFT: BACX CZ PP
Currency: CZK, EUR, USD, HRK

Vaba banka d.d. Varaždin
Varazdin, Croatia
SWIFT: VBVZ HR 22
Currency: HRK

Citibank Europe plc, organizační složka
Prague, Czech Republic
SWIFT: CITI CZ PX
Currency: MXN, ZAR

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

in MCZK	Note	2016	2015
ASSETS			
Cash and balances with central banks	6	15,513	19,724
Due from financial institutions	7	23,423	34,379
Positive fair value of derivatives	8	239	160
Loans and advances to customers	11	76,139	74,668
Financial assets at fair value through profit or loss	9a	3,381	2,739
Financial assets available for sale	9b	11,457	15,442
Financial assets held to maturity	9c	666	609
Disposal groups held for sale	18	219	4,962
Investment in equity accounted investees	49	29	35
Current tax asset		78	63
Deferred tax asset	26	105	99
Investment property	13	469	363
Property, plant and equipment	14	216	337
Intangible assets	15	139	157
Goodwill	15	30	30
Prepayments, accrued income and other assets	17	1,011	1,084
Total Assets		**133,114**	**154,851**

in MCZK	Note	2016	2015
LIABILITIES			
Deposits and loans from banks	19	3,174	4,259
Deposits from customers	20	103,053	121,812
Negative fair value of derivatives	8	185	85
Subordinated debt	21	1,443	2,049
Current tax liability		20	5
Deferred tax liability	26	128	66
Other liabilities and provisions	22	5,983	6,669
Disposal groups held for sale		–	2,961
Total Liabilities		**113,986**	**137,906**
Share capital	23	10,638	10,638
Retained earnings and other reserves	23	5,230	3,822
Other capital instruments	23	2,597	1,742
Equity attributable to equity holders of the parent		**18,465**	**16,202**
Non-controlling interest	24	663	743
Total Equity		**19,128**	**16,945**
Total Equity and Liabilities		**133,114**	**154,851**

The accompanying notes, set out on pages 40 to 129, are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

in MCZK	Note	2016	2015 represented
Interest income	27	5,418	6,154
Interest expense	28	(2 198)	(2 869)
Net interest income		**3,220**	**3,285**
Fee and commission income	29	1,278	819
Fee and commission expense	30	(241)	(192)
Net fee and commission income		**1,037**	**627**
Dividends from financial assets available for sale		187	14
Impairment of assets available for sale	9b	32	(32)
Net trading income	31	46	1,024
Other operating income	32	142	244
Operating income		**4,664**	**5,162**
Personnel expenses	33	(946)	(943)
Other operating expenses	34	(1 184)	(1 193)
Depreciation and amortisation	14, 15	(101)	(104)
Goodwill impairment	15	–	(65)
Operating expenses		**(2 231)**	**(2 305)**
Profit before provisions, allowances and income tax expenses		**2,433**	**2,857**
Net change in provisions from financial activities		12	(24)
Net change in allowances for impairment of loans	12	(1 043)	(826)
Revenues from cession in portfolio of loans and other receivables		8	12
Profit before tax, excluding profit from equity accounted investees		**1,410**	**2,019**
Profit/(loss) from equity accounted investees, net of tax	49	(50)	167
Profit before tax		**1,360**	**2,186**
Income tax expenses	25	(407)	(310)
Profit for the period from continuing operations		**953**	**1,876**
Profit for the period from discontinued operations	**18**	**–**	**–**
Profit for the period		**953**	**1,876**
EQUITY HOLDERS OF THE PARENT			
Continuing operations		1,042	1,967
Discontinued operations		–	–
Total		**1,042**	**1,967**
NON-CONTROLLING INTEREST			
Continuing operations		(89)	(91)
Discontinued operations		–	–
Total		**(89)**	**(91)**
Profit for the period		**953**	**1,876**

in MCZK	Note	2016	2015 represented
OTHER COMPREHENSIVE INCOME – ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS			
Revaluation reserve - financial assets available for sale			
Net change in fair value		116	76
Net amount reclassified to profit or loss		(130)	47
Foreign exchange translation differences		637	(1,040)
Other comprehensive income for the period, net of tax		**623**	**(917)**
Total comprehensive income for the period		**1,576**	**959**
EQUITY HOLDERS OF THE PARENT			
Continuing operations		1,659	1,054
Discontinued operations		–	–
Total		**1,659**	**1,054**
NON-CONTROLLING INTEREST			
Continuing operations		(83)	(95)
Discontinued operations		–	–
Total		**(83)**	**(95)**
Total comprehensive income for the period		**1,576**	**959**

As the Group decided not to sell J&T Bank, a.o. as aimed at 31 December 2015, the amounts of the profit structure of the disposal group held for sale for the year ended as at 31 December 2015 presented by the company J&T Bank, a.o. on the line Profit from discontinued operations have been re-presented in relevant particular lines of the Consolidated statement of comprehensive income and in relevant disclosures tables for the year ended as at 31 December 2015.

The accompanying notes, set out on pages 40 to 129, are an integral part of these consolidated financial statements. The Board of Directors approved these consolidated financial statements on 30 March 2017.

Signed on behalf of the Board:

Štěpán Ašer, MBA
Member of the Board of Directors

ng. Igor Kováč
Member of the Board of Directors

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

in MCZK	Share capital	Capital funds
Balance at 1 January 2016	**10,638**	**16**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		
Profit for the period	–	–
OTHER COMPREHENSIVE INCOME, NET OF TAX – ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS		
Foreign exchange translation differences	–	–
Fair value reserve (available-for-sale financial assets):		
Net change in fair value	–	–
Net amount reclassified to profit or loss	–	–
Total comprehensive income for the period	**–**	**–**
TOTAL TRANSACTIONS WITH OWNERS OF THE GROUP, RECOGNIZED DIRECTLY IN EQUITY		
Issue of capital instruments	–	–
Effect of withholding tax	–	–
Distribution from capital instruments	–	–
Set up of Perpetuity fund	–	–
Effect of interest change	–	–
Effect of disposals of subsidiaries	–	–
Transfer of legal reserve fund		24
Balance at 31 December 2016	**10,638**	**40**

On November 10, 2015 the J&T Bank's sole shareholder J&T FINANCE GROUP SE increased share capital of the Bank by subscription of new shares totaling CZK 1 080 million.

Information about Other capital funds and Perpetuity fund is disclosed in note 23.

Translation and revaluation reserve	Retained earnings	Perpetuity fund	Other capital instruments	Total	Non-controlling interest	Total equity
(1,425)	**5,159**	**72**	**1,742**	**16,202**	**743**	**16,945**
–	1,042	–	–	1,042	(89)	953
635	–	–	–	635	2	637
112	–	–	–	112	4	116
(130)	–	–	–	(130)	–	(130)
617	**1,042**	**–**	**–**	**1,659**	**(83)**	**1,576**
–	–	–	855	855	–	855
–	(12)	–	–	(12)	–	(12)
–	–	(229)	–	(229)	–	(229)
–	(312)	312	–	–	–	–
–	(14)	–	–	(14)	14	–
–	4	–	–	4	(11)	(7)
–	(24)	–	–	–	–	–
(808)	**5,843**	**155**	**2,597**	**18,465**	**663**	**19,128**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

in MCZK	Share capital	Capital funds
Balance at 1 January 2015	**9,558**	**83**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		
Profit for the period	–	–
OTHER COMPREHENSIVE INCOME, NET OF TAX – ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS		
Foreign exchange translation differences	–	–
Fair value reserve (available-for-sale financial assets):		
Net change in fair value	–	–
Net amount reclassified to profit or loss	–	–
Total comprehensive income for the period	**–**	**–**
TOTAL TRANSACTIONS WITH OWNERS OF THE COMPANY, RECOGNIZED DIRECTLY IN EQUITY		
Issue of capital	1,080	–
Issue of capital instruments	–	–
Dividends	–	–
Distribution from capital instruments	–	–
Set up of Perpetuity fund	–	–
Effect of interest change	–	–
Effect of disposals of subsidiaries	–	(113)
Transfer of legal reserve fund	–	46
Balance at 31 December 2015	**10,638**	**16**

The accompanying notes, set out on pages 40 to 129, are an integral part of these consolidated financial statements.

Translation and revaluation reserve	Retained earnings	Perpetuity fund	Other capital instruments	Total	Non-controlling interest	Total equity
(535)	**4,432**	**80**	**899**	**14,517**	**826**	**15,343**
–	1,967	–	–	1,967	(91)	1,876
(1,035)	–	–	–	(1,035)	(5)	(1,040)
75	–	–	–	75	1	76
47	–	–	–	47	–	47
(913)	**1,967**	**–**	**–**	**1,054**	**(95)**	**959**
–	–	–	–	1,080	–	1,080
–	–	–	843	843	–	843
–	(1,143)	–	–	(1,143)	–	(1,143)
–	–	(108)	–	(108)	–	(108)
–	(100)	100	–	–	–	–
–	(70)	–	–	(70)	12	(58)
23	119	–	–	29	–	29
–	(46)	–	–	–	–	–
(1,425)	**5,159**	**72**	**1,742**	**16,202**	**743**	**16,945**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

in MCZK	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax from continuing operations		1,360	1,350
Profit after tax from discontinued operations		–	787
Adjustments for:			
Depreciation and amortisation	14, 15	101	102
Goodwill impairment	15	–	65
Allowances for impairment of loans	12	1,043	743
Foreign currency difference from allowances for impairment of loans	12	32	(10)
Gain on sale of intangible and tangible fixed assets		115	78
Change in other provisions and other assets		(39)	180
Profit/(loss) from equity accounted investees		50	(167)
Unrealised foreign exchange gains/(loss), net		(169)	276
Impairment of assets available for sale		(32)	32
Fair value adjustment to P&L from FVTPL assets		(56)	(6)
Profit from sale associate		–	(78)
CASH GENERATED FROM (USED IN) OPERATIONS			
Compulsory minimum reserves in central banks		425	(498)
Due from financial institutions		(72)	795
Originated loans and receivables		(2,546)	(4,231)
Financial assets held to maturity, AFS and FVTPL		3,613	13,585
Prepayments, accrued income and other assets		73	(185)
Disposal groups held for sale		1,782	(1,871)
Deposits and loans from banks		(1,085)	(357)
Deposits from customers		(18,759)	14,866
Other liabilities and provisions		(650)	2,641
Net increase / (decrease) in fair values of derivatives			
Fair value of derivative instruments		21	(838)
Tax effect			
Income tax expenses paid		(361)	(481)
Net cash flows from operating activities		**(15,154)**	**26,778**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of and proceeds from sale of intangible and tangible fixed assets, net		(86)	(203)
Disposal of subsidiary, net of cash acquired		11	–
Acquisition of associate and joint ventures		(39)	(19)
Disposal of associate		–	6,865
Net cash flows used in investing activities		**(114)**	**6,643**

in MCZK	Note	2015	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in share capital – subscription of new shares		–	1,080
Issue of other capital instruments		855	843
Distribution from capital instruments		(229)	(108)
Dividends paid		–	(1,143)
Subordinated debt		(608)	113
Foreign currency difference from subordinated debt		2	28
Net cash flows from financing activities		**20**	**813**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(15,248)**	**34,234**
Ccash and cash equivalents at beginning of period	5, 35	51,667	17,770
Effects of exchange rate fluctuations on cash held		434	(337)
Cash and cash equivalents at end of period	5, 35	36,853	51,667
Cash flows from operating activities include:			
Interest received		4,667	5,865
Interest paid		2,312	2,233
Dividends received		214	320

Impact of the change of the decision regarding not selling of J&T Bank, a.o. did not cause re-presenting in the Consolidated statement of cash flows for the year ended 31 December 2015 as in the case of the Consolidated statement of comprehensive income for the year ended 31 December 2015 (see page 3).

For the cash flows from operating, investing and financing activities related to discontinued operation for the year ended 31 December refer to Note 18.

The accompanying notes, set out on pages 40 to 129, are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

J & T BANKA, a.s. ("the Bank") is a joint stock company incorporated on 13 October 1992 in the Czech Republic.

The Bank received a licence to act as securities trader on 25 April 2003 and on 22 December 2003, the Bank's licence was extended to include that activity.

The Bank's activities are focused on private, investment, corporate and retail banking.

The Bank is subject to the regulatory requirements of Czech National Bank ("CNB"). These requirements include limits and other restrictions concerning capital adequacy, the classification of loans and off-balance sheet liabilities, large exposure, liquidity and the Bank's foreign currency position etc.

The registered office of the Bank is at Pobřežní 14, Prague 8, Czech Republic. The Bank, its subsidiaries, associates and joint ventures mentioned in the table below ("the Group") had on average 717 employees in 2016 (2015: 689). The Group operates in the Czech Republic, Slovakia, Croatia and Russia.

A branch of the Bank was established on 23 November 2005, and was registered in the Commercial Register of the District Court Bratislava I, section Po, file 1320/B as the organizational unit "J & T BANKA, a.s., pobočka zahraniční banky", Dvořákovo nábrežie 8, 811 02 Bratislava, and with the identification number 35964693.

On December 15, 2006, J&T FINANCE GROUP, a.s. contributed its 100% interest in the Bank to the capital of J&T FINANCE, a.s., Pobřežní 297/14, 186 00 Praha 8, which became the Bank's sole shareholder.

On January 1, 2009, Slovakia joined the Euro Area and adopted Euro to replace Slovak crown. With effect from that date, the Branch prepares financial statements and maintains its accounting records in Euro.

As a result of a cross-border merger by acquisition dated September 23, 2013, J&T FINANCE, a.s., the Bank's parent company, merged with J&T Finance Group, a.s. and Techno Plus, a.s. as at 1 January 2014. J&T FINANCE, a.s. became the successor company, changing its name to J&T FINANCE GROUP SE and its legal form to European Society (Societas Europaea, SE).

The Bank's ultimate parent is J&T FINANCE GROUP SE, a joint-stock company owned by Jozef Tkáč (45.05%), Ivan Jakabovič (45.05%), CEFC Shanghai International Group Limited (5.40%) and CEFC Hainan International Holdings CO., Ltd. (4.50%).

Ownership interests
In connection with the shareholder's intention to centralise financial services under J & T BANKA, a.s., the following companies have become subsidiaries, associates and joint ventures.

The companies included in the consolidation Group as at 31 December 2016 are as follows:

Company	Country of incorporation	Share capital in mil. CZK	% shareholding	Consolidation method	Principal activities
J & T BANKA, a.s.	Czech Republic	10,638		parent company	Banking activities
J&T INVESTIČNÍ SPOLEČNOST, a.s.	Czech Republic	20	100	Full	Investment activities
ATLANTIK finanční trhy, a.s.	Czech Republic	81	100	Full	Investment activities
J&T IB and Capital Markets, a.s.	Czech Republic	2	100	Full	Advisory activities
– XT-Card a.s.	Czech Republic	10	32	Equity	IT/Programming activities
J&T Bank, a.o.	Russia	2,725	99.95	Full	Banking activities
– Interznanie, OAO	Russia	84	50	Full	Real estate
TERCES MANAGEMENT LIMITED	Cyprus	678	99	Full	Investment activities
– Interznanie, OAO	Russia	84	50	Full	Real estate
PGJT B.V.	Netherlands	108	50	Equity	Financial activities
– PROFIREAL, OOO	Russia	42	100	Equity	Financial activities
J&T REALITY, o.p.f.	Czech Republic	0	53.08	Full	Collective investment fund
Vaba d.d. banka Varaždin	Croatia	1,098	82.55	Full	Banking activities

The Group provides customers with comprehensive banking services, asset management, financial and capital market transactions for the retail segment, as well as support to start-up and restructuring projects. The Group's operating segments are described in the note 37.

In 2016 the ownership J&T Cafe, s.r.o. was liquidated.

In 2016, the Group sold its ownership interest in ART FOND - Stredoeurópsky fond súčasného umenia, a.s. to a third party.

On June 9, 2016, the Group increased its ownership interest in the company PGJT B.V. by contribution to capital funds in the amount of RUB 107 million.

In 2016, the Group increased its ownership interest in Vaba d.d. banka Varaždin. On July 8, 2016, subscribed for 7 600 000 units of new ordinary shares in total nominal value of HRK 76 million.

In September 2015, the Group signed an agreement with CEFC Shanghai on sale of 50% interest in J&T Bank, a.o., therefore the Group classified this subsidiary as a disposal group held for sale as at 31 December 2015. In 2016, however, the agreement was withdrawn and the Group does not intend to sell its interest in J&T Bank, a.o. anymore. Therefore, the assets and liabilities classified as held for sale as at 31 December 2015 do not meet the criteria for such classification as at 31 December 2016.

In 2016, there were not recorded any restrictions in ownership rights on behalf of subsidiaries.

The companies included in the consolidation Group as at 31 December 2015 are as follows:

Company	Country of incor-poration	Share capital in mil. CZK	% shareholding	Consolidation method	Principal activities
J & T BANKA, a.s.	Czech Republic	10,638	parent company		Banking activities
J&T INVESTIČNÍ SPOLEČNOST, a.s.	Czech Republic	20	100	Full	Asset management
ATLANTIK finanční trhy, a.s.	Czech Republic	81	100	Full	Investment activities
J&T IB and Capital Markets, a.s.	Czech Republic	2	100	Full	Advisory activities
– XT-Card a.s.	Czech Republic	10	32	Equity	IT/Programming activities
J&T Bank, a.o.	Russia	2,144*	99.95*	Full	Banking activities
– Interznanie, OAO	Russia	67	50	Full	Real estate
TERCES MANAGEMENT LIMITED	Cyprus	0,065	99	Full	Investment activities
– Interznanie, OAO	Russia	67	50	Full	Real estate
PGJT B.V.	Netherlands	108	50	Equity	Financial activities
– PROFIREAL, OOO	Russia	34	100	Equity	Financial activities
J&T REALITY, o.p.f.	Czech Republic	0	53.08	Full	Collective investment fund
Vaba d.d. banka Varaždin	Croatia	818	76.81	Full	Banking activities
J&T Cafe, s.r.o.	Czech Republic	4	100	Full	Hospitality activities
ART FOND - Stredoeurópsky fond súčasného umenia, a.s.	Slovakia	18	38.46	Full	Activities in the Arts

* In September 2015, an agreement was signed between CEFC Shanghai and J&T Bank, a.s. based on which CEFC Shanghai will acquire 50% ownership interest in J&T Bank, a.o. (i.e. CZK 1 261 million) The transaction is subject of approval by the national regulators in Russia. As a result of the agreement, the Group presents J&T Bank, a.o. as an asset held for sale. The Group loses the control over J&T Bank, a.o.

On February 16, 2015, the subsidiary company J&T Bank, zao changed its trade name to J&T Bank, a.o.

On May 20, 2015, the Group increased its ownership interest in J&T Bank, a.o. by a subscription of 112 000 000 pieces of new ordinary shares in total nominal value of RUB 5.6 million.

In 2015, the Group increased its ownership interest in Vaba d.d. banka Varaždin. On February 5, 2015, subscribed for 3 750 000 units of new ordinary shares in total nominal value of HRK 37.5 million. On September 28, 2015, the Group subscribed for 6 500 000 units of new ordinary shares in total nominal value of HRK 65 million.

On February 24, 2015, the Group entered into an agreement with J & T FINANCE GROUP SE relating to the sale of shares in Poštová banka, a.s. The agreement became effective on March 13, 2015, and resulted in transfer of 3.17% ownership interest, 10 473 pieces of ordinary shares, nominal value 1 107 EUR per share, to J & T FINANCE GROUP SE.

On February 25, 2015, the Group entered into an agreement with PBI, a.s. for the sale of 34% ownership interest in Poštová banka, a.s. The agreement became effective on December 23, 2015, and resulted in transfer of 112 506 pieces of ordinary shares, nominal value 1 107 EUR per share.

In 2015, the Group increased its ownership interest in the company J & T Cafe, s.r.o. by the amount of CZK 0.8 million as an additional capital contribution beside the share capital.

On July 16, 2015, the Group increased its ownership interest in the company PGJT B.V. by contribution of RUB 30 million to capital funds.

In 2015, the Group sold its 50% ownership interest in the subsidiary Interznanie directly owned by the subsidiary TERCES to J&T Bank, a.o. This transaction had no impact on the consolidated financial statements.

In 2015, there were not recorded any restrictions in ownership rights on behalf of subsidiaries.

Acquisitions and disposals of subsidiaries made in 2015 and 2016 are further presented in Note 48.

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements comprise the accounts of the members of the Group and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union for the reporting period of 1 January 2016 – 31 December 2016 ("reporting period").

(b) Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention except for investment property, financial assets and liabilities at fair value through profit or loss, available-for-sale assets and derivatives, which are measured at fair value.

The members of the Group maintain their accounting books and prepare their statements for regulatory purposes in accordance with local statutory accounting principles. The accompanying financial statements are based on the statutory accounting records together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS.

In particular, information about significant areas of uncertainty estimation and critical judgements in applying accounting policies that have a significant effect on the amounts recognized in the financial statements are described in note 4.

Issued but not yet effective International Financial Reporting Standards

A number of new standards, amendments to standards and interpretations are not yet effective or not yet adopted by the EU for the year ended 31 December 2016, and have not been applied in preparing these financial statements:

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments that replaces the existing standard IAS 39 - Financial Instruments: Recognition and Measurement.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018.

The impact of IFRS 9 on the Group's consolidated financial statements in the first year of adopting (2018) is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Group is assessing of the potential impacts of adoption of IFRS 9 based on its positions at 31 December 2016 and hedging relationships designated during 2016 under IAS 39.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on the SPPI test´s results loans can be classified as either AC or FVTPL. Portfolio analysis is currently underway. The Group assumes that the vast majority of the loan portfolio meets conditions of the above SPPI test and will thus classified as AC, i.e. it will be recognized practically unchanged from the current reporting under IAS 39.

Impairment – Financial assets and contract assets

IFRS 9 replaces the ´incurred loss´ model in IAS 39 with a forward/looking ´expected credit loss´ (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if the has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group expects that the loss allowances within the model in accordance with IFRS 9 will increase and become more volatile. The Group is currently working on finalizing of the methodology for ´expected credit loss´ calculating.

Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group's preliminary assessment did not indicate any material impact if IFRS 9's requirements regarding the classification of financial liabilities were applied at 31 December 2016.

Hedge accounting

When an entity first applies IFRS 9, it may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9. The Group decided to apply the hedge accounting requirements of IAS 39.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Group's preliminary assessment included and analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.The designation of certain investments in equity instruments not held for trading as at FVOCI.

Impact quantification

The Group, due to the complexity of the changes in the new Standard and ongoing implementation projects does not present the expected impact of the initial application of IFRS 9 on its financial statements at this time since the model for ´expected credit loss´ calculation is currently being precised.

Qualitative information related to new Standard´s impact

The Group expects the main impact mainly due to an increase of allowances for impairment because the new Standard requires the creation of allowances for impairment for expected losses for the assets where there is no objective evidence of impairment as at balance sheet date.

Upon initial recognition as at 1 January 2018, the effect of changes in the impairment of financial assets is going to be recognized against equity balances. Ongoing changes due to new requirements on impairment after 1 January 2018 is going to be reported in the Consolidated statement of comprehensive income.

In the area of regulatory capital planning under Basel III standards (in the form of CRR Regulation issued by EU) one-time reduction is expected as of 1 January 2018. This effect is caused by one-off reducing of retained earnings from previous periods that constitute one of the main components of CET 1 capital.

Note: Based on the Basel Committee on Banking Supervision (BCBS) documents issued in October 2016, the distribution of the new Standard´s impact on regulatory capital CET 1 is expected over the horizon of several years. The new proposal of CRR 2 from November 2016 is intended to set the distribution of the new Standard´s impact of to 5 years.

IFRS 15 Revenue from contracts with customers

Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. The Group will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) the Group transfer control of goods or services to a customer at the amount to which the Group expect to be entitled. Depending on whether certain criteria are met, revenue is recognised:

– over time, in a manner that depicts the Group's performance; or
– at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that the Group shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Group expects that the amendments, when initially applied, will not have a significant effect on the consolidated financial statements of the Group.

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

The effective date has not yet been determined by the IASB, however earlier adoption is permitted.

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 recognised 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 recognised 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.

The Group expects that the amendments, when initially applied, will not have a significant effect on the consolidated financial statements of the Group.

Standards and Interpretations Issued but not yet Endorsed by the EU

IFRS 16 Leases

Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the Group also applies IFRS 15.

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

– leases with a lease term of 12 months or less and containing no purchase options, and
– leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

The Group expects that the amendments, when initially applied, will not have a a significant effect on the consolidated financial statements of the Group.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted.

The amendments clarify share-based payment accounting on the following areas:

– the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
– share-based payment transactions with a net settlement feature for withholding tax obligations; and
– a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group expects that the amendments, when initially applied, will not have a a significant effect on the consolidated financial statements of the Group.

Amendments to IAS 7

Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted.
The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The Group expects that the amendments, when initially applied, will not have a a significant effect on the consolidated financial statements of the Group.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses

Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted.

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Group expects that the amendments, when initially applied, will not have a a significant effect on the consolidated financial statements of the Group.

Amendments to IAS 40 Transfers of Investment Property

Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Group expects that the amendments, when initially applied, will not have a a significant effect on the consolidated financial statements of the Group.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Effective for annual periods beginning on or after 1 January 2018.

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group expects that the amendments, when initially applied, will not have a a significant effect on the consolidated financial statements of the Group.

Annual improvements

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

The Group expects that the improvements, when initially applied, will not have a a significant effect on the consolidated financial statements of the Group.

Other new International Financial Reporting Standards and Interpretations not yet due

The Group has not early adopted any IFRS standards where adoption is not mandatory at the statement of financial position date. Where transition provisions in adopted IFRS give an entity the choice of whether to apply new standards prospectively or retrospectively, the Group elects to apply the standards prospectively from the date of transition.

(c) Functional and presentation currency

The accompanying consolidated financial statements are presented in the national currency of the Czech Republic, the Czech crown ("CZK"), rounded to the nearest million.

Functional currency is the currency of the primary economic environment in which the entity operates. Individual companies forming the Group determined their functional currencies in accordance with IAS 21.

In determining functional currency, each individual company forming the Group considered mainly factors such as the currency:
– in which sales prices for its services are denominated and settled; and
– of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services.

3. ACCOUNTING POLICIES

The particular accounting policies adopted in preparation of the accompanying consolidated financial statements are described below.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it has control if there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group´s share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group´s share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in expect of the associate.

(iii) Joint ventures

Joint ventures are those enterprises over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group´s share of the total recognised gains and losses of joint ventures on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains (losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(v) Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

(vi) Unification of accounting principles

The accounting principles and procedures applied by the consolidated companies in their financial statements were unified in the consolidation, and agree with the principles applied by the Parent Company.

(b) Financial assets

Classification

Financial instruments at fair value through profit or loss are those that the Group principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated as effective hedging instruments and liabilities from short sales of financial instruments.

Originated loans and receivables comprise loans, advances to banks and customers other than purchased loans and promissory notes.

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the intent and ability to hold to maturity.

Available-for-sale assets are financial assets that are not measured at fair value through profit or loss or held to maturity.

The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

– In classifying financial assets or liabilities as "trading", management has determined that the Group meets the description of trading assets and liabilities;
– The Group regularly evaluates the liquidity of particular financial instrument with respect to market conditions;
– In classifying financial assets as held-to-maturity, management has determined that the Group has both the positive intention and the ability to hold the assets until their maturity date as required.

Recognition

Financial assets at fair value through profit or loss are recognized on the date the Group commits to purchase the assets. From this date, any gains or losses arising from changes in the fair value of the assets are recognized in the statement of comprehensive income.

The Group recognizes available-for-sale assets on the date it commits to purchase the assets. From this date, any gains or losses arising from changes in the fair value of the assets are recognized in equity as differences from revaluation of assets.

Held-to-maturity assets are accounted for at trade date.

Measurement

Financial instruments are measured initially at fair value, including transaction costs, with the exception of transaction costs related to financial instruments designated at fair value through profit or loss which are recognized directly in the statement of comprehensive income.

Subsequent to initial recognition, all instruments designated at fair value through profit or loss and all available-for-sale assets are measured at fair value according to Note 4 (Determining fair values), except any instrument that does not have a quoted market price on an active market and whose fair value cannot be reliably measured, which is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the statement of financial position date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the statement of financial position date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the statement of financial position date.

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of financial instruments at fair value through profit or loss are recognised in the statement of comprehensive income while gains and losses arising from changes in the fair value of available-for-sale assets are recognized directly in equity as differences arising from revaluation of assets and liabilities. Changes in fair value are derecognised from equity through profit or loss at the moment of sale. Interest from available-for-sale assets is recorded in the statement of comprehensive income.

Derecognition

A financial asset is derecognised when the Group loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and financial assets at fair value through profit or loss that are sold are derecognised and the corresponding receivables from the buyer are recognised on the day the Group commits to sell the assets.

Held-to-maturity assets and originated loans and receivables are derecognised on the day they are sold by the Group.

Impairment

Financial assets are reviewed quarterly and at each statement of financial position date to determine whether there is objective evidence of impairment. If any such indication exists, the recoverable amount of the asset is estimated.

The Group assesses at the end of each quarter, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If an impairment of a financial asset available for sale is identified, the accumulated gains or losses recorded earlier in other comprehensive income are reclassified and recorded in profit or loss in the given period.

In case of an impairment of a financial asset available for sale as a result of a decrease in the registered capital, the resulting income is recognised as a received dividend in profit or loss.

Loans and advances to customers and deposits with banks

Loans and advances to customers and deposits with banks are carried at the amount of principal outstanding including accrued interest, net of impairment. The impairment is booked as specific allowance for loan losses.

The Group classifies all its receivables from clients into the following five basic categories laid down by Decree of the Czech National Bank No. 163/2014 Sb.: receivables without obligor default divided into standard and watch receivables, and receivables with obligor default divided into non-standard, doubtful and loss receivables. In the evaluation of individual loans, the classification takes into account both qualitative and quantitative criteria.

The criteria mentioned include the following:– významné finanční problémy dlužníka;

– major financial problems of the debtor;

- breach of a contract, e.g. delayed payment of interest or principal or failure to pay them;
- relief provided by the creditor to the debtor for economic or other legal reasons relating to debtor's financial problems, that the creditor would not have otherwise provided;
- likelihood of bankruptcy or other financial restructuring of the debtor;
- extinction of an active market for the given financial asset for financial reasons; or
- observable facts demonstrating a measurable decline of estimated future cash flow from the group of financial assets after their initial recognition despite the existing impossibility to detect the decrease for individual financial assets in the group;
- and other.

Forbearance

The Group treats forbearance in accordance with the Technical Standard on non-performing exposures and forbearance measures published by the European Banking Authority (EBA) and in accordance with the Public Statement of the European Securities and Markets Authority (ESMA) on the treatment of forbearance practices in the financial statements of the financial institutions prepared in accordance with International Financial Reporting Standards (further "IFRS").

Forbearance is an exposure where the Group decides, due to debtor's financial problems, to grant a concession which in other circumstances would not be granted. The concession may consist in the modification of the terms and conditions of the contract or in debt refinancing. The modification of terms and conditions may include, but is not limited to, a decrease in interest rate, reduction of the interest or principal, change in the repayment schedule (e.g. postponement of interest payment due date, temporary payment holiday, prolongation of the final due date of the loan, fee or accessories for the debtor, modification or non-monitoring of covenants, interest or instalment capitalisation, partial debt write-off). Any modification of terms and conditions or refinancing which is not result of debtor's financial problems cannot be interpreted as forbearance. Concessions may result in better interest risk management and mitigation of potential future loan losses.

Performing and non-performing exposures may also be recognised as exposures without concession provided no modification of terms and conditions or refinancing was made in respect to the given receivable.

Non-performing exposures comprise receivables with debtor's failure.

Details regarding the structure and quality of the credit portfolio are described in paragraph 40.

Individually assessed allowances

Based on regular reviews of the outstanding balances, specific allowances for impairment of loans are made for the carrying amount of loans and advances that are identified as being impaired to reduce these loans and advances to the amounts recoverable.

The Group mainly uses the financial statements of the client and the Group's own analysis as the basis for assessment of the loan's collectability.

Allowances made, less amounts released during the reporting period, are charged to statement of comprehensive income. Outstanding loan exposures are written off only when there is no realistic prospect of recovery. If in a subsequent period the amount of an allowance for loan losses decreases and the decrease can be linked objectively to an event occurring after the allowance was booked, the allowance is reversed through the statement of comprehensive income.

Collectively assessed allowances

Allowances are assessed collectively for losses on loans that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired.

Allowances are evaluated separately on regularly basis with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments.

In estimating the amount of allowances necessary, management evaluates the likelihood of repayment of individual loans and takes into account the value of collateral and the ability of the Group to realize the collateral.

Calculated amount of allowances is allocated proportionally to the partial components of the carrying amount of receivable, i.e. principal, interest income and penalty interest.

Treasury bills

Treasury bills, comprising bills issued by government agencies, are stated at cost including the amortised discount arising on purchase. The discount is amortised over the term to maturity with the amortisation being included in interest income.

Derivatives

Derivatives including currency forwards, cross currency swaps and options are initially recognized in the statement of financial position at cost (including transaction costs) and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models. The positive fair value of derivatives is recognized as an asset while the negative fair value of derivatives is recognized as a liability.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

Changes in the fair value of derivatives are included in net trading income.

Hedge accounting – Fair Value Hedge

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a commitment, changes in the fair value of the derivative are recognised immediately in the statement of comprehensive income together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line as the hedged item).

Hedge accounting is discontinued if the derivative expire or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked. Any adjustment to a hedged item for which the effective interest rate method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(c) Sale and repurchase agreements

Where securities are sold under a commitment to repurchase at a predetermined price ("repurchase agreements"), they remain on the statement of financial position and a liability is recorded equal to the consideration received. Conversely, securities purchased under a commitment to resell ("reverse repurchase agreements") are not recorded on the statement of financial position and the consideration paid is recorded as a loan. The difference between the sale price and repurchase price is treated as interest and accrued evenly over the life of the transaction. Repos and reverse repos are recognised on a settlement date basis.

(d) Intangible assets

Goodwill and intangible assets acquired in a business combination

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included under intangible assets. Goodwill on acquisition of associates and joint ventures is included in the carrying amount of investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Intangible assets acquired in a business combination are recorded at fair value on the acquisition date if the intangible asset is separable or arises from contractual or other legal rights. Intangible assets with an indefinite useful life are not subject to amortisation and are recorded at cost less impairment. Intangible assets with a definite useful life are amortised over their useful lives and are recorded at cost less accumulated amortisation and impairment.

Intangible assets

Intangible assets are stated at historical cost less accumulated amortization and impairment losses. Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of intangible assets other than goodwill, form the date the asset is available for use. The estimated amortization rates per a year are as follows:

Software	25 %
Other intangible assets	11 % – 50 %
Customers relationships	5 % – 33 %

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis over the estimated useful economic life of the asset. Assets under construction are not depreciated. The average depreciation rates used are as follows:

Buildings	2,5 %
Office equipment	12,5 % – 33 %
Fixtures and fittings	12,5 % – 33 %

Land is not depreciated.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset.

(f) Investment property

Investment property is represented by assets that are held to generate rental income or to realise a long-term increase in value, and are not used in production or for administrative purposes or sold as part of the ordinary business activities of the Group.

Investment property is stated at fair value, as determined by an independent registered appraiser or by management. Fair value is calculated by applying generally applicable valuation methodologies such as expert opinions and yield methods. Any gain or loss arising from a change in fair value is recognised in the statement of comprehensive income.

(g) Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total expense, over the term of the lease.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

(h) Foreign currency

Transactions denominated in foreign currencies are translated into CZK at the official Czech National Bank exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the statement of financial position date. All resulting gains and losses are recorded in the statement of comprehensive income in Net trading income, in the period in which they arise.

(i) Income and expense recognition

Interest income and interest expense are recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability. In case of modification of loan conditions, such as change of interest rate or instalment calendar, the effective interest rate is updated in line with newly agreed conditions. The calculation of the effective interest rate includes all fees and points paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Negative income from financial assets is recognized as interest expense, positive income from financial liability as interest income.

The recognised average interest rate is determined as the annual weighted average from open contracts as at the date of the balance sheet date.

Fees and commissions are recognized on an accrual basis.

(j) Taxation

Tax paid is calculated in accordance with the provisions of the relevant legislation based on the profit recognized in the statement of comprehensive income prepared pursuant to local statutory accounting standards, after adjustments for tax purposes.

Deferred tax is calculated using the statement of financial position liability method, providing for temporary differences between the accounting and taxation basis of assets and liabilities. Deferred tax liabilities are recognized for deductible temporary differences. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Currently enacted tax rates are used to determine deferred income taxes.

(k) Social security and pension schemes

Contributions are made to the government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year based on gross salary payments. The cost of social security payments is charged to the statement of comprehensive income in the same period as the related salary cost. The Group has no further pension or post retirement commitments.

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks and other banks and short-term highly liquid investments with original maturities of three months or less including government bonds.

(m) Provisions

A provision is recognized in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(n) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to offset the recognized amounts and the transactions are intended to be settled on a net basis.

(o) Segment reporting

Segment analysis is based on type of clients and provided services. The management of the entity is provided with the information that allows evaluating the performance of individual segments.

The Group's reportable segments according to IFRS 8 are as follows:

- Financial markets
- Corporate banking
- Private banking
- Retail banking
- ALCO
- Unallocated

Accounting policies applied to operating segments comply with those described in Note 3. The profits of the segments represent profits before tax achieved by each segment excluding overhead costs and salaries of management. This segment analysis is basis for review and strategic and operational decision making of the management.

For operating segment analysis, all assets and liabilities are allocated to the individual reportable segments except for "other" financial assets and liabilities and current and deferred income tax asset / liability.

IFRS 8 requires that operating segments are identified based on internal reporting about the business units of the Group which are regularly reviewed by the Board of Directors and allow proper allocation of resources and evaluation of the performance.

(p) Business combinations and purchase price allocations

The acquiree's identifiable assets, liabilities and contingent liabilities are recognised and measured at their fair values at the acquisition date. For financial statement reporting purposes, allocation of the total purchase price among the net assets acquired is performed with the support of professional advisors. The valuation analysis is based on historical and prospective information available as of the date of the business combination. Any prospective information that may impact the fair value of the acquired assets is based on management's expectations of the competitive and economic environments that will prevail in the future. The results of the valuation analysis are also used to determine the amortisation and depreciation periods for the values allocated to specific intangible and tangible fixed assets.

(q) Disposal groups held for sale and discontinued operations

Disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to be completed within one year from the date of classification.

In the consolidated statement of comprehensive income for the reporting period, and for the comparable period of the previous reporting period, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the statement of comprehensive income. Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

(r) Dividends

Dividends are recognised in the statement of changes in equity and recorded as liabilities in the period in which they are declared.

(s) Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Amounts due to employees, such as amounts relating to accrued vacation pay or performance bonuses, are recognized as other liabilities.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

These principles supplement the commentary on financial risk management.

Key sources of estimation uncertainty

Allowances for impairment of loan

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3(b).

The specific counterparty component of the total allowances for impairment of loans applies to claims evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash-flows, management makes judgements about the counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits and the workout strategy. All estimates of cash flows for the calculation of the allowances are independently approved by the Credit Risk Dept.

The allowances are created on an on-going basis as a difference between the book value of the receivable and the amount recoverable.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable quoted market price requires the use of valuation techniques as described in accounting policy 3(b). For financial instruments that are traded infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of the market factors, pricing assumptions and other risks affecting the specific amounts.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted price (unadjusted) in active markets for identical assets or liabilities;
- Level 2: derived from quoted prices, either directly (i.e. as prices of similar instruments) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not derived from quoted prices (calculated using valuation techniques).

If the market for a financial instrument is not active, fair value is estimated by using valuation techniques. In applying valuation techniques, management uses estimates and assumptions that are consistent with available information about estimates and assumptions that market participants would use in setting a price for the financial instrument.

If the fair values had been higher or lower by 10% than management's estimates, the net carrying amount of Level 3 financial instruments would have been estimated to be CZK 234 million higher or lower than as disclosed as at 31 December 2016 (2015: CZK 441 million).

Financial assets
In the vast majority of cases, the fair value of Level 3 investments was estimated using discounted cash flow ("DCF") models, with inputs coming from the specific investment's business plan or cash flow projections. The individual business plans and cash flow projections were critically reviewed by management before inclusion in the models. The discount rates were based on the specificities of the industries and countries in which the investments operate. The key assumptions used in the valuations were the expected cash flows and discount rates. Further information about level 3 financial instruments is disclosed in the notes 9a and 9b.

Valuation of investment property
Investment property is carried at fair value and classified as Level 3 according to the fair value hierarchy.

Fair values of investment property are determined either by independent registered appraisers or by management, in both cases based on discounted cash flow ("DCF") models with inputs coming from rental income projections or based on combination of DCF model and independent registered appraiser´s real estate valuation. These projections are critically assessed by management before inclusion in the models. The discount rates were based on the specificities of the countries in which the investment property is located.

Valuations reflect, where appropriate, the type of tenants in occupation or responsible for meeting lease commitments, or likely to be in occupation after letting vacant property, the general market's perception of tenants' creditworthiness and the remaining economic life of the properties.

Further information about investment property is disclosed in the note 13.

Goodwill and impairment testing
The Group conducts impairment testing of goodwill arisen in a business combination during the current period and impairment testing of goodwill already recognised in prior years annually (see also note 48 Acquisitions and disposals of subsidiaries, associates and joint ventures and note 15 Intangible assets).

The Group also conducts impairment testing of other intangible assets with indefinite useful lives and of cash-generating units (CGUs) where a trigger for impairment testing is identified. As at the acquisition date, goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which goodwill relates, on the basis of a value in use that reflects estimated future discounted cash flows or on the basis of fair value less costs to sell.

Fair value measurements for impairment testing purposes were categorized as a Level 3 measurement based on the inputs used in the valuation technique. In the majority of cases the Group estimated the recoverable amounts of goodwill and the cash generating units based on value in use. Value in use was derived from management forecasts of future cash flows updated since the date of acquisition. The discount rates applied to the cash flow projections are calculated as the weighted average cost of capital (WACC) of each CGU.

a) ATLANTIK finanční trhy a.s.

In 2015, goodwill allocated to the ATLANTIK finanční trhy, a.s. as cash generating unit was written off in full based on the results of the performed impairment testing.

b) J&T Investiční společnost, a.s.

In 2016, impairment test of the cash-generating unit J&T Investiční společnost, a.s. was calculated based on discounted cash flows. The cash flows were derived from the J&T Investiční společnost, a.s.'s long term business plan, the key assumptions being forecast profit after tax for the period, these were applied over a specific five-year forecast period. The growth rate used to extrapolate cash flows beyond this period was 2.70% (2015: 1.96%). Expected cash flows were discounted using a weighted average cost of capital 9.18% (2015: 10.17%). There was no impairment loss identified as a result of this impairment test in 2016 and 2015.

5. CASH AND CASH EQUIVALENTS

in MCZK	2016	2015
Cash on hand (note 6)	270	245
Current accounts with central banks (note 6)	1 343	230
Term deposits in central banks up to 3 months (note 6)	12,226	17,150
Current accounts with banks (note 7)	2,026	1,558
Loans to central banks – repurchase agreements (note 7)	20,000	30,000
Term deposits due from fin. institutions up to 3 months (note 7)	–	73
Loans due from banks – repurchase agreements (note 7)	988	2,411
Total	**36,853**	**51,667**

6. CASH AND BALANCES WITH CENTRAL BANKS

in MCZK	2016	2015
Balances with central banks (including obligatory minimum reserves)	1,674	2,099
Current accounts with central banks	1,343	230
Term deposits in central banks up to 3 months	12,226	17,150
Total balance with central banks	**15,243**	**19,479**
Cash on hand	270	245
Total	**15,513**	**19,724**

Balances with central banks represent the obligatory minimum reserves maintained under Czech National Bank, National Bank of Slovakia, Central Bank of the Russian Federation regulations and the Croatian National Bank. The obligatory minimum reserve is stated as 2% of primary deposits with maturity of less than two years and is interest bearing except for Central Bank of the Russian Federation where the obligatory minimum reserve is stated as 5% of primary deposits and is non-interest bearing and the Croatian National Bank where the obligatory minimum reserves is stated as 12% of liquid claims and is non-interest bearing. The Bank must maintain the obligatory minimum reserves in accounts with the respective central banks. Compliance with this requirement is measured using the average daily closing balance over the whole month.

With regard to the current uncertain situation on the financial markets, the Group has a prudent liquidity policy and holds a significant part of its liquidity surplus in highly liquid assets. Highly liquid assets include balances with the central banks, short term deposits in financial institutions and highly liquid corporate and government bonds. The Group decides on placements based on the credibility of the counterparty and the offered conditions.

7. DUE FROM FINANCIAL INSTITUTIONS

in MCZK	2016	2015
Current accounts with banks	2,026	1,558
Term deposits and loans up to 3 months	–	73
Term restricted deposits and loans over 3 months	108	70
Subordinated loans to banks	217	217
Loans due from banks – repurchase agreements	988	2,411
Loans to central banks – repurchase agreements	20,000	30,000
Other receivables	84	50
Total	**23,423**	**34,379**

There were no overdue current account with banks as of 31 December 2016 and 31 December 2015.

The contractual weighted average interest rate on deposits and loans with other banks was 0.46% p.a. (2015: 0.28% p.a.).

8. DERIVATIVES

(a) Derivatives held for trading:

in MCZK	2016 Notional amount buy	2016 Notional amount sell	2016 Fair value Positive	2016 Fair value Negative
Forward currency contracts	55,135	(55,127)	157	(171)
Option contracts for share purchase	897	(816)	82	–
Option contracts for commodity purchase	20	(20)	–	(4)
Total as at 31 December 2016	**56,052**	**(55,963)**	**239**	**(175)**

in MCZK	2015 Notional amount buy	2015 Notional amount sell	2015 Fair value Positive	2015 Fair value Negative
Forward currency contracts	35,410	(35,415)	75	(85)
Option contracts for share purchase	897	(816)	81	–
Option contracts for commodity purchase	197	(198)	1	–
Currency derivative transactions IFRS 5	393	(390)	–	–
Total as at 31 December 2015	**36,897**	**(36,819)**	**157**	**(85)**

All derivatives held for trading are classified as level 2 according to the fair value hierarchy.

Purchased and written options are recognized in the trading portfolio. Written options comprise derivatives embedded in structured client deposits. The Group has purchased matching options (with the same underlying assets, maturity and strike prices) from third parties in order to hedge the exposures. Accordingly, the fair value of the purchased options portfolio equals to the fair value of the sum of the written options.

Forward currency contracts are commitments to either purchase or to sell a designated currency at a specified date for a specified price. Forward currency contracts result in a credit exposure at a specified future date for a specified price. Forward currency contracts also result in exposure to market risk based on changes in quoted market prices relative to the contracted amounts.

Although all these derivatives represent an economic hedge, they are presented as trading.

The foreign currency structure of these transactions was as follows:

	CZK	EUR	USD	RUB	other
LONG POSITION					
31 December 2016	62 %	29 %	7 %	1 %	1 %
31 December 2015	76 %	19 %	1 %	1 %	3 %

The foreign currency structure of the second leg of these transactions was as follows:

	CZK	EUR	USD	RUB	other
SHORT POSITION					
31 December 2016	27 %	62 %	8 %	0 %	3 %
31 December 2015	17 %	69 %	8 %	1 %	5 %

(b) Derivatives held for risk management:

Fair value hedging

in MCZK	2016 Notional amount buy	2016 Notional amount sell	2016 Fair value Positive	2016 Fair value Negative
Forward currency contracts	4,929	(4,938)	–	(10)
Total as at 31 December 2016	**4,929**	**(4,938)**	**–**	**(10)**

in MCZK	2015 Notional amount buy	2015 Notional amount sell	2015 Fair value Positive	2015 Fair value Negative
Forward currency contracts	6,055	(6,063)	3	–
Total as at 31 December 2015	**6,055**	**(6,063)**	**3**	**–**

All derivatives held for risk management are classified as level 2 according to fair value hierarchy.

The objective of this hedge is to cover the foreign currency exposure to changes in fair value of financial assets available for sale and investment in equity accounted investees denominated in foreign currency over the hedging period. The Group uses currency forwards to reach effectiveness within the hedging relationship.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS, FINANCIAL ASSETS AVAILABLE FOR SALE AND FINANCIAL ASSETS HELD TO MATURITY

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

in MCZK	2016 Fair value	2015 Fair value
SHARES		
– domestic	198	316
– foreign	379	53
ALLOTMENT CERTIFICATES		
– foreign	–	1
BONDS		
– domestic	1,574	1,040
– foreign	1,230	1,329
Total	**3,381**	**2,739**

in MCZK	2016 Fair value	2015 Fair value
SHARES		
– listed	577	369
ALLOTMENT CERTIFICATES		
– not listed	–	1
BONDS		
– listed	2,804	2,369
Total	**3,381**	**2,739**

in MCZK	2016 Fair value	2015 Fair value
SHARES		
– corporate	466	279
– financial institutions	111	90
ALLOTMENT CERTIFICATES		
– financial institutions	–	1
BONDS		
– government	2,073	607
– financial institutions	293	832
– corporate	438	930
Total	**3,381**	**2,739**

in MCZK	2016 Fair value	2015 Fair value
SHARES		
– Level 1 – quoted market price	564	367
– Level 3 – calculated using valuation techniques	13	2
ALLOTMENT CERTIFICATES		
– Level 1 – quoted market price	–	1
BONDS		
– Level 1 – quoted market price	2,757	2,313
– Level 3 – calculated using valuation techniques	47	56
Total	**3,381**	**2,739**

Foreign bonds include mainly company bonds of CZK 594 million (2015: CZK 1 102 million) in the structure of Slovakian bonds of CZK 227 million (2015: CZK 234 million), Russian bonds of CZK 163 million (2015: CZK 0 million), Luxembourgian bonds of CZK 99 million (2015: CZK 317 million) and Dutch bonds of CZK 56 million (2015: CZK 170 million).

Foreign government bonds totalling to CZK 636 million (2015: CZK 227 million) represent Russian bonds of CZK 399 million (2015: CZK 0 million), Poland government bonds of CZK 155 million (2015: CZK 163 million), Turkish government bonds of CZK 54 million (2015: CZK 64 million).

No movements from level 1 to level 2 occurred in 2016 and in 2015.

The contractual weighted average interest rate on bonds was 3.10% p.a. (2015: 5.35% p.a.).

The following table shows a reconciliation of the opening and closing balances of Level 3 financial assets that are recorded at fair value:

in MCZK	Shares	Bonds	Total
Balance as at 1 January 2016	**2**	**56**	**58**
Addition	3	–	3
Disposal	–	(9)	(9)
Transfer from Level 1	8	–	8
Balance as at 31 December 2016	**13**	**47**	**60**

The Group regularly monitors changes in market conditions of particular financial assets and in case there are available quoted prices of those financial assets on the active market, those are transferred from Level 3 to Level 1. In 2016, the Group transferred from Level 3 to Level 1 neither shares nor bonds (2015: CZK 0 million).

(b) Financial assets available for sale:

in MCZK	2016 Fair value	2015 Fair value
SHARES		
– domestic	143	189
– foreign	264	135
ALLOTMENT CERTIFICATES		
– domestic	3,170	3,127
– foreign	2,181	1,944
BONDS		
– domestic	375	3,713
– foreign	5,324	6,331
PROMISSORY NOTES		
– foreign	–	3
Total	**11,457**	**15,442**

in MCZK	2016 Fair value	2015 Fair value
SHARES		
– listed	309	324
– not listed	98	–
ALLOTMENT CERTIFICATES		
– listed	134	–
– not listed	5,217	5,071
BONDS		
– listed	4,821	8,913
– not listed	878	1,131
PROMISSORY NOTES		
– not listed	–	3
Total	**11,457**	**15,442**

in MCZK	2016 Fair value	2015 Fair value
SHARES		
– financial institutions	98	–
– corporate	309	324
ALLOTMENT CERTIFICATES		
– financial institutions	5,346	5,067
– corporate	5	4
BONDS		
– government	741	3,782
– financial institutions	1,138	1,595
– corporate	3,820	4,667
PROMISSORY NOTES		
– financial institutions	–	3
Total	**11,457**	**15,442**

in MCZK	2016 Fair value	2015 Fair value
SHARES		
– Level 1 – quoted market price	182	162
– Level 2 – derived from quoted prices	98	–
– Level 3 – calculated using valuation techniques	127	162
ALLOTMENT CERTIFICATES		
– Level 1 – quoted market price	–	4 969
– Level 2 – derived from quoted prices	5,351	102
BONDS		
– Level 1 – quoted market price	2,999	5,849
– Level 2 – derived from quoted prices	549	10
– Level 3 – calculated using valuation techniques	2,151	4,185
PROMISSORY NOTES		
– Level 2 – derived from quoted prices	–	3
Total	**11,457**	**15,442**

Foreign shares in portfolio as at 31 December 2016 comprise mainly Slovakian company shares of CZK 127 million (2015: CZK 120 million), Russian company shares of CZK 97 million (2015: CZK 0 million).

Foreign allotment certificates comprise mainly of Malta certificates of CZK 1 923 million (2015: CZK 1 815 million), Croatian certificates of CZK 134 million (2015: CZK 0 million) and Slovakian certificates of CZK 124 million (2015: CZK 129 million).

Foreign bonds in portfolio as at 31 December 2016 comprise mainly of Slovakian company bonds of CZK 2 444 million (2015: CZK 5 350 million), Croatian company bonds of CZK 674 million (2015: CZK 409 million) and Luxembourgian company bonds of CZK 1 145 million (2015: CZK 359 million).

In 2016, the Group transferred from Level 1 to Level 2 bonds of CZK 549 million and allotment certificates. Precising of the presentation in a hierarchy system is the aim of this reclassification representing the influence of non-market inputs and the market practice changes in the banking sector arising during last years. No movements from level 1 to level 2 occurred in 2015.

The contractual weighted average interest rate on bonds was 5.20% p.a. (2015: 3.06% p.a.).

The contractual weighted average interest rate on promissory notes was 2.5% p.a. in 2015. No promissory notes in portfolio in 2016.

In 2015, the Group has identified an impairment of financial assets available for sale amounting to CZK 32 million. Impairment resulted in permanent decrease of market price of an individual financial asset available for sale. No such an impairment identified in 2016.

The following table shows a reconciliation of the opening and closing balances of Level 3 financial assets that are recorded at fair value:

in MCZK	Shares	Bonds	Total
Balance as at 1 January 2016	**162**	**4,185**	**4,347**
Gains / (losses) recognised in equity	7	–	7
Transfer to Level 1	–	(39)	(39)
Disposal	(42)	(1,995)	(2,037)
Balance as at 31 December 2016	**127**	**2,151**	**2,278**

The Group regularly monitors changes in market conditions of particular financial assets and in case there are available quoted prices of those financial assets on the active market, those are transferred from Level 3 to Level 1. In 2016, the Group transferred from Level 3 to Level 1 no shares (2015: CZK 0 million) and bonds of CZK 39 million (2015: CZK 0 million).

(c) Financial assets held to maturity:

in MCZK	2016 Amortised cost	2015 Amortised cost
BONDS		
– foreign	666	609
Total	**666**	**609**

in MCZK	2016 Amortised cost	2015 Amortised cost
BONDS		
– listed	666	609
Total	**666**	**609**

in MCZK	2016 Amortised cost	2015 Amortised cost
BONDS		
– financial institutions	49	–
– corporate	617	609
Total	**666**	**609**

Foreign bonds comprise of Hungarian corporate bonds of CZK 617 million (2015: CZK 609 million).

The contractual weighted average interest rate on bonds was 5.86% p.a. (2015: 5.88% p.a.).

10. REPURCHASE AND RESALE AGREEMENTS

(a) Resale agreements

The Group purchases financial assets under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Legal right to financial assets is transferred to the Group, respectively entity which is a loan provider. Reverse repurchases are entered into as a facility to provide funds to customers. As of 31 December 2016 and 31 December 2015, assets purchased pursuant to the agreements to resell them were as follows:

in MCZK	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase date	Repurchase price
Loans to banks (note 7)	20,733	20,988	To 1 month	21,013
Loans and advances to customers (note 11)	1,609	1,164	To 1 month	1,136
Loans and advances to customers (note 11)	4,480	2,658	To 3 months	2,681
Loans and advances to customers (note 11)	337	251	To 1 Year	255
Total as at 31 December 2016	**27,159**	**25,061**		**25,085**

in MCZK	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase date	Repurchase price
Loans to banks (note 7)	33,772	32,335	To 1 Month	32,339
Loans to banks (note 7)	91	76	To 3 Months	76
Loans and advances to customers (note 11)	2,791	2,226	To 1 month	2,239
Loans and advances to customers (note 11)	2,043	800	To 3 months	806
Loans and advances to customers (note 11)	127	127	To 1 Year	127
Total as at 31 December 2015	**38,824**	**35,564**		**35,587**

(b) Repurchase agreements

Transactions where securities are sold under a repurchase agreement (repo transaction) at a predetermined price are accounted for as loans collateralised by the securities. The legal title to the respective securities is transferred to the lender. However, the securities transferred under a repo transaction are still recognised in the statement of financial position. The price for the sold securities are recognised as a liability and presented under "Deposits and loans from banks" or "Deposits from customers".

in MCZK	Fair value of assets given as collatera	Carrying amount of liability	Repurchase date	Repurchase price
Loans from banks (note 19)	91	91	To 5 Years	96
Loans and advances from customers (note 20)	41	41	To 1 Year	41
Total as at 31 December 2016	**132**	**132**		**137**

in MCZK	Fair value of assets given as collatera	Carrying amount of liability	Repurchase date	Repurchase price
Loans from banks (note 19)	57	57	To 1 Month	57
Loans and advances from customers (note 20)	132	131	To 6 Months	131
Total as at 31 December 2015	**189**	**188**		**188**

As at 31 December 2016, the Group do not recognize any securities sold under repurchase agreements in the statement of financial position (2015: CZK 57 million), however recognizes securities under repurchase agreements at CZK 5 million (2015: CZK 34 million) which were purchased under reverse repurchase operations before.

11. LOANS AND ADVANCES TO CUSTOMERS

in MCZK	2016	2015
Loans and advances to customers	65,984	67,481
Loans and advances to customers – repurchase agreements	4,073	3,153
Bank overdraft	7,758	4,870
Debt securities – promissory notes	167	534
Other receivables	857	169
Less allowances for impairment of loans (note 12)	(2 700)	(1 539)
Total net loans and advances to customers	**76,139**	**74,668**

Loans and advances to customers as at 31 December 2016 include loans amounting to CZK 21 357 million (2015: CZK 21 586 million) where the repayment of the loans is dependent upon the successful realization of the assets whose acquisition was financed by the relevant loans. These assets are pledged in favour of the Group. The financed assets may comprise both tangible and intangible assets. The Group recognises the loans dependent on asset realisation according to the actual nature of each individual loan.

Allowances for impairment of loans and advances to customers are determined and created based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realizable value of any underlying collateral as well as guarantees from third parties. Methodology for allowance creation is described in note 4. Critical accounting estimates and assumptions.

The amount of non-interest bearing loans as at 31 December 2016 totalled to CZK 254 million (2015: CZK 209 million). These loans were mostly acquired from the former Podnikatelská banka or loans that are after due and therefore bearing no interest. Receivables from these loans are fully impaired.

The contractual weighted average interest rate on loans to customers was 6.17% p.a. (2015: 6.53% p.a.).

The contractual weighted average interest rate on promissory notes was 3.82% p.a. (2015: 1.08% p.a.).

For the additional information about Loans and advances to customers refer to note 40.

12. ALLOWANCES FOR IMPAIRMENT OF LOANS

in MCZK	2016	2015
1 January	**1,539**	**1,007**
Charge / (reversal) in the reporting period	1,043	743
Use / write-offs	(34)	(143)
Transfer to/from IFRS 5	120	(58)
Currency difference	32	(10)
Total as at 31 December	**2,700**	**1,539**

As the Consolidated statement of financial position was not re-presented due to change of decision regarding selling of J&T Bank, a.o. the disclosure table "Allowances for impairment of loans" was not re-presented as well for the year ended 31 December 2015.

If it was re-presented then the amount of "Charge / (reversal) in the reporting period" ended 31 December 2015 would be CZK 826 million.

13. INVESTMENT PROPERTY

Investment property include building in the property of Interznanie, OAO amounting to CZK 469 million (2015: CZK 363 million). Investment fair value is determined based on the independent expert opinion, assuming expected income and valuation of similar properties that have been analysed using the relevant market parameters available at valuation date (see section 3 (f) – Investment property).

Investment property is fully insured as at 31 December 2016.

Entire investment property is classified as Level 3 according to fair value hierarchy.

in MCZK	2016	2015
1 January	**363**	**425**
Change	13	(11)
Effect of movement in foreign exchange	93	(51)
Total as at 31 December	**469**	**363**

In 2016 there was a change in the share of leased area building companies in the consolidation scope of the Group which affected the amount of investment property.

Rental income from investment property of CZK 29 million (2015: CZK 35 million) has been recognized in other operating income. Operating expenses directly attributable to investment property of CZK 4 million (2015: CZK 5 million) have been recognized in other operating expenses.

14. PROPERTY, PLANT AND EQUIPMENT

The movements during the period were as follows:

in MCZK	Land and buildings	Fixtures, fittings and equipment	Total
COST			
1 January 2015	**237**	**112**	**349**
Additions	132	16	148
Transfer to IFRS 5	(46)	(7)	(53)
Disposals	–	(2)	(2)
Effect of movement in foreign exchange	(18)	(2)	(20)
31 December 2015	**305**	**117**	**422**
DEPRECIATION AND IMPAIRMENT LOSSES			
1 January 2015	**17**	**55**	**72**
Depreciation	7	15	22
Transfer to IFRS 5	–	(4)	(4)
Effect of movement in foreign exchange	(2)	(3)	(5)
31 December 2015	**22**	**63**	**85**
COST			
1 January 2016	**305**	**117**	**422**
Additions	20	3	23
Transfer from IFRS 5	(126)	8	(118)
Disposals	(25)	(15)	(40)
Effect of movement in foreign exchange	26	6	32
31 December 2016	**200**	**119**	**319**
DEPRECIATION AND IMPAIRMENT LOSSES			
1 January 2016	**22**	**63**	**85**
Depreciation	10	12	22
Impairment	2	–	2
Transfer from IFRS 5	–	3	3
Disposal	(4)	(12)	(16)
Effect of movement in foreign exchange	3	4	7
31 December 2016	**33**	**70**	**103**
NET BOOK VALUE			
31 December 2015	**283**	**54**	**337**
31 December 2016	**167**	**49**	**216**

Property is insured against theft and natural disaster.

15. INTANGIBLE ASSETS AND GOODWILL

The movements during the period were as follows:

in MCZK	Software	Other intangible assets	Goodwill	Assets under construction	Total
COST					
1 January 2015	**347**	**132**	**436**	**27**	**942**
Additions	51	1	–	3	55
Transfer to IFRS 5	43	–	(74)	(49)	(80)
Disposals	(6)	–	–	–	(6)
Effect of movement in foreign exchange	(2)	1	(20)	–	(21)
31 December 2015	**433**	**134**	**342**	**(19)**	**890**
AMORTIZATION AND IMPAIRMENT LOSSES					
1 January 2015	**230**	**88**	**341**	**–**	**659**
Amortisation	63	17	–	–	80
Transfer to IFRS 5	(4)	–	(74)	–	(78)
Impairment	–	–	65	–	65
Disposals	(2)	–	–	–	(2)
Effect of movement in foreign exchange	(2)	1	(20)	–	(21)
31 December 2015	**285**	**106**	**312**	**–**	**703**
COST					
1 January 2016	**433**	**134**	**342**	**(19)**	**890**
Additions	62	1	–	–	63
Transfer from IFRS 5	4	–	65	–	69
Disposals	–	–	–	(3)	(3)
Effect of movement in foreign exchange	2	–	53	–	55
31 December 2016	**501**	**135**	**460**	**(22)**	**1,074**
AMORTIZATION AND IMPAIRMENT LOSSES					
1 January 2016	**285**	**106**	**312**	**–**	**703**
Amortisation	62	17	–	–	79
Transfer from IFRS 5	3	–	65	–	68
Effect of movement in foreign exchange	2	–	53	–	55
31 December 2016	**352**	**123**	**430**	**–**	**905**
NET BOOK VALUE					
31 December 2015	**148**	**28**	**30**	**(19)**	**187**
31 December 2016	**149**	**12**	**30**	**(22)**	**169**

There was no increase in goodwill in 2016 and 2015 (see the note 48).

Based on the impairment testing, there was not recorded impairment of goodwill in 2016 (2015: CZK 65 million).

16. OPERATING LEASES

(a) Leases entered into as lessee

The Group has non-cancellable operating lease payables as follows:

in MCZK	2016	2015
Less than one year	119	114
Between one and five years	431	350
More than five years	3	38
Total	**553**	**502**

(b) Leases entered into as lessor

The Group leases out its headquarters to other companies under operating leases. The Group has non-cancellable operating lease receivables as follows:

in MCZK	2016	2015
Less than one year	41	36
Between one and five years	43	44
Total	**84**	**80**

17. PREPAYMENTS, ACCRUED INCOME AND OTHER ASSETS

in MCZK	2016	2015
Other trading receivables	390	343
Receivables from customers from securities trading	288	539
Other receivables	171	63
Prepayments and accrued income	92	81
Receivables from fees for portfolio management	50	32
Advance payments – other	23	30
Other tax assets	3	–
Allowances for impairment of other assets	(6)	(4)
Total	**1,011**	**1,084**

Other trading receivables as at 31 December 2016 include fees for the issue of bonds and promissory notes of CZK 42 million (2015: CZK 57 million) and large number of sundry items that are not significant on an individual basis.

Allowances for impairment of other assets:

in MCZK	2016	2015
1 January	4	4
Charged / (reversed) in the period	2	10
Use / write-offs	–	(1)
Transfer to IFRS 5	–	(9)
Total	**6**	**4**

18. DISPOSAL GROUPS HELD FOR SALE

The disposal group consists principally of companies which are intended to be sold or contributed in-kind as part of the Group's on-going reorganisation plan in 2017.

The structure of the assets and liabilities of the disposal group held for sale is as follows:

in MCZK			2016
	J&T Ostravice Active Life UPF	Other	Total
Assets associated with assets held for sale	107	112	219
Net amount of disposal group held for sale	**107**	**112**	**219**

Sale of J&T Ostravice Active Life UPF was delayed by approval process of land plan that is out of the Group's control. Approving of the land plan is an inevitable condition to run the entity's activities and commence the sale. Based on the situation in 2017, a resolution about presenting the share in the next year will be made.

During the year 2015, the Group signed an agreement with a third party on sale of 50% of its interest in J&T Bank, a.o. (Moscow), therefore the Group classified this subsidiary as a disposal group held for sale as at 31 December 2015.

In 2016, however, the agreement was cancelled and the Group does not intend to sell its interest in J&T Bank, a.o. anymore. Therefore, the assets and liabilities classified as held for sale as at 31 December 2015 do not meet the criteria for such classification as at 31 December 2016.

The reclassification of the disposal group to held-for-use in 2016 does not have any impact on profit or loss of 2015. This is due to the fact that the classification as held for sale was made as at 31 December 2015 and thus all relevant depreciation had been accounted for through profit or loss in 2015. Depreciation for 2016 is accounted for through profit or loss in accordance with IAS 16.

The detailed structure of the assets and liabilities of the disposal group as at 31 December 2015 was as follows:

in MCZK				2015
	J&T Bank, a.o.	J&T Ostravice Active Life UPF	Other	Total
Assets associated with assets held for sale	4,809	107	46	4,962
Liabilities associated with assets held for sale	2,961	–	–	2,961
Net amount of disposal group held for sale	**1,848**	**107**	**46**	**2,001**

The detailed structure of the assets and liabilities classified as held for sale if the criteria for such classification had not been met as at 31 December 2015, would have been as:

in MCZK				2015
	J&T Bank, a.o.	J&T Ostravice Active Life UPF	Other	Total
Assets associated with assets held for sale	29	107	46	182
Net amount of disposal group held for sale	**29**	**107**	**46**	**182**

The property, plant and equipment totalling CZK 182 million met the criteria for classification as held for sale as at 31 December 2015 regardless of the cancellation of the agreement.

The assets of CZK 4 780 million and liabilities of CZK 2 961 million would be presented in relevant particular lines of the Consolidated statement of financial position as at 31 December 2015 if J&T Bank, a.o. was not classified as held for sale.

In 2016, all relevant assets and liabilities originally classified as held for sale but ceasing to meet the criteria for such classification were accounted for at the lower of its recoverable amount and the carrying amount that would have been recognized had the disposal group never been classified as held for sale as at 31 December 2015.

The net profit structure of the disposal group held for sale for the year ended as at 31 December 2015 was presented by the company J&T Bank, a.o. The structure was as follows:

in MCZK	2015
Interest income	464
Interest expense	(268)
Net interest income	**196**
Fee and commission income	27
Fee and commission expense	(4)
Net fee and commission income	**23**
Net trading income	828
Other operating income	(1)
Operating income	**1 046**
Personnel expenses	(77)
Other operating expenses	(48)
Depreciation and amortisation	(2)
Operating expenses	**(127)**
Profit before provisions, allowances and income tax expenses	**920**
Net change in provisions from financial activities	(1)
Net change in allowances for impairment of loans	(83)
Profit before tax, excluding profit from equity accounted investees	**835**
Profit before tax	**835**
Income tax expenses	(48)
Profit for the period	**787**

Cash flows from (used in) discontinued operations

in MCZK	2015
Net cash flows from (used in) operating activities	**(1,018)**
Net cash flows from (used in) investing activities	**(431)**
Net cash flows from (used in) financing activities	**1,971**
Net cash flows from (used in) discontinued operations	**522**

No net profit of the disposal group held for sale would have been recognized as at 31 December 2015.

As noted above, there would be no change in the consolidated profit for the year ended as at 31 December 2015 if J&T Bank, a.o. was not classified as held for sale.

19. DEPOSITS AND LOANS FROM BANKS

Deposits and loans from banks comprise:

in MCZK	2016	2015
Deposits from banks	3,083	4,202
Loans from banks – repurchase agreements	91	57
Total	**3,174**	**4,259**

The contractual weighted average interest rate on deposits and loans from banks was -0.14% p.a. as at 31 December 2016 (2015: 0.73% p.a.).

20. DEPOSITS FROM CUSTOMERS

Deposits from customers comprise:

in MCZK	2016	2015
Current accounts	37,772	40,533
Term deposits	65,120	81,073
Depository notes	5	–
Loans from customers – repurchase agreements	41	131
Other	115	75
Total	**103,053**	**121,812**

The contractual weighted average interest rate on deposits from customers was 1.73% p.a. as at 31 December 2016 (2015: 1.73% p.a.).

21. SUBORDINATED DEBT

Subordinated debt at amortised cost:

in MCZK	2016	2015
Issued subordinated bonds	676	674
Subordinated debt – term deposit from customers	767	1 375
Total	**1,443**	**2,049**

On 28 February 2007, the Bank issued subordinated bonds with a notional amount of EUR 25 million maturing in 2022. The interest rate was 4.43 % p.a. as at 31 December 2016 (2015: 4.75% p.a.).

The subordinated debt – term deposit from customers with a maturity up to 2024 bear an interest rate between 5% and 9% p.a.

Czech National Bank approved the subordinated debt as a part of the capital for regulatory purposes.

22. OTHER LIABILITIES AND PROVISIONS

Other liabilities and provisions:

in MCZK	2016	2015
Payables from securities of clients at trader´s disposal	4,533	4,824
Provision for employee bonuses	593	529
Estimated payables, accruals and deferred income	153	183
Trade payables	147	141
Provision for off-balance sheet items	63	74
Other tax liabilities	53	65
Provision for loyalty programmes - customers	31	120
Payables to employees	31	30
Other current provisions	27	33
Payables related to social costs	13	14
Provision for loyalty programmes - employees	5	2
Other liabilities	334	654
Total	**5,983**	**6,669**

Other liabilities primarily include payables from unsettled short-sales of financial instruments of CZK 117 million (2015: CZK 168 million), payables from clearing of CZK 36 million (2015: CZK 10 million) and incoming and outgoing payments from nostro accounts of CZK 40 million (2015: CZK 8 million).

A provision for employee bonuses is established in relation to the approval of Group employees' annual bonuses. The annual bonus is defined as variable benefit component of employee remuneration which the company may grant and pay to an employee in proportion to his/her job performance in the evaluated period, most commonly a year. It also comprises the management bonuses with deferred due payment. The Group's remuneration policy is in accordance with the policies of risk management and remuneration in accordance with Decree 163/2014 Coll., on the performance of the activities of banks, credit unions and investment firms.

The loyalty programme has been established to provide non-monetary performances to employees in relation to the employment and similar relationships, and bonuses and to customers when they sign up for any of selected Group products. Since the performance is provided for an unlimited period of time and the withdrawals can be made continuously, the provision for loyalty programme is a long-term one. The Group establishes a provision for loyalty programme for bonuses to customers of CZK 31 million (2015: CZK 120 million) and to employees of CZK 5 million (2015: CZK 2 million).

A provision for off-balance sheet items comprises in particular the provision for the loan promises and guarantees of CZK 63 million (2015: CZK 74 million).

As at 31 December 2016, other provisions amounted to CZK 27 million (2015: CZK 33 million). It is expected that these provisions will be utilised after 12 or more months after the balance sheet date. These provisions include in particular a provision for unpaid premium interest from municipal deposits and a provision for commission fees in respect of the bond emission.

Provisions:

in MCZK	Balance as at 1 January 2016	Additions / Creations	Use / Release	Foreign exchange difference	Balance as at 31 December 2016
Employee bonuses	529	383	(322)	3	593
Off-balance sheet items	74	22	(36)	3	63
Loyalty programmes – customers	120	20	(109)	–	31
Loyalty programmes – employees	2	6	(3)	–	5
Other current provisions	33	8	(14)	–	27
Total	**758**	**439**	**(484)**	**6**	**719**

23. SHARE CAPITAL, RETAINED EARNINGS, CAPITAL FUNDS AND OTHER RESERVES

Share capital is fully paid and consists of:

in MCZK	2016
10 637 126 ordinary shares with a nominal value of CZK 1 000 per share	10,637
700 000 ordinary shares with a nominal value of CZK 1.43 per share	1
Total share capital	**10,638**

The Group does not provide any employee incentive scheme involving the option to buy own shares, or remuneration in the form of equity options.

The allocation of the profit will be approved at the General Meeting. The Group's Management assumes that relevant part of the profit will be paid to the purpose-built capital fund for the payment of revenue from certificates, that is part of the Equity, and the rest of the profit will be paid as a dividend to shareholders.

Retained earnings

Retained earnings are distributable to the Group's shareholders and are subject to the shareholders meeting resolution. As at 31 December 2016, retained earnings amounted to CZK 5 843 million (2015: CZK 5 159 million). For detail of retained earnings refer to Consolidated statement of changes in equity.

Capital funds

Capital funds consist of a special purpose fund for income distribution from subordinated income certificates and other non-distributable capital funds.

For details related to the special purpose fund refer to last paragraph in Other capital instruments.

According to a new Czech legal framework which does not require maintaining the statutory reserve fund any longer, and policy of the Group, the amount recognized as statutory reserve fund was transferred to other capital funds reported as a part of retained earnings.

The other non-distributable capital funds amounted to CZK 40 million as at 31 December 2016 (2015: CZK 16 million).

Translation and revaluation reserve

Translation and revaluation reserve comprise the items arisen from the following:
- changes in the fair value of financial assets available for sale;
- all foreign exchange difference arising from the translation of the financial statements of foreign operations that are not integral to the operations of the Group.

The sum of translation and revaluation reserve was negative as at 31 December 2016 amounting to CZK 808 million (2015: CZK 1 425 million).

Other capital instruments

Other capital instruments comprise issued subordinated unsecured revenue certificates with fixed interest revenue dependent on the fulfilment of pre-defined conditions, with no fixed maturity date. The certificates are hybrid financial instruments combining the economic features of capital and debt securities. These certificates are also considered capital instruments compliant with the conditions for the inclusion thereof into the additional Tier 1 capital (AT1). This inclusion is subject to the approval by the Czech National Bank.

On 19 June 2014, the Czech National Bank approved the prospectus of revenue certificate emission of total estimated value of CZK 1 000 million with expected revenue of 10% p.a.

On 12 September 2015, the Czech National Bank approved the prospectus of second revenue certificate emission of total estimated value of CZK 1 000 million with expected revenue of 9% p.a.

On 11 December 2015, the Czech National Bank approved the prospectus of third revenue certificate emission of total estimated value of EUR 50 million with expected revenue of 9% p.a.

As at 31 December 2016, the volume of outstanding certificated reached CZK 2 597 million (2015: CZK 1 742 million).

On 30 June 2014, the Bank's Board of Directors also approved the establishment of a purpose-built capital fund for the payment of revenue from certificates of CZK 100 million. This fund was created from retained earnings. In 2015, another CZK 100 million was transferred to this fund from the 2014 profit. The payment of revenue from certificates is governed by the conditions defined in the prospectus. In 2016, revenue of CZK 229 million (2015: CZK 108 million) was paid out from the fund.

24. NON-CONTROLLING INTEREST

in MCZK	2016	2015
J&T Bank, a.o.	1	1
Interznanie, OAO	(3)	(4)
TERCES MANAGEMENT LIMITED	6	6
J&T REALITY, o.p.f.	586	610
Vaba d.d. banka Varaždin	73	119
ART FOND – Stredoeurópsky fond súčasného umenia, a. s.	–	11
Total	**663**	**743**

The following table provides information on companies from the consolidation Group that have a significant non-controlling interest.

31.12.2016

in MCZK	J&T REALITY, o.p.f.	Vaba d.d. banka Varaždin
Non-controlling interest	46.92 %	17.45 %
Assets	1,251	5,485
Liabilities	2	4,801
Net assets	**1,249**	**684**
Carrying amount of non-controlling interest	586	73
Income	71	360
Profit for the period	(56)	(295)
Total profit for the period	**(56)**	**(295)**
Profit for the period attributable to non-controlling interest	(26)	(64)
Cash flows from operating activities	2	(293)
Cash flows from financing activities	–	85
Cash flows from investing activities	5	–
Net increase in cash and cash equivalents	7	(208)

31.12.2015

in MCZK	J&T REALITY, o.p.f.	Vaba d.d. banka Varaždin
Non-controlling interest	46.92 %	23.19 %
Assets	1,303	5,941
Liabilities	3	5,205
Net assets	**1,300**	**736**
Carrying amount of non-controlling interest	610	119
Income	92	313
Profit for the period	(65)	(193)
Total profit for the period	**(65)**	**(193)**
Profit for the period attributable to non-controlling interest	(30)	(60)
Cash flows from operating activities	44	274
Cash flows from financing activities	–	(106)
Cash flows from investing activities	–	–
Net increase in cash and cash equivalents	44	168

25. INCOME TAX

Income tax was calculated in accordance with Czech tax regulations at the rate of 19% in 2016 (2015: 19%). The income tax rate for 2017 will be 19%.

The Slovak branch pays tax in accordance with Slovak tax law. The tax paid by the branch in Slovakia is offset against the income tax for the Bank as a whole paid in the Czech Republic. The income tax rate in Slovakia for 2016 is 22% (2015: 22%). As from 1 January 2017 the tax rate in Slovakia is 21%.

The Czech Republic currently has a number of laws related to various taxes imposed by governmental authorities. Applicable taxes include value-added tax, corporate tax, and payroll (social) taxes and various others. Tax declarations, together with other legal compliance areas (such as customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose fines, penalties and interest charges. This results in tax risks in the Czech Republic which are substantially more significant than typically found in countries with more developed tax systems.

Effects of different tax rates of subsidiaries are taken into account when calculating income tax in total and are represented by row "Effect of tax rates in foreign jurisdictions". The income tax rate in Russia for 2016 is 20% (2015: 20%). The income tax rate in Croatia for 2016 is 20% (2015: 20%).

Management believes that it has adequately provided for the tax liabilities in the accompanying consolidated financial statements.

The reconciliation of the expected income tax expense is as follows:

in MCZK	2016	2015
Profit before tax	1,360	2,186
Tax non-deductible expenses		1,141
Non-taxable revenues and tax refund for the last period	(1,065)	(1,678)
Statutory income tax rate	19 %	19 %
Income tax expenses	**(390)**	**(313)**
Adjustments for prior periods	6	–
Effect of tax rates in foreign jurisdictions	11	(3)
Income tax expenses Total	**(407)**	**(310)**
of which:		
Deferred tax (expense) / revenue	(16)	26
Current tax (expense)	(391)	(336)
Effective tax rate	30 %	14 %

The main adjustments when calculating the taxable profit from the accounting profit relate to tax exempt income deducted from and tax non-deductible expenses to be added to the tax base. The main non-deductible expenses are tax non-deductible provisions to receivables, gifts and representation expenses. In 2016, constitute a significant item in the Vaba d.d. banka Varaždin tax loss in the amount CZK 329 million.

26. DEFERRED TAX

The Group has the following deferred tax assets and liabilities:

in MCZK	2016	2015
DEFERRED TAX ASSET / (LIABILITY)		
Property, plant and equipment	(8)	(7)
Financial assets available for sale	2	(14)
Investment property	(81)	(64)
Tax losses	6	–
Other temporary differences	58	118
Net deferred tax asset / (liability)	**(23)**	**33**

The deferred tax asset and liability is calculated using the 2017 income tax rate of 19%, for J&T Bank, a.o. 20%, Vaba d.d. banka Varaždin 18% and for J&T Banka Slovak Branch 21% (2015: 19%, 20%, 20% and 22%).

The following table shows the reconciliation between the deferred tax charge and the change in deferred tax liabilities in 2016.

in MCZK	2016	2015
Deferred tax liability, net as at 1 January	33	(9)
Deferred tax expense in the period (see note 25)	(16)	26
Deferred tax recognized in equity	4	(6)
Currency difference	(24)	19
Transfer to IFRS 5	(20)	3
Net deferred tax asset / (liability)	**(23)**	**33**

The following table shows the net deferred tax by company as at 31 December 2016:

in MCZK	Asset	Liability	Netto
DEFERRED TAX			
J&T BANKA, a.s. (parent company)	99	–	99
J&T INVESTIČNÍ SPOLEČNOST, a.s.	1	–	1
ATLANTIK finanční trhy, a.s.	–	(1)	(1)
Interznanie, OAO	–	(81)	(81)
J&T Bank, a.o.	–	(46)	(46)
Vaba d.d. banka Varaždin	5	–	5
Net deferred tax asset / (liability)	**105**	**(128)**	**(23)**

The following table shows the net deferred tax by company as at 31 December 2015:

in MCZK	Asset	Liability	Netto
DEFERRED TAX			
J&T BANKA, a.s. (parent company)	88	–	88
ATLANTIK finanční trhy, a.s.	–	(2)	(2)
Interznanie OAO	–	(64)	(64)
Vaba d.d. banka Varaždin	11	–	11
Net deferred tax asset liability	**99**	**(66)**	**33**

27. INTEREST INCOME

in MCZK	2016	2015
Interest income from:		
– Due from financial institutions	30	22
– Loans and advances to customers	4,590	5,141
– Repo transactions	237	310
– Bonds and other fixed income securities	561	661
– Other operations	–	20
Total	**5,418**	**6,154**

Item "Loans and advances to customers" includes commissions for origination of loans of CZK 82 million (2015: CZK 50 million), which are part of effective interest rate.

Interest income according to classes of assets:

in MCZK	2016	2015
Interest income from:		
– Financial assets at fair value through profit or loss:		
– those held for trading	141	226
– those designated at initial recognition	41	63
– Financial assets available for sale	309	306
– Financial assets held to maturity	71	86
– Loans and other receivables	4,856	5,472
– of which: Impaired loans and receivables	285	287
– of which: Forbereance	123	160
Other assets	–	1
Total	**5,418**	**6,154**

28. INTEREST EXPENSE

in MCZK	2016	2015
Interest expense on:		
– Deposits and loans from banks	(17)	(31)
– Deposits from customers	(2,147)	(2,780)
– Repo transactions	(1)	(3)
– Subordinated bonds and promissory notes	(33)	(36)
– Other operations	–	(19)
Total	**(2,198)**	**(2,869)**

Interest expense according to classes of liabilities:

in MCZK	2016	2015
Interest expense on:		
– Financial liabilities at amortised cost	(2,198)	(2,850)
– Financial liabilities at fair value through profit or loss	–	(19)
Total	**(2,198)**	**(2,869)**

29. FEE AND COMMISSION INCOME

in MCZK	2016	2015
Fee and commission income from:		
– Securities and derivatives for customers	1,048	680
– Loan activities	93	71
– Payment transactions	119	55
– Other	18	13
Total	**1,278**	**819**

30. FEE AND COMMISSION EXPENSE

in MCZK	2016	2015
Fee and commission expense on:		
– Transactions with securities	(184)	(152)
– Payment transactions	(30)	(21)
– Other	(27)	(19)
Total	**(241)**	**(192)**

31. NET TRADING INCOME

in MCZK	2016	2015
Realised and unrealised losses on financial instruments at fair value	431	259
Net gains / (losses) on derivative operations	259	(421)
Net profit / (loss) from foreign currency translation	(657)	1,160
Net gains / (losses) on hedging derivative operations	(1)	–
Dividend income	14	26
Total net trading income	**46**	**1,024**

Net trading income comprises of:

in MCZK	2016	2015
Financial assets and liabilities at fair value through profit or loss:		
– those held for trading	447	(181)
– those designated at initial recognition	–	(83)
Financial assets available for sale	256	128
Exchange rate differences	(657)	1,160
Total	**46**	**1,024**

32. OTHER OPERATING INCOME

in MCZK	2016	2015
Revenues from services and consulting	63	66
Rental income from investment property	29	35
Income from rendered operating leases	20	25
Rental income	5	1
Profit from disposal of fixed assets	2	–
Profit from transfer of FI with control and significant influence	–	78
Other income	23	39
Total	**142**	**244**

Other income of CZK 23 million at 31 December 2016 (2015: CZK 39 million) includes a large number of sundry items that are not significant on an individual basis.

33. PERSONNEL EXPENSES

in MCZK	2016	2015
Wages and salaries	(697)	(730)
Directors' and Supervisory Board members' remuneration and wages	(60)	(34)
Compulsory soc. security contributions	(167)	(159)
Other social costs	(22)	(20)
Total personnel expenses	**(946)**	**(943)**
Average number of employees during the reporting period	717	689

There were 20 members of the Group's Board of Directors at 31 December 2016 (2015: 24).

34. OTHER OPERATING EXPENSES

in MCZK	2016	2015
Rent expense	(146)	(139)
Contributions to Deposit Insurance Fund	(74)	(185)
Contributions to Crisis Resolution Fund	(71)	–
Taxes and fees	(74)	(72)
OPERATING COSTS:		
Outsourcing	(191)	(178)
Advertising expenses and representation	(164)	(165)
Repairs and maintenance - IS, IT	(43)	(45)
Audit, legal and tax consulting	(42)	(52)
Services related to rent	(40)	(38)
Consulting expenses	(35)	(30)
Sponsoring and gifts	(32)	(24)
Communication expenses	(24)	(24)
Materials	(15)	(17)
Transport and accommodation, travel expenses	(16)	(21)
Expenses related to investment property	(4)	(5)
Other operating costs	(213)	(198)
Total	**(1,184)**	**(1,193)**

Other operating costs of CZK 213 million at 31 December 2016 (2015: CZK 198 million) include a large number of sundry items that are not significant on an individual basis.

The Crisis Resolution Fund is a source for the use of crisis resolution tools at an institution, the use of which may be proposed by the Czech National Bank in situations when it is feasible, credible and in the public interest. This fund does not serve for direct payouts of deposit compensation.

Taxes and fees include a special bank levy to the Slovak Tax Authority. This levy does not fall within the scope of IAS 12 Income Taxes. The Group considers the levy to be operational in nature and has accrued the respective cost within "Other operating expenses".

35. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS FOR PURPOSES OF STATEMENT OF CASH FLOWS

in MCZK	Cash and balances with central banks	Term deposits in central banks up to 3 months	Loans to central banks – repurchase agreements	Loans to banks – repurchase agreements	Current bank accounts or up to 3 months	Total
31 December 2014	**775**	**10,963**	**–**	**2,299**	**3,733**	**17,770**
Change in 2015	(300)	6,187	30,000	112	(2 102)	33,897
31 December 2015	**475**	**17,150**	**30,000**	**2,411**	**1,631**	**51,667**
Change in 2016	1,138	(4 924)	(10 000)	(1 423)	395	(14 814)
31 December 2016	**1,613**	**12,226**	**20,000**	**988**	**2,026**	**36,853**

"Obligatory minimum reserves with central banks" is not included in "Cash and cash equivalents" for Statement of Financial Position purposes.

36. FINANCIAL COMMITMENTS AND CONTINGENCIES

Financial commitments and contingencies comprise:

in MCZK	2016	2015
Granted guarantees	2,246	2,434
Unused credit lines	10,346	6,932
Securities held on behalf of clients	58,322	40,330
Total	**70,914**	**49,695**

37. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

(a) Business segments

The Group comprises the following main business segments:

- Financial markets
  - Includes the trading and corporate finance activities, mainly activities within financial markets department regardless of level of service and client business segment;
- Corporate Banking
  - Includes loans, deposits and other transactions and balances with corporate customers (including business segment: corporations, non-profit organisations, financial institutions);
- Private Banking
  - Includes loans, deposits and other transactions and balances with private banking and premium banking customers (the customer's aggregate sum of deposits with the Bank is at least CZK 3 million);
- Retail Banking
  - Includes loans, deposits and other transactions and balances with retail customers (the customer's aggregate sum of

deposits with the Bank is at least CZK 500 thousand);

- ALCO
  - Includes balance sheet items of strategic importance that are managed by the Asset and Liability Committee;
- Unallocated
  - Includes balance sheet items that are not included in the segments above.

The Group also has a central Shared Services operation that manages the Group's premises and certain corporate costs. Cost-sharing agreements are used to allocate central costs to business segments on a reasonable basis.

ALCO includes balance sheet items of strategic importance that are managed by the Asset and Liability Committee. The most important items are:

- Financial assets available for sale and held to maturity
- Due from financial institutions
- Deposits and loans from banks
- Cash and balances with central banks

Personnel costs, operating expenses and depreciation charges that are not allocated to business segments are included in the segment "Unallocated".

Consolidated statement of financial position as at 31 December 2016:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Cash and balances with central banks	–	–	–	–	15,513	–	15,513
Due from financial institutions	–	–	–	–	23,423	–	23,423
Positive fair value of derivatives, financial assets	3,619	–	–	–	12,124	–	15,743
Investment in equity accounted investees	–	–	–	–	29	–	29
Investment property	–	–	–	–	–	469	469
Loans and advances to customers	8,853	60,558	5,748	980	–	–	76,139
Current tax assets	–	–	–	–	–	78	78
Deferred tax assets	–	–	–	–	–	105	105
Property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	–	–	–	–	–	1,396	1396
Disposal groups held for sale	–	–	–	–	219	–	219
Total Assets	**12,472**	**60,558**	**5,748**	**980**	**51,308**	**2,048**	**133,114**

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Negative fair value of derivatives	176	–	–	–	9	–	185
Deposits and loans from banks	–	–	–	–	3,174	–	3,174
Deposits from customers	110	28,072	23,313	51,558	–	–	103,053
Subordinated debt	–	794	224	425	–	–	1,443
Current tax liability	–	–	–	–	–	20	20
Deferred tax liability	–	–	–	–	–	128	128
Other liabilities and provisions	–	–	–	–	–	5,983	5,983
Total Liabilities	**286**	**28,866**	**23,537**	**51,983**	**3,183**	**6,131**	**113,986**

Consolidated statement of financial position as at 31 December 2015:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Cash and balances with central banks	–	–	–	–	19,724	–	19,724
Due from financial institutions	–	2,411	–	–	31,968	–	34,379
Positive fair value of derivatives, financial assets	2,897	–	–	–	16,053	–	18,950
Investment in equity accounted investees	–	–	–	–	35	–	35
Investment property	–	–	–	–	–	363	363
Loans and advances to customers	6,949	58,774	8,318	627	–	–	74,668
Current tax assets	–	–	–	–	–	63	63
Deferred tax assets	–	–	–	–	–	99	99
Property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	–	–	–	–	–	1 608	1 608
Disposal groups held for sale	–	–	–	–	4 962	–	4 962
Total Assets	**9 846**	**61 185**	**8 318**	**627**	**72 742**	**2 133**	**154 851**

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Negative fair value of derivatives	84	–	–	–	1	–	85
Deposits and loans from banks	–	–	–	–	4,259	–	4,259
Deposits from customers	104	42,987	23,122	55,599	–	–	121,812
Subordinated debt	–	1,104	508	437	–	–	2,049
Current tax liability	–	–	–	–	–	5	5
Deferred tax liability	–	–	–	–	–	66	66
Other liabilities and provisions	–	–	–	–	–	6,669	6,669
Disposal groups held for sale	–	–	–	–	2,961	–	2,961
Total Liabilities	**188**	**44,091**	**23,630**	**56,036**	**7,221**	**6,740**	**137,906**

Consolidated statement of comprehensive income for the period ended 31 December 2016:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Net interest income	**332**	**1,722**	**435**	**298**	**409**	**24**	**3,220**
Fee and commission income	1,101	151	5	14	5	2	1,278
Fee and commission expense	(196)	(39)	–	(6)	–	–	(241)
Dividends from financial assets available for sale	–	–	–	–	187	–	187
Impairment of assets available for sale	32	–	–	–	–	–	32
Net trading income / (expense)	372	12	–	–	(338)	–	46
Other operating income	65	49	–	–	–	28	142
Operating income	**1,706**	**1,895**	**440**	**306**	**263**	**54**	**4,664**
Personnel expenses	(125)	(64)	(164)	(43)	–	(550)	(946)
Other operating expenses	(75)	(39)	(58)	(70)	–	(940)	(1 182)
Depreciation and amortisation	(6)	(3)	–	(5)	–	(87)	(101)
Impairment of property, plant and equipment assets and intangible assets	–	–	–	–	–	(2)	(2)
Goodwill impairment	–	–	–	–	–	–	–
Profit before provisions, allowances and income taxes	**1,500**	**1,789**	**218**	**188**	**263**	**(1 525)**	**2,433**
Net change in provisions from financial activities	–	22	–	–	(10)	–	12
Net change in allowances for impairment of loans	28	(1 016)	(37)	(10)	–	–	(1 035)
Profit before tax, excluding profit from equity accounted investees	**1,528**	**795**	**181**	**178**	**253**	**(1 525)**	**1,410**
Profit/(loss) from equity accounted investees	–	–	–	–	–	(50)	(50)
Profit before tax	**1,528**	**795**	**181**	**178**	**253**	**(1,575)**	**1,360**
Income tax expenses	(316)	(165)	(26)	(48)	(99)	247	(407)
Continuing operations	**1,212**	**630**	**155**	**130**	**154**	**(1,328)**	**953**
Discontinued operations	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Profit for the period	**1,212**	**630**	**155**	**130**	**154**	**(1,328)**	**953**

The values disclosed are net of inter-segment transactions and are submitted to the executive manager as such.

When assessing the performance of the segment and issuing the decision about the funds which should be allocated to the segment, the executive manager decided that unallocated operating expenses need not be re-allocated to individual segments.

Consolidated statement of comprehensive income for the period ended 31 December 2015:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Net interest income	**278**	**2,022**	**629**	**201**	**148**	**7**	**3,285**
Fee and commission income	688	104	4	22	1	–	819
Fee and commission expense	(160)	(28)	–	(4)	–	–	(192)
Dividends from financial assets available for sale	–	–	–	–	14	–	14
Impairment of assets available for sale	(32)	–	–	–	–	–	(32)
Net trading income / (expense)	278	(55)	–	–	801	–	1,024
Other operating income	67	61	–	2	–	114	244
Operating income	**1,119**	**2,104**	**633**	**221**	**964**	**121**	**5,162**
Personnel expenses	(129)	(57)	(142)	(48)	–	(567)	(943)
Other operating expenses	(85)	(35)	(28)	(47)	–	(998)	(1 193)
Depreciation and amortisation	(10)	(4)	(1)	(5)	–	(84)	(104)
Goodwill impairment	(65)	–	–	–	–	–	(65)
Profit before provisions, allowances and income tax expenses	**830**	**2,008**	**462**	**121**	**964**	**(1,528)**	**2,857**
Net change in provisions from financial activities	–	(24)	–	–	–	–	(24)
Net change in allowances for impairment of loans	–	(789)	(6)	(19)	–	–	(814)
Profit before tax, excluding profit from equity accounted investees	**830**	**1,195**	**456**	**102**	**964**	**(1,528)**	**2,019**
Profit/(loss) from equity accounted investees	(1)	–	–	–	–	168	167
Profit before tax	**829**	**1,195**	**456**	**102**	**964**	**(1,360)**	**2,186**
Income tax expenses	(138)	(187)	(81)	(57)	(87)	240	(310)
Continuing operations	**691**	**1,008**	**375**	**45**	**877**	**(1,120)**	**1,876**
Profit for the period	**691**	**1,008**	**375**	**45**	**877**	**(1,120)**	**1,876**

In presenting information on the basis of geographical areas, revenue is based on the customer's country of domicile and assets/liabilities are based on the geographical location of the assets/liabilities. More details about splitting the credit risk for loans according to the actual loan purpose and location are comprised in note 40d.

Consolidated statement of financial position as at 31 December 2016:

in MCZK	Czech Republic	Slovakia	Other European Union	Other countries	Total
Cash and balances with central banks	13,940	230	833	510	15,513
Due from financial institutions	20,344	277	1,331	1,471	23,423
Fair value of derivatives, financial assets	8,251	2,812	3,370	1,310	15,743
Investment in equity accounted investees	12	–	–	17	29
Loans and advances to customers	15,961	16,625	36,726	6,827	76,139
Current tax assets	–	78	–	–	78
Deferred tax assets	60	41	4	–	105
Investment property	–	–	–	469	469
Property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	776	109	373	138	1,396
Disposal groups held for sale	108	–	102	9	219
Total Assets	**59,452**	**20,172**	**42,739**	**10,751**	**133,114**

in MCZK	Czech Republic	Slovakia	Other European Union	Other countries	Total
Negative fair value of derivatives	30	41	113	1	185
Deposits and Loans from banks	55	964	231	1,924	3,174
Deposits from customers	62,380	22,395	10,649	7,629	103,053
Subordinated debt	693	1	723	26	1,443
Current tax liability	5	–	–	15	20
Deferred tax liability	1	–	–	127	128
Other liabilities and provisions	3,340	455	1,604	584	5,983
Disposal groups held for sale	–	–	–	–	–
Total Liabilities	**66,504**	**23,856**	**13,320**	**10,306**	**113,986**

Consolidated statement of financial position as at 31 December 2015:

in MCZK	Czech Republic	Slovakia	Other European Union	Other countries	Total
Cash and balances with central banks	18,715	308	701	–	19,724
Due from financial institutions	30,581	285	1,099	2,414	34,379
Fair value of derivatives, financial assets	9,014	5,303	4,485	148	18,950
Investment in equity accounted investees	11	–	1	23	35
Loans and advances to customers	13,162	19,569	38,544	3,393	74,668
Current tax assets	93	(30)	–	–	63
Deferred tax assets	64	25	10	–	99
Investment property	–	–	–	363	363
Property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	1,046	112	368	82	1,608
Disposal groups held for sale	108	–	46	4,808	4,962
Total Assets	**72,794**	**25,572**	**45,254**	**11,231**	**154,851**

in MCZK	Czech Republic	Slovakia	Other European Union	Other countries	Total
Negative fair value of derivatives	18	20	43	4	85
Deposits and Loans from banks	819	2,112	293	1,035	4,259
Deposits from customers	78,500	26,538	13,095	3,679	121,812
Subordinated debt	999	319	707	24	2,049
Current tax liability	5	–	–	–	5
Deferred tax liability	2	–	–	64	66
Other liabilities and provisions	3,135	633	2,674	227	6,669
Disposal groups held for sale	–	–	–	2,961	2,961
Total Liabilities	**83,478**	**29,622**	**16,812**	**7,994**	**137,906**

Consolidated statement of comprehensive income for the year ended 31 December 2016:

in MCZK	Czech Republic	Slovakia	Other European Union	Other countries	Total
Interest income	1,206	1,293	2,246	673	5,418
Interest expense	(1 273)	(418)	(261)	(246)	(2 198)
Net interest income	**(67)**	**875**	**1,985**	**427**	**3,220**
Fee and commission income	617	307	272	82	1,278
Fee and commission expense	(197)	(19)	(12)	(13)	(241)
Dividends from financial assets available for sale	92	–	95	–	187
Impairment of assets available for sale	32	–	–	–	32
Net trading income / (expense)	319	18	332	(623)	46
Other operating income	40	27	23	52	142
Operating income	**836**	**1,208**	**2,695**	**(75)**	**4,664**
Personnel expenses	(482)	(259)	(86)	(119)	(946)
Other operating expenses	(650)	(295)	(153)	(86)	(1 184)
Depreciation and amortisation	(76)	(3)	(16)	(6)	(101)
Profit before provisions, allowances and income taxes	**(372)**	**651**	**2,440**	**(286)**	**2,433**
Net change in provisions from financial activities	22	–	–	(10)	12
Net change in allowances for impairment of loans	(221)	(120)	(656)	(46)	(1 043)
Revenues from cession in portfolio of loans and other receivables	–	–	8	–	8
Profit before tax, excluding profit from equity accounted investees	**(571)**	**531**	**1,792**	**(342)**	**1,410**
Profit/(loss) from equity accounted investees	–	–	(1)	(49)	(50)
Profit before tax	**(571)**	**531**	**1,791**	**(391)**	**1,360**
Income tax expenses	(306)	(22)	(4)	(75)	(407)
Continuing operations	**(877)**	**509**	**1,787**	**(466)**	**953**
Profit for the period	**(877)**	**509**	**1,787**	**(466)**	**953**

Consolidated statement of comprehensive income for the year ended 31 December 2015:

in MCZK	Czech Republic	Slovakia	Other European Union	Other countries	Total
Interest income	1,654	1,260	2,710	530	6,154
Interest expense	(1,827)	(554)	(234)	(254)	(2,869)
Net interest income	**(173)**	**706**	**2,476**	**276**	**3,285**
Fee and commission income	356	199	225	39	819
Fee and commission expense	(157)	(22)	(7)	(6)	(192)
Dividends from financial assets available for sale	11	–	–	3	14
Impairment of assets s available for sale	(32)	–	–	–	(32)
Net trading income / (expense)	272	(121)	373	500	1,024
Other operating income	60	96	27	61	244
Operating income	**337**	**858**	**3,094**	**873**	**5,162**
Personnel expenses	(497)	(280)	(84)	(83)	(944)
Other operating expenses	(554)	(428)	(131)	(80)	(1 193)
Depreciation and amortisation	(81)	(3)	(14)	(6)	(104)
Goodwill impairment	(65)	–	–	–	(65)
Profit before provisions, allowances and income taxes	**(860)**	**147**	**2,865**	**704**	**2,856**
Net change in provisions from financial activities	(24)	–	–	–	(24)
Net change in allowances for impairment of loans	(289)	(301)	(181)	(55)	(826)
Revenues from cession in portfolio of loans and other receivables	–	13	–	–	13
Profit before tax, excluding profit from equity accounted investees	**(1,173)**	**(141)**	**2,684**	**649**	**2,019**
Profit/(loss) from equity accounted investees	(1)	199	–	(31)	167
Profit before tax	**(1,174)**	**58**	**2,684**	**618**	**2,186**
Income tax expenses	(139)	(120)	(1)	(50)	(310)
Continuing operations	**(1,313)**	**(62)**	**2,683**	**568**	**1,876**
Profit for the period	**(1,313)**	**(62)**	**2,683**	**568**	**1,876**

38. RELATED PARTIES – GENERAL

The outstanding balances and transactions with related parties of the Group are with related parties as presented in the following tables. All transactions with such entities took place under standard market conditions.

The related parties are sorted in the following categories:

I. Parent. This category includes J&T FINANCE GROUP SE, its majority owners Jozef Tkáč and Ivan Jakabovič and companies they own. Those companies do not prepare consolidated financial statements that would include the Group except of the company J&T FINANCE GROUP SE.

II. Subsidiaries. This category includes subsidiaries of J&T FINANCE GROUP SE which are included in its consolidated financial statements by reason of majority ownership excluding the subsidiaries of the Group that are not included in the category.

III. Associates and joint ventures. This category includes associates and joint ventures of the Group and J&T FINANCE GROUP SE.

IV. Key management personnel of the entity or its parent. This category includes related parties which are connected through key management personnel of the Group or its parent.

in MCZK	I.	II.	III.	IV.	Total
BALANCE SHEET ITEMS AS AT 31 DECEMBER 2016					
Receivables	1	407	17	7,116	7,541
Payables	79	2,013	–	724	2,816
Granted guarantees	–	8	–	4	12
Received guarantees	1,010	55	–	201	1,266
Provided loan commitments	540	82	–	573	1,195
Received collateral	–	41	–	450	491
PROFIT / LOSS ITEMS FOR PERIOD ENDED 31 DECEMBER 2016					
Expenses	(71)	(388)	–	(53)	(512)
Income	82	324	4	500	910

in MCZK	I.	II.	III.	IV.	Total
BALANCE SHEET ITEMS AS AT 31 DECEMBER 2015					
Receivables	204	727	14	7,554	8,499
Payables	1,193	2,393	–	391	3,977
Granted guarantees	–	7	–	2	9
Received guarantees	1,055	222	–	262	1,539
Provided loan commitments	7	37	–	28	72
Received collateral	–	73	–	442	515
PROFIT / LOSS ITEMS FOR PERIOD ENDED 31 DECEMBER 2015					
Expenses	(155)	(352)	–	(88)	(595)
Income	127	295	–	762	1,184

Receivables from members of the Board of Directors and the Supervisory Board

in MCZK	2016	2015
Provided loans	21	24

Loans to employees of the Group as at 31 December 2016 amounted to CZK 93 million (2015: CZK 114 million). The loans provided to the Board of Directors and Supervisory Board were provided under standard market conditions.

39. RISK MANAGEMENT POLICIES AND DISCLOSURES

The strategy, main goals and processes

The fundamental goal of risk management is profit maximization with respect to the exposed risk taken, while considering the Group´s risk appetite.

In doing so, it must be ensured that the Group activities outcome is predictable and in compliance with both trading goals and risk appetite of the Group.

In order to meet this goal, the risks faced by the Group are managed in a quality and prudential manner within the framework of the Group:

– In terms of that, risks are monitored, assessed and eventually limited, at least as strictly as required by Czech National Bank. The internal limits are being reconsidered regularly and in case of significant changes of market conditions to ensure their compliance with both the overall group´s strategy and market and credit conditions. The adherence to the limits is monitored and reported daily. In case of their potential breach, the Group immediately adopts adequate remedial measures.
– The banks within the Group establishes goals for capital adequacy that it wants to attain over a specified time horizon (i.e. the level to which risks should be covered by capital) and threshold limits below which capital adequacy cannot decrease.
– The banks within the Group establishes targets for selected indicators of liquidity, that wants to achieve in a specified time horizon, and certain limits, below which the system of liquidity indicators cannot decrease.
– The banks within the Group establishes goals and on other selected risk indicators (the risk of excessive leverage, the credit risk, the concentration risk, etc.) and threshold limits below which the system of indicators cannot decrease.

All internal limits have been approved independently of business units of the Group. The key indicators (capital adequacy ratio, liquidity and other risk categories) and their limits are part of Bank´s Risk Appetite Declaration.

40. CREDIT RISK

The Group's primary exposure to credit risk arises through its loans and advances and financial assets. The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the statement of financial position. In addition, the Group is exposed to off balance sheet credit risk through commitments and guarantees to extend credit.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

(a) Exposition forborne

in MCZK	2016	2015
Performing exposition	68,234	66,911
– performing exposition forborne	2,971	3,132
Non-performing exposition	7,905	7,757
– non-performing exposition forborne	2,896	3,736
Total	**76,139**	**74,668**

The share of loan exposition forborne on total loans and advances to customers is 7.70% (2015: 9.18%).

(b) Concentration of loans to customers by economic sector:

in MCZK	2016	2015
NOT FORBORNE		
Non-financial organisations	47,293	48,213
Financial organisations	20,260	16,003
Households	2,692	3,580
Other	28	4
Total	**70,273**	**67,800**

in MCZK	2016	2015
FORBORNE		
Non-financial organisations	5,560	6,222
Financial organisations	140	467
Households	116	129
Other	50	50
Total	**5,866**	**6,868**

(c) Concentration of loans to customers by industry:

in MCZK	2016	2015
Financial activities	25,341	21,801
Real estate activities	9,020	15,454
Manufacturing	8,809	7,777
Information and communication	7,457	4,720
Construction	6,436	5,810
Production and distribution of electricity, gas and heat	5,054	5,748
Professional, scientific and technical activities	2,486	710
Accommodation and food service activities	2,389	3,606
Mining and quarrying, agriculture	1,845	2,714
Wholesale and retail trade	1,518	971
Transporting and storage	1,259	1,601
Private households and employed persons	1,228	2,142
Sports, entertainment and recreation activities	788	913
Waste collection, modification and disposal	16	11
Other	2,493	690
Total	**76,139**	**74,668**

(d) Concentration of loans to customers by location:

in MCZK	2016	2015
Cyprus	22,100	26,319
Slovakia	16,625	19,569
Czech Republic	15,961	13,162
Luxembourg	4,558	4,461
Netherlands	3,566	865
Croatia	3,382	3,084
Switzerland	2,756	–
Russia	2,287	78
Poland	1,639	2,450
Malta	644	304
British Virgin Islands	642	1,813
Maldives	605	631
Jersey, C.I.	487	866
Ireland	449	570
Great Britain	111	58
Austria	–	433
Others	327	5
Total	**76,139**	**74,668**

(e) Concentration of loans to customers by location of realization of project and collateral:

in MCZK	2016	2015
Czech Republic	36,212	33,117
Slovakia	19,293	23,301
Croatia	3,377	4,685
Poland	3,040	2,450
Russia	2,899	3,870
China	2,868	–
Austria	2,337	214
Slovenia	1,608	1,922
Greece	944	707
Cyprus	921	893
Ukraine	663	640
Maldives	605	631
Great Britain	574	1,097
France	323	3
USA	185	184
Malta	177	199
Other	113	755
Total	**76,139**	**74,668**

The concentration of credit risk arising from repurchase agreements and loans to clients of brokers reflects the counterparty risk associated with securities and cash received as collateral.

(f) Credit risk associated with financial assets

As at 31 December 2016

in MCZK	Loans to banks	Repurchase agreements – financial institutions	Loans and advances to customers	Repurchase agreements – customers
IMPAIRED FINANCIAL ASSETS AT AMORTISED COST INDIVIDUALLY ASSESSED NOT FORBORNE:				
Gross amount	–	–	3,938	–
Impairment	–	–	(890)	–
Carrying amount	–	–	3,048	–
IMPAIRED FINANCIAL ASSETS AT AMORTISED COST INDIVIDUALLY ASSESSED FORBORNE:				
Gross amount	–	–	3,968	–
Impairment	–	–	(1,804)	–
Carrying amount	–	–	2,164	–
IMPAIRED FINANCIAL ASSETS AT AMORTISED COST COLLECTIVELY ASSESSED NOT FORBORNE:				
Gross amount	–	–	42	–
Impairment	–	–	(6)	–
Carrying amount	–	–	36	–
IMPAIRED FINANCIAL ASSETS AT AMORTISED COST COLLECTIVELY ASSESSED FORBORNE:				
Gross amount	–	–	–	–
Impairment	–	–	–	–
Carrying amount	–	–	–	–
Total financial assets impaired	**–**	**–**	**5,248**	**–**

in MCZK	Loans to banks	Repurchase agreements – financial institutions	Loans and advances to customers	Repurchase agreements – customers
Financial assets not impaired:	**2,435**	**20,988**	**66,818**	**4,073**
Neither past due nor impaired:	**2,435**	**20,988**	**66,304**	**4,073**
not forborne	2,435	20,988	62,649	4,073
forborne	–	–	3,655	–
Past due not impaired:	**–**	**–**	**514**	**–**
not forborne	–	–	467	–
forborne	–	–	47	–
– to maturity date	–	–	344	–
– up to 1 month	–	–	109	–
– 1 month to 6 months	–	–	13	–
– 6 months to 12 months	–	–	–	–
– more than 12 months	–	–	48	–
Total financial assets not forborne	**2,435**	**20,988**	**66,200**	**4,073**
Total financial assets forborne	**–**	**–**	**5,866**	**–**
Total	**2,435**	**20,988**	**72,066**	**4,073**
of which: Financial assets neither past due nor impaired with a sign of impairment:	**–**	**–**	**10,322**	**–**
Gross amount not forborne	–	–	6,620	–
Gross amount forborne	–	–	3,702	–

As at 31 December 2015

in MCZK	Loans to banks	Repurchase agreements – financial institutions	Loans and advances to customers	Repurchase agreements – customers
IMPAIRED FINANCIAL ASSETS AT AMORTISED COST INDIVIDUALLY ASSESSED NOT FORBORNE:				
Gross amount	–	–	2,170	–
Impairment	–	–	(226)	–
Carrying amount	–	–	1,944	–
IMPAIRED FINANCIAL ASSETS AT AMORTISED COST INDIVIDUALLY ASSESSED NOT FORBORNE:				
Gross amount	–	–	2,767	–
Impairment	–	–	(1,299)	–
Carrying amount	–	–	1,468	–
IMPAIRED FINANCIAL ASSETS AT AMORTISED COST COLLECTIVELY ASSESSED FORBORNE:				
Gross amount	–	–	72	–
Impairment	–	–	(14)	–
Carrying amount	–	–	58	–
IMPAIRED FINANCIAL ASSETS AT AMORTISED COST COLLECTIVELY ASSESSED FORBORNE:				
Gross amount	–	–	–	–
Impairment	–	–	–	–
Carrying amount	–	–	–	–
Total financial assets impaired	**–**	**–**	**3,471**	**–**

in MCZK	Loans to banks	Repurchase agreements – financial institutions	Loans and advances to customers	Repurchase agreements – customers
Financial assets not impaired:	**1,968**	**32,411**	**68,045**	**3,153**
Neither past due nor impaired:	**1,968**	**32,411**	**67,074**	**3,153**
not forborne	1,968	32,411	61,734	3,153
forborne	–	–	5,340	–
Past due not impaired:	**–**	**–**	**971**	**–**
not forborne	–	–	911	–
forborne	–	–	60	–
– to maturity date	–	–	1	–
– up to 1 month	–	–	144	–
– 1 month to 6 months	–	–	716	–
– 6 months to 12 months	–	–	1	–
– more than 12 months	–	–	109	–
Total financial assets not forborne	**1,968**	**32,411**	**64,647**	**3,153**
Total financial assets forborne	**–**	**–**	**6,868**	**–**
Total	**1,968**	**32,411**	**71,515**	**3,153**
of which: Financial assets neither past due nor impaired with a sign of impairment:	**–**	**–**	**9,158**	**–**
Gross amount not forborne	–	–	3,758	–
Gross amount forborne	–	–	5,400	–

Assets classified as "Financial assets neither past due nor impaired with a sign of impairment" and "Past due not impaired" represent those loans with a sign of impairment whose net present value of expected cash flows exceeds their carrying value, and therefore no provision has been created.

The part of the receivables that is not past due is presented in the line "To maturity date" and the Group does not assume any problems with counterparty's payment discipline. Past due receivables are presented in the appropriate columns according to the period past due.

(g) Collateral and credit enhancements for financial assets

in MCZK	2016 Carrying value	2016 Fair value	2015 Carrying value	2015 Fair value
Neither past due nor impaired:	**52,135**	**59,359**	**61,889**	**69,552**
Guarantees	1,756	1,813	2,716	3,139
Acceptances of promissory note	1,336	1,978	1,128	1,973
Real estate	4,817	6,081	7,711	9,963
Cash deposits	2,377	2,377	2,292	2,292
Securities	7,950	8,469	4,502	6,397
Other	8,062	12,804	4,796	7,044
Securities received under reverse repurchase agreements	25,837	25,837	38,744	38,744
Neither past due nor impaired from IFRS 5	**–**	**–**	**1,266**	**1,266**
Real estate	–	–	683	683
Cash deposits	–	–	44	44
Other	–	–	539	539
Past due but not impaired:	**129**	**372**	**60**	**344**
Guarantees	16	16	–	–
Acceptances of promissory note	–	–	–	–
Real estate	113	356	58	342
Cash deposits	–	–	2	2
Impaired:	**6,762**	**10,379**	**1,425**	**1,967**
Guarantees	314	332	81	81
Acceptances of promissory note	–	–	–	–
Real estate	3,706	5,934	1,120	1,636
Cash deposits	60	59	8	8
Pledges – securities	2,496	3,808	96	103
Other	186	246	120	139

Only co-accepted promissory notes of a 3rd party were accepted as security of loans by the Group. The amount of security is up to the value of guarantee provided by promissory note guarantor. The Group did not receive any financial assets from indemnity claims based on loans in default.

The carrying value represents the collateral value adjusted by the collateral stress coefficient. The carrying value is limited by the carrying value of receivable. The fair value is not adjusted by stress coefficient and it is not limited by the carrying value of receivable.

The carrying value of securities received under reverse repurchase agreements is represented in the quoted market price of the securities.

(h) Unconsolidated structured entities

The Group engages in various business activities with structured entities which are companies designed to achieve a specific business purpose and usually designed so that voting or similar rights are not dominant factor in deciding who controls the entity.

A structured entity has often some or all of the following features or attributes:
- Restricted activities;
- A narrow and well defined objective;
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support.

The Group provides financing to certain structured entities for the purchase of assets that are collateralized in favor of the Group by the structured entities. The Group enters into transactions with these entities in the normal course of business to facilitate customer transactions and for specific investment opportunities. The entities covered by this disclosure note are not consolidated because the Group does not control them through voting rights, contract, funding agreements, or other means.

Income derived from involvement with structured entities represents interest income recognized by the Group on the funding provided to structured entities.

The Group's interests in unconsolidated structured entities refer to contractual involvement that exposes the group to variability of returns from the performance of the structured entities.

The maximum exposure to loss for the Group is determined by considering the nature of the interest in the unconsolidated structured entity and represents the maximum loss that the Group could be required to report as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred.

The maximum exposure for loans is reflected by their carrying amounts in the consolidated balance sheet as at 31 December 2016 amounting to CZK 3 078 million (2015: CZK 3 246 million) and there was no loss incurred in 2016 in respect of these loans provided.

The total assets value for the significant unconsolidated structured entity which was identified, as indication of its size, is CZK 9 509 million (2015: CZK 7 059 million).

(i) Credit risk processes

Evaluating the risk of failure of counterparty is based on a credit analysis, processed by the Credit Risk Management dept. and Risk Management dept. These analyses provide conclusions for prompt measures when the counterparty's credit situation worsens.

The results from the credit development analyses are reported to the Board of Directors, which decides on adjustments of limits or relations with the counterparty (namely in the form of closing or limiting positions or adjustment of limits).

Credit risk is monitored on a regular basis, except for the credit risk of banking book reported on a monthly basis.

The extent of the risk is evaluated by Risk Management dept. When actual or possible breach of the adopted internal credit limits is identified (trading book exposures, derivatives transactions, margin trading), the Financial Markets dept. is informed, in order to ensure the compliance of the risk exposure with the set limits. In pre-determined cases, the information is passed to the Board of Directors.

(j) Credit risk monitoring

Assessment of the credit risk in respect of counterparty or an issued debt is based on an internal rating of the Group. The rating is determined using the credit scale of either S&P or Moody's. If the counterparties or their debt are not externally rated, an internal rating is assigned based on the Group scoring system.

The Group scoring system has seven rating levels based on a standardized point evaluation of relevant criteria, which describe the financial position of the contractual party and its ability and willingness to fulfil its credit obligations – in both cases including the expected development, quality and adequacy of the collateral, as well as proposed conditions for effecting the transaction.

(k) Credit risk measurement

The Group regularly analyses and monitors credit risk. At portfolio level, credit risk is managed primarily based on the IRB (Internal Rating Based - BASEL II) methodology.

In order to assess the impact of extremely unfavourable credit conditions, the Group performs credit development analyses. This enables identification of sudden potential changes in the values of open positions of the Group that might arise as a result of events that are improbable, but possible.

For the trading portfolio, an impact of a sudden drop of credit rating by one level to open positions in bonds is evaluated.

The decrease in fair value at the end of the corresponding reporting period:

in MCZK	2016	2015
Decrease of the trading portfolio value due to a rating migration by one credit class	54	103

(in the Standard & Poor's scale)

(l) Risk management of customer trades

The Group prevents the possibility of a credit exposure arising from customer trades, i.e. trades which are transacted on the customer's account and where the Group has the role of a commissioner (customer trades such as spot buy, spot sell, sell / buy or buy / sell) as follows:

1. 1. The amount of the customer collateral is continuously held higher than the amount of the customer loan at least by a pre-specified minimum required haircut. The level of this haircut is assigned to every instrument.
2. Should the current collateralization of the customer portfolio fall below the 30 per cent of the minimum required haircut, the Group closes all of the customer's positions immediately.
3. The Group accepts only instruments of specified minimal creditworthiness as collateral for customer trades.

In addition, the Group also restricts the total volume of individual instruments used as collateral.

As of 31 December 2016, the Group does not record any customer trades that would not be recognized in the Group financial statements (2015: CZK 411 million).

41. LIQUIDITY RISK

Liquidity risk represents a risk that the Group is not able to meet its commitments as they are becoming mature. The Group is required to report system of indicators to the National Banks which is done on a regular basis. The Group's effort in terms of liquidity risk is to diversify its sources of funding so as to decrease the degree of risk emerging from specific source cut-off and hence forego problems.

The Group performs an everyday monitoring of its liquidity position to indicate potential liquidity problems. The analysis takes into account all sources of funding that the Group is using and interconnected obligations the Group has to pay. For the purpose of sufficient liquidity reserve the Group holds sufficient amount of liquid instruments (such as government bonds), maintains balances with central banks on a reasonable level and collects short-term receivables.

The Group assorts all cash flows into timeframes according to maturities of the instruments to which the cash flows relate, and subsequently observes the resulting cumulative liquidity profile which is crucial for sound liquidity risk management. Such an analysis is also done for cash flows denominated in currencies different from CZK.

Three scenarios are used in terms of liquidity risk management:

A) Expected Scenario
B) Risk Scenario
C) Stress Scenarios

Stress Scenarios are based on stress imposed on components that might be negatively affected when liquidity crisis starts to approach.

For the purposes of measuring liquidity risk on the basis of the scenarios, liquidity indicators are evaluated and their compliance with adopted internal / external limits is monitored on a daily basis. When present or possible breach of the adopted internal / external liquidity limits is identified, the Treasury dept. as well as ALCO is informed, in order to ensure the compliance with the set limits. In pre-determined cases, the information is passed to the Board of Directors.

The Group has an emergency plan for liquidity management that establishes the procedures applied in the case of possible liquidity crisis. The decision-making power is given by internal rules to the Board of Directors.

The main precautionary measures introduced by the Risk Dept. of the Group in this area to respond to the economic crisis were as follows:

- implementation of stress tests based on various crisis scenarios;
- prudent internal limits for on-demand and mid-term available liquidity.

a) Liquidity risk of liquidity relevant instruments as of 31 December 2016:

Table shows the liquidity risk based on remaining contractual maturity dates.

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Over 3 months & up to 1 year	1 to 5 years	>5 years	Undefined maturity
ASSETS							
Cash and balances with central banks	15,513	15,513	14,176	–	–	–	1,337
Due from financial institutions	23,423	23,479	23,140	79	260	–	–
Financial assets (without derivatives)	15,504	17,548	322	1,619	3,376	5,896	6,335
Investment in equity accounted investees	29	29	–	–	–	–	29
Loans and advances to customers	76,139	91,502	12,181	21,653	39,536	18,061	71
Total	**130,608**	**148,071**	**49,819**	**23,351**	**43,172**	**23,957**	**7,772**
OFF BALANCE							
Unused credit lines	10,346	9,042	8,521	74	364	35	48
Granted guarantees	2,246	2,246	2,192	47	5	–	2

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Over 3 months & up to 1 year	1 to 5 years	>5 years	Undefined maturity
LIABILITIES							
Deposits and loans from banks	3,174	2,783	2,564	38	131	50	–
Deposits from customers	103,053	104,424	53,215	27,332	23,629	214	34
Subordinated debt	1,443	1,860	17	63	916	864	–
Total	**107,670**	**109,067**	**55,796**	**27,433**	**24,676**	**1,128**	**34**
Net Liquidity position	**22,938**	**39,004**	**(5 977)**	**(4 082)**	**18,496**	**22,829**	**7,738**
Cumulative liquidity position	**–**	**–**	**(5 977)**	**(10 059)**	**8,437**	**31,266**	**39,004**

Contractual cash flows represent expected contractual future cash flows.

Expected liquidity

In the worst case scenario, the latest possible repayment date is assumed, which is based on latest expected completion date of each particular project. The projects' latest expected completion date may not be the same as the contractual maturity date.

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Over 3 months & up to 1 year	1 to 5 years	>5 years	Undefined maturity
Loans and advances to customers	76,139	84,862	10,282	19,775	36,782	18,018	5

Loans that are already in the process of refinancing negotiation are presented according the expected date of refinancing.

a) Liquidity risk of liquidity relevant instruments as of 31 December 2015:

Table shows the liquidity risk based on remaining contractual maturity dates.

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Over 3 months & up to 1 year	1 to 5 years	>5 years	Undefined maturity
ASSETS							
Cash and balances with central banks	19,724	19,724	17,630	–	–	–	2,094
Due from financial institutions	34,379	34,612	34,103	9	135	363	2
Financial assets (without derivatives)	18,790	21,171	243	1,623	5,224	8,316	5,765
Investment in equity accounted investees	35	35	–	–	–	–	35
Loans and advances to customers	74,668	91,741	13,064	15,837	41,696	21,113	31
Total	**147,596**	**167,283**	**65,040**	**17,469**	**47,055**	**29,792**	**7,927**
OFF BALANCE							
Unused credit lines	6,357	6,357	6,002	131	37	130	57
Unused credit lines from IFRS 5	575	575	38	4	533	–	–
Granted guarantees	2,434	2,434	2,367	10	42	1	14

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Over 3 months & up to 1 year	1 to 5 years	>5 years	Undefined maturity
LIABILITIES							
Deposits and Loans from banks	4,259	4,275	3,352	875	48	–	–
Deposits from customers	121,812	123,821	62,052	32,803	28,883	83	–
Subordinated debt	2,049	2,788	29	100	1,001	1,658	–
Total	**128,120**	**130,884**	**65,433**	**33,778**	**29,932**	**1,741**	**–**
Net Liquidity position	**19,476**	**36,399**	**(393)**	**(16 309)**	**17,123**	**28,051**	**7,927**
Cumulative liquidity position	**–**	**–**	**(393)**	**(16 702)**	**421**	**28,472**	**36,399**

Expected liquidity

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Over 3 months & up to 1 year	1 to 5 years	>5 years	Undefined maturity
Loans and advances to customers	74,668	91,741	12,581	14,071	42,989	22,019	81

b) Liquidity risk of derivatives as of 31 December 2016:

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Up to 1 year	1 year to 5 years
DERIVATIVE FINANCIAL ASSETS					
Forward currency contracts					
– outflow	–	(703)	(703)	–	–
– inflow	157	859	810	47	2
Other derivatives					
– inflow	82	82	–	–	82
Total	**239**	**238**	**107**	**47**	**84**
DERIVATIVE FINANCIAL LIABILITIES					
Forward currency contracts					
– inflow	(181)	147	147	–	–
Other derivatives					
– outflow	(4)	(4)	(4)	–	–
Total	**(185)**	**143**	**143**	**–**	**–**

b) Liquidity risk of derivatives as of 31 December 2015

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Up to 1 year	1 year to 5 years
DERIVATIVE FINANCIAL ASSETS					
Forward currency contracts					
– outflow	–	(17,159)	(16,585)	(534)	(40)
– inflow	78	17,238	16,649	548	41
OTHER DERIVATIVES					
– inflow	82	82	–	–	82
Total	**160**	**161**	**64**	**14**	**83**
DERIVATIVE FINANCIAL LIABILITIES					
Forward currency contracts					
– outflow	(85)	(24,316)	(23,525)	(728)	(63)
– inflow	–	24,223	23,455	706	62
Total	**(85)**	**(93)**	**(70)**	**(22)**	**(1)**

42. MARKET RISK

Market risk is the risk of loss to the Group arising from market movements in quoted market prices of investment instruments, exchange rates and interest rates. Market risk consists of the trading portfolio market risk and investment portfolio market risk.

Market risk of the trading portfolio includes:
- Interest rate risk;
- Foreign exchange risk;
- Other market risk (equity risk, commodity risk).

Further information on interest rate risk and foreign exchange risk is provided in Note 43 and Note 44, respectively.

The Group uses the Value at Risk ("VaR") methodology to evaluate market risk of its trading portfolio, the foreign currency ("FX") and commodity position using a confidence level of 99% and a horizon of 10 business days.

The risks are evaluated and compared to limits set by the Risk Management Dept. on a daily basis. If the limits are breached, the Financial Markets Dept. is informed, in order to ensure the compliance of the risk exposure with the limits. In pre-determined cases, the information is passed to the Board of Directors.

The decision making power is given by internal rules to the Board of Directors and Investment Committee.

The Group performs back testing on a daily basis for market risk by applying a method of hypothetical back testing.

The VaR statistics as of 31 December 2016 and 31 December 2015 are as follows:

in MCZK	2016	2015
VaR market risk overall	165	789
VaR interest rate risk (general risk)	33	49
VaR FX risk	199	787
VaR stock risk	44	15
VaR commodity risk	4	3

In order to assess the impact of extremely unfavourable market conditions, the Group performs stress testing. This enables identification of sudden potential changes in the values of open positions of the Group that might arise as a result of events that are improbable, but possible. As part of the stress testing, a short-term, medium-term and long-term historic shock scenario is applied to the trading portfolio, and the foreign currency and commodity positions of the Group as a whole. These scenarios evaluate the deepest drop of the current portfolio value which would have happened in the previous one (short-term scenario), two (medium-term scenario) or ten years (long-term scenario). The potential change in the fair value of the portfolio is monitored and assessed.

in MCZK	2016	2015
CHANGE IN THE FAIR VALUE OF THE TRADING PORTFOLIO DUE TO HISTORIC SHOCK SCENARIO		
short-term scenario	143	509
medium-term scenario	312	595
long-term scenario	890	595

The market risk of the banking portfolio consists mainly of FX risk.

The Group performs stress testing of the investment portfolio using a standardised interest rate shock, i.e. an immediate decrease / increase in interest rates by 200 basis points ('bp') along the entire yield curve.

The decrease in the present value of the investment portfolio in percentage points of equity would be as follows:

	2016	2015
(% TIER 1 + TIER 2)		
Decrease in the present value of the investment portfolio due to a sudden change in interest rates by 200 bp.	8,13	14,03

43. INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed for a financial instrument indicates to what extent it is exposed to an interest rate risk. The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have a contractual maturity date or are zero-interest-bearing are grouped together in the "maturity undefined" category.

Interest rate risk exposure as at 31 December 2016 was as follows:

in MCZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
ASSETS					
Cash and balances with central banks	14,104	–	–	1,409	15,513
Due from financial institutions	23,006	–	216	201	23,423
Fair value of derivatives, financial assets	3,621	2,419	3,368	6,335	15,743
Investment in equity accounted investees	–	–	–	29	29
Loans and advances to customers	45,386	16,410	2,878	11,465	76,139
Investment property, property, plant and equipment, intangible assets, goodwill	–	–	–	854	854
Current tax asset	–	–	–	78	78
Deferred tax asset	–	–	–	105	105
Prepayments, accrued income and other assets	36	–	–	975	1,011
Disposal groups held for sale	–	–	–	219	219
Total assets	**86,153**	**18,829**	**6,462**	**21,670**	**133,114**

in MCZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
LIABILITIES					
Negative fair value of derivatives	182	3	–	–	185
Deposits and loans from banks	1,061	126	45	1,942	3,174
Deposits from customers	71,633	22,661	177	8,582	103,053
Subordinated debt	749	679	21	(6)	1,443
Current tax liability	–	–	–	20	20
Deferred tax liability	–	–	–	128	128
Other liabilities and provisions	23	2	–	5,958	5,983
Disposal groups held for sale	–	–	–	–	–
Share capital	–	–	–	10,638	10,638
Retained earnings and other reserves (incl. NCI)	–	–	–	8,490	8,490
Total liabilities and equity	**73,648**	**23,471**	**243**	**35,752**	**133,114**
Net interest rate risk position	**12,504**	**(4,642)**	**6,219**	**(14,082)**	**–**
Cumulative interest rate risk position	**12,504**	**7,862**	**14,081**	**–**	**–**

Interest rate risk exposure as at 31 December 2015 was as follows:

in MCZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
ASSETS					
Cash and balances with central banks	17,623	–	–	2,101	19,724
Due from financial institutions	33,514	–	217	648	34,379
Fair value of derivatives, financial assets	7,836	2,055	3,212	5,847	18,950
Investment in equity accounted investees	–	–	–	35	35
Loans and advances to customers	50,766	12,981	2,917	8,004	74,668
Investment property, property, plant and equipment, intangible assets, goodwill	–	–	–	887	887
Current tax asset	–	–	–	63	63
Deferred tax asset	–	–	–	99	99
Prepayments, accrued income and other assets	3	–	–	1,081	1,084
Disposal groups held for sale	–	–	–	4,962	4,962
Total assets	**109,742**	**15,036**	**6,346**	**23,727**	**154,851**

in MCZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
LIABILITIES					
Negative fair value of derivatives	84	1	–	–	85
Deposits and loans from banks	2,303	42	–	1,914	4,259
Deposits from customers	86,734	27,628	66	7,384	121,812
Subordinated debt	763	535	761	(10)	2,049
Current tax liability	–	–	–	5	5
Deferred tax liability	–	–	–	66	66
Other liabilities and provisions	149	3	–	6,517	6,669
Disposal groups held for sale	–	–	–	2,961	2,961
Share capital	–	–	–	10,638	10,638
Retained earnings and other reserves (incl. NCI)	–	–	–	6,307	6,307
Total liabilities and equity	**90,033**	**28,209**	**827**	**35,782**	**154,851**
Net interest rate risk position	**19,709**	**(13,173)**	**5,519**	**(12,055)**	**–**
Cumulative interest rate risk position	**19,709**	**6,536**	**12,055**	**–**	**–**

44. FOREIGN EXCHANGE RISK

Assets and liabilities denominated in foreign currencies, including off-balance sheet exposures, represent the Group's exposure to currency risk. Both realized and unrealized foreign exchange gains and losses are reported directly in the statement of comprehensive income.

The main tool used for managing foreign currency risk is the VaR methodology which is applied using a 99% confidence level and a ten-day holding period.

As at 31 December 2016:

in MCZK	CZK	USD	EUR	RUB	Other	Total
ASSETS						
Cash and balances with central banks	13,404	24	911	487	687	15,513
Due from financial institutions	20,123	492	1,934	776	98	23,423
Fair value of derivatives, financial assets	3,112	1,572	8,720	1,114	1,225	15,743
Investment in equity accounted investees	7	–	5	17	–	29
Loans and advances to customers	24,590	2,279	44,453	1,801	3,016	76,139
Current tax asset	–	–	78	–	–	78
Deferred tax asset	60	–	41	–	4	105
Investment property, property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	781	57	317	596	114	1,865
Disposal groups held for sale	108	–	–	9	102	219
Total	**62,185**	**4,424**	**56,459**	**4,800**	**5,246**	**113,114**

in MCZK	CZK	USD	EUR	RUB	Other	Total
LIABILITIES						
Deposits and loans from banks	230	712	1,912	1	319	3,174
Deposits from customers	60,918	3,050	33,250	4,310	1,525	103,053
Subordinated debt	691	–	752	–	–	1,443
Current tax liability	5	–	–	15	–	20
Deferred tax liability	1	–	–	127	–	128
Disposal groups held for sale	–	–	–	–	–	–
Other liabilities and equity	24,118	1,008	1,245	(991)	(84)	25,296
Total	**85,963**	**4,770**	**37,159**	**3,462**	**1,760**	**133,114**
Long position off-balance sheet:						
items from derivative transactions	37,771	4,114	17,494	934	668	60,981
items from derivative transactions from IFRS 5	–	–	–	–	–	–
items from spot transactions with share instruments	14	39	2	–	–	55
Short position off-balance sheet:						
items from derivative transactions	16,227	4,768	37,560	229	2,116	60,900
items from derivative transactions from IFRS 5	–	–	–	–	–	–
items from spot transactions with share instruments	14	41	1	–	–	56
Open position asset/(liability)	**(2,234)**	**(1,002)**	**(756)**	**2,043**	**2,038**	**80**

As at 31 December 2015:

in MCZK	CZK	USD	EUR	RUB	Other	Total
ASSETS						
Cash and balances with central banks	18,671	70	367	–	616	19,724
Due from financial institutions	30,268	2,610	1,360	–	141	34,379
Fair value of derivatives, financial assets	5,879	396	12,245	–	430	18,950
Investment in equity accounted investees	6	–	6	23	–	35
Loans and advances to customers	18,799	2,270	51,975	49	1,575	74,668
Current tax asset	93	–	(30)	–	–	63
Deferred tax asset	64	–	25	–	10	99
Investment property, property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	561	118	611	440	241	1,971
Disposal groups held for sale	107	800	1,276	2,684	95	4,962
Total	**74,448**	**6,264**	**67,835**	**3,196**	**3,108**	**154,851**

in MCZK	CZK	USD	EUR	RUB	Other	Total
LIABILITIES						
Deposits and loans from banks	1,144	196	2,778	–	141	4,259
Deposits from customers	77,588	2,409	39,992	164	1,659	121,812
Subordinated debt	997	–	1,052	–	–	2,049
Current tax liability	5	–	–	–	–	5
Deferred tax liability	2	–	–	64	–	66
Disposal groups held for sale	12	589	198	2,162	–	2,961
Other liabilities and equity	22,364	308	2,629	(1 603)	1	23,699
Total	**102,112**	**3,502**	**46,649**	**787**	**1,801**	**154,851**
Long position off-balance sheet:						
items from derivative transactions	32,734	241	8,221	206	1,157	42,559
items from derivative transactions from IFRS 5	–	269	39	85	–	393
items from spot transactions with share instruments	15	63	–	–	–	78
Short position off-balance sheet:						
items from derivative transactions	7,099	3,481	29,708	65	2,139	42,492
items from derivative transactions from IFRS 5	–	73	12	305	–	390
items from spot transactions with share instruments	15	63	–	–	–	78
Open position asset/(liability)	**(2,029)**	**(282)**	**(274)**	**2,330**	**325**	**70**

45. OPERATIONAL RISK

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency or system failure. It arises from all the Group's activities and is a risk faced by all business organisations. Operational risk includes legal risk.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and avoid control procedures that would restrict initiative.

The primary responsibility for the implementation of controls to address operational risk is assigned to management within each subsidiary. This responsibility is supported by the development of overall standards within the Group for the management of operational risk which is done by the Risk Management Dept. and which cover the following areas:

- Requirements for the reconciliation and monitoring of transactions.
- Identification of operational risk within the framework of each subsidiary's control system and development of conditions for decreasing and limiting operational risk (while the required level of activities is secured), as well as its impacts and consequences; recommendations for appropriate solutions in this area.
- Reporting of operational risk events by entering the corresponding information into the Group's database of operational risk events
- This overview of the Group's operational risk events allows the Group to specify the direction of the steps and processes to take in order to limit these risks, as well as to make decisions with regard to:
  - accepting the individual risks that are faced;
  - initiating processes leading to limitation of possible impacts; or
  - decreasing the scope of the relevant activity or discontinuing it entirely.

46. CAPITAL MANAGEMENT

The Group policy is to hold strong capital base in order to maintain the confidence of creditors and the market, while ensuring the future development of the business.

Starting 1 January 2014 the consolidated capital adequacy ratios are calculated in accordance with the Regulation (EU) no. 575/2013 of the European Parliament and Council Regulation (the "CRR") of 26 June 2013. Until 31 December 2013 the capital adequacy ratio was calculated in accordance with the Czech National Bank ("CNB") decree no. 123/2007 Coll.

Own funds (regulatory capital) of the Group are analysed in two parts:

- Tier 1 capital, which consist of:
  - Common Equity Tier 1 capital (CET1), which includes paid-up ordinary share capital, share premium, retained earnings (profit for the period is not included), accumulated other comprehensive income, net of goodwill, intangible assets and additional value adjustments;
  - Additional Tier 1 capital (AT1), which includes capital instruments (subordinated income certificates) issued in accordance with CRR (See note 23 Other capital instruments).
- Tier 2 capital, which consists of eligible subordinated debt approved by Czech National Bank in the amount of CZK 1 192 million (31 December 2015: CZK 1 932 million).

Until 31 December 2013, the capital adequacy ratio was calculated as the ratio of regulatory capital to capital requirements multiplied by 8% according to regulatory requirements. The capital adequacy ratio had to be a minimum value of 8%.

From 1 January 2014 the capital adequacy ratios are calculated for CET1, Tier 1 capital and total regulatory capital. The value represents the ratio of capital to risk weighted assets (RWA). CNB also requires every institution to hold additional capital conservation buffer of 2.5% on all the levels of regulatory capital.

Minimum requirements for capital ratios are as follows:

	Minimum requirement	Capital conservation buffer	Total requirement
Common Equity Tier 1 capital (CET1)	4.5 %	2.5 %	7.0 %
Tier 1 capital	6.0 %	2.5 %	8.5 %
Total regulatory capital	**8.0 %**	**2.5 %**	**10.5 %**

Regulatory capital and equity reconciliation

The tables below summarize the composition of own funds (regulatory capital) and equity and capital ratios for 31 December 2016 and 31 December 2015, providing a complete reconciliation of individual items of regulatory capital to equity items.

31 December 2016

in MCZK	Regulatory capital	Equity
Paid-up capital registered in the Commercial Register	10,638	10,638
Retained earnings	4,564	4,651
Profit for the period	–	1,042
Accumulated other comprehensive income	(782)	(658)
Reserve funds	40	194
Non-controlling interest	38	663
(–) Additional value adjustments (AVA)	(16)	–
(–) Intangible assets other than goodwill	(139)	–
Deferred tax liabilities associated with intangible assets other than goodwill	10	–
(–) Goodwill	(30)	–
Paid-in AT1 instruments, share premium	2,597	2,597
Total Tier 1 capital	**16,920**	**n/a**
Total Tier 2 capital	1,192	–
Total regulatory capital/equity	**18,112**	**19,127**

31 December 2015

in MCZK	Regulatory capital	Equity
Paid-in capital registered in the Commercial Register	10,638	10,638
Retained earnings	2,953	3,192
Profit for the period	–	1,967
Accumulated other comprehensive income	(1 371)	(1 425)
Reserve funds	15	88
Non-controlling interest	87	743
(–) Additional value adjustments (AVA)	(19)	–
(–) Intangible assets other than goodwill	(157)	–
Deferred tax liabilities associated with intangible assets other than goodwill	12	–
(–) Goodwill	(30)	–
Paid-in AT1 instruments	1,742	1,742
Total Tier 1 capital	**13,870**	**n/a**
Total Tier 2 capital	1,932	–
Total regulatory capital/equity	**15,802**	**16,945**

RWA and capital ratios

in MCZK	31 December 2016	31 December 2015
Total risk weighted assets (RWA)	**114,060**	**113,600**

Capital adequacy ratios

in MCZK	31 December 2016	31 December 2015
Common Equity Tier 1 capital (CET1)	12.56 %	10.68 %
Tier 1 capital	14.83 %	12.21 %
Total regulatory capital	**15.88 %**	**13.91 %**

Based on the opinion of the Czech National Bank, retained earnings were reduced by the amount of the anticipated payment from subordinated income certificates (AT1 instruments) in the next four quarters not covered by a special-purpose fund for the payment of the income from those certificates before their inclusion in regulatory capital.

The key goal of capital management of the Group is to ensure that the risks faced do not threaten the solvency of the Group and capital adequacy regulatory limit compliance.

The purpose for setting the minimum value for capital adequacy requirements is to establish a trigger mechanism, which provides a guarantee that the capital adequacy will not decrease to the regulatory minimum.

The compliance of the Group capital with established limits and goals for the capital adequacy is evaluated regularly by the ALCO committee and the Group's management.

The decision making power with regard to eventual measures that should be implemented to decrease the level of exposed risk (e.g., decreasing the size of risks, acquiring additional capital, etc.) is given to the Board of Directors.

47. FAIR VALUES INFORMATION

Estimation of fair values

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Loans and advances to customers and Due from financial institutions: Fair value is calculated based on discounted expected future cash flows of principal and interest using the appropriate yield curve and risk spread. Expected future cash flows are estimated considering the credit risk and any indication of impairment. The estimated fair values of loans reflect changes in credit status since the loans were provided and changes in interest rates in the case of fixed rate loans.

Financial assets held to maturity: Fair value is based on quoted market prices traded in active markets at the statement of financial position date.

Deposits and loans from banks and customers and Subordinated debt: For demand deposits and deposits with no defined maturity, fair value is taken to be the amount payable on demand at the statement of financial position date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using appropriate yield curve.

The fair value of the issued subordinated bonds does not contain direct transaction costs, which were expensed on issue.

As at 31 December 2016

in MCZK	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
FINANCIAL ASSETS					
Cash and balances with central banks	–	15,511	–	15,511	15,513
Due from financial institutions	–	23,415	–	23,415	23,423
Loans and advances to customers	–	–	77,814	77,814	76,139
Financial assets held to maturity	656	–	–	656	666
FINANCIAL LIABILITIES					
Deposits and loans from banks	–	3,147	–	3,147	3,174
Deposits from customers	–	102,643	–	102,643	103,053
Subordinated debt	–	1,350	–	1,350	1,443

In 2016, the Loans and advances to customers were reclassified from Level 2 to Level 3. Precising of the presentation in a hierarchy system is the aim of this reclassification representing the influence of non-market inputs and the market practice changes in the banking sector arising during last years.

As at 31 December 2015

in MCZK	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
FINANCIAL ASSETS					
Cash and balances with central banks	–	19,718	–	19,718	19,724
Due from financial institutions	–	34,343	–	34,343	34,379
Loans and advances to customers	–	73,390	2,568	75,958	74,668
Financial assets held to maturity	625	–	–	625	609
FINANCIAL LIABILITIES					
Deposits and loans from banks	–	4,244	–	4,244	4,259
Deposits from customers	–	121,366	–	121,366	121,812
Subordinated debt	–	1,967	–	1,967	2,049

48. ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

a) Acquisitions of subsidiaries, associates and joint ventures

The Group did not acquire any new subsidiaries in 2016 so as in 2015.

The Group increased the capital of subsidiaries (see note 1).

The capital increase in subsidiaries, see below for details:

in MCZK	Date of acquisition	Cost	Contribution to capital	Total cash outflow
CAPITAL INCREASE IN SUBSIDIARIES IN 2016				
Vaba d.d. banka Varaždin	8.7.2016	–	275	–
Total		**–**	**275**	**–**

in MCZK	Date of acquisition	Cost	Contribution to capital	Total cash outflow
CAPITAL INCREASE IN SUBSIDIARIES IN 2015				
J&T Bank, a.o.	20.5.2015	–	2,758	–
Vaba d.d. banka Varaždin	5.2.2015	–	135	–
Vaba d.d. banka Varaždin	28.9.2015	–	231	–
J&T Cafe, s.r.o.	31.12.2015	–	1	–
Total		**–**	**3,125**	**–**

In 2015, the capital increase of J&T Cafe, s.r.o. was subsequently credited against the repayment of debts to Bank.

Contribution to capital of subsidiaries does not represent the cash outflow from the Group.

The Group did not acquire any new associates in 2016.

New associates in 2015

in MCZK	Date of acquisition	Cost	Contribution to capital	Total cash outflow
NEW ASSOCIATES IN 2015				
XT-Card a.s.	26.11.2015	6	–	6
Total		**6**	**–**	**6**

b) Formation/establishment of subsidiaries and joint ventures

The Group did not form/establish any new subsidiaries in 2016.

The Group increased the capital of the PGJT B.V. (see note 1).

in MCZK	Date of acquisition	Cost	Contribution to capital	Total cash outflow
CAPITAL INCREASE IN JOINT VENTURES IN 2016				
PGJT B.V.	9.6.2016	–	39	39
Total		**–**	**39**	**39**

in MCZK	Date of acquisition	Cost	Contribution to capital	Total cash outflow
CAPITAL INCREASE IN JOINT VENTURES IN 2015				
PGJT B.V.	16.7.2015	–	13	13
Total		**–**	**13**	**13**

Contribution to capital of subsidiaries does not represent the cash outflow from the Group. Contribution to capital of joint ventures does represent the cash outflow from the Group as they are not consolidated using full method.

c) Effect of acquisitions of subsidiaries

The Group did not acquire any new subsidiaries in 2016 and 2015.

In 2016 and in 2015, there was no business combination.

d) Disposals of subsidiaries

The Group disposed two subsidiaries in 2016 (see note 1).

in MCZK	Date of disposal	Cost	Total cash outflow
DISPOSAL OF SUBSIDIARIES IN 2016			
	23.2.2016	1	1
ART FOND -Stredoeurópsky fond súčasného umenia, a.s.	24.2.2016	1	1
	24.2.2016	5	5
J&T Cafe, s.r.o.	30.6.2016	4	4
Total		**11**	**11**

The Group did not dispose of any subsidiary in 2015.

e) Disposals of associates

The Group did not dispose any associates in 2016.

The Group sold of the Poštová banka, a.s. in 2015 (see note 1)

in MCZK	Date of disposal	Cost	Total cash outflow
DISPOSALS OF ASSOCIATES IN 2015			
Poštová banka, a.s.	13.3.2015	615	615
Poštová banka, a.s.	23.12.2015	6,250	6,250
Celkem		**6,865**	**6,865**

f) Effect of disposals of subsidiaries

The Group did not dispose of any subsidiary in 2015.

The disposals of subsidiaries and special purpose entities had the following effect on the Group's assets and liabilities:

1.1.-31.12.2016:

in MCZK	2016
Due from financial institutions	7
Investment securities available for sale	3
Property and equipment	9
Net identifiable assets and liabilities	**19**
Sales price	7
Non-controlling interests	12
Gain / (loss) on disposal	–
Cash disposed of	7

49. INVESTMENTS IN EQUITY ACCOUNTED INVESTEES

The following table shows a break-down of individual investments in equity accounted investees. All financial information presented in this note represent the audited figures.

As at 31 December 2016

in MCZK	PGJT B.V	XT–card a.s.	Total
Group's share in the consolidated fair value of equity at the date of acquisition	155	6	161
Exchange rate differences	5	–	5
Group's share in the post-acquisition profit / (loss) year 2013-2015	(63)	–	(63)
Group's share in the post-acquisition profit / (loss) year 2016	(50)	–	(50)
Group's share in the post-acquisition other comprehensive income	(24)	–	(24)
Total	**23**	**6**	**29**

As at 31 December 2015

in MCZK	PGJT B.V	XT–card a.s.	Total
Group's share in the consolidated fair value of equity at the date of acquisition	116	6	122
Exchange rate differences	5	–	5
Group's share in the post-acquisition profit / (loss) year 2013-2014	(31)	–	(31)
Group's share in the post-acquisition profit / (loss) year 2015	(32)	–	(32)
Group's share in the post-acquisition other comprehensive income	(29)	–	(29)
Total	**29**	**6**	**35**

Summary financial information for equity accounted investees as at 31 December 2016:

in MCZK	PGJT B.V.	XT-Card a.s.	Total
Type	Joint venture	Associate	
Assets	622	11	633
Liabilities	272	2	274
Net Assets	**350**	**9**	**359**
Income	88	17	105
Expenses	(188)	(19)	(207)
Profit / (loss)	**(100)**	**(2)**	**(102)**
Group's share	50 %	32 %	x
Group's share in profit / (loss) of equity accounted investees	**(50)**	–	**(50)**

Summary financial information for equity accounted investees as at 31 December 2015:

	Poštová banka, a.s.	PGJT B.V.	XT–card a.s.	Total
Type	Associate	Joint venture	Associate	
Assets	–	344	23	367
Liabilities	–	60	11	71
Net Assets	**–**	**284**	**12**	**296**
Income	–	29	6	35
Expenses	–	93	7	100
Profit / (loss)	**–**	**(64)**	**(1)**	**(65)**
Group's share	–	50 %	32 %	x
Group's share in profit / (loss) of equity accounted investees	**199**	**(32)**	**–**	**167**

50. SUBSEQUENT EVENTS

On January 1, 2017, the subsidiary Vaba d.d. banka Varaždin changed its registered name to J&T banka d.d.

On February 15, 2017 the Bank entered into an agreement to purchase securities with Stadium Arcadium Limited, on the basis that there was a transfer of 10 pcs of bulk documents, each representing 30 000 pcs of ordinary shares, representing 100% of the company's Health Care Financing, a.s. providing retail loans.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF J & T BANKA, A.S.

Opinion

We have audited the accompanying consolidated financial statements of J & T BANKA, a.s. ("the Group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Group is set out in Note 1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016, 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, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loss allowances for loans and receivables to customers

We focused on this matter because of the highly subjective and complex judgements made by the Group's management in determining the necessity for, and then estimating the size of, loss allowances against loans.

Loss allowances for loans and receivables to customers at CZK 2 700 million as at 31 December 2016 represent the management's estimate of impairment losses incurred within loans and receivables to customers (further only as the "Loans") at the balance sheet date.

The future quality of the portfolio depends on controls that are already embedded within the underwriting process.

A particularly important element in the impairment process is the assessment of any objective evidence of impairment for the respective loan exposure. The Group has set a series of criteria to identify any objective evidence of impairment. This evidence includes observable data about the events such as, among others, delinquency in contractual payments of principal or interest, prospective cash flow difficulties, etc.

Allowances for the impaired part of the portfolio are determined by calculating discounted future cash flows. The impaired loans require the Group's management to regularly monitor the borrowers' repayment abilities individually and to assess the individual allowances of each borrower. The key judgment for individual allowances is determining any future cash repayments of these loans taking into account the estimated value and timing of cash flows including estimating the recoverable value of underlying collateral.

For further information, please refer to note 3 (Accounting policies), note 11 (Loans and receivables to customers) and 12 (Allowances for impairment of loans) in the Notes to the consolidated financial statements.

How the audit matter was addressed
Among others, we performed the procedures outlined below to address this key audit matter:

We critically assessed and challenged the Group's credit policies and evaluated the processes for identifying impairment indicators and the categorisation of receivables according to these policies.

On a sample of loans we tested the design, implementation and operating effectiveness of controls over the identification of the existence of impairment triggers by inquiry in combination with observation and inspection.

For a sample of loans we considered the latest developments in relation to the borrower, the existence of impairment triggers and the basis of measuring the loss allowance. Furthermore, we examined the forecast cash flows from the borrowers, as prepared by the credit risk department, and in particular challenged the key assumptions in relation to both the amount and timing of estimated cash flows. For the impaired loans we re-calculated specific allowances calculated by the credit risk department to check the accuracy of data captured in the accounting records.

On a sample, our real estate valuation specialist critically assessed the methodology used by the Group for real estate appraisals. The specialist challenged the assumptions used in the appraisals by comparing them to our own expectations based on our knowledge of the client and our experience.

As a part of our substantive testing we performed analytical procedures for loans and reconciled significant balances between the accounting system and underlying systems.

We assessed the adequacy of the Group's disclosures on the loss allowances and the related credit risk management in the Notes to the consolidated financial statements.

Other Information
In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the consolidated annual report other than the consolidated financial statements and our auditor's report. The statutory body of J & T BANKA, a.s. is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those 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 matters that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
– the other information has been prepared in accordance with applicable laws and regulations.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Consolidated Financial Statements
The statutory body of J & T BANKA, a.s. is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the statutory body determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the statutory body is responsible for assessing the Group'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 statutory body either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and Audit Committee are responsible for the oversight of the Group's financial reporting process

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 consolidated financial statements.

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:
– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the

override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Statutory Auditor Responsible for the Engagement

Vladimír Dvořáček is the statutory auditor responsible for the audit of the consolidated financial statements of J & T BANKA, a.s. as at 31 December 2016, based on which this independent auditor's report has been prepared.

Prague, 30 March 2017

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.
Registration number 71

Vladimír Dvořáček
Partner, Registration number 2332

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

in MCZK	Note	2016	2015
ASSETS			
Cash and balances with central banks	6	14,170	19,023
Due from financial institutions	7	21,105	33,661
Positive fair value of derivatives	8	202	102
Loans and advances to customers	11	69,714	70,042
Financial assets at fair value through profit or loss	9a	2,665	2,731
Financial assets available for sale	9b	8,526	14,852
Financial assets held to maturity	9c	617	609
Disposal groups held for sale	1	107	1,368
Ownership interests	1	5,311	3,309
Current tax asset		69	59
Deferred tax asset	23	99	88
Property, plant and equipment	13	42	48
Intangible assets	14	104	105
Prepayments, accrued income and other assets	16	823	993
Total Assets		**123,554**	**146,990**

in MCZK	Note	2016	2015
LIABILITIES			
Deposits and loans from banks	17	3,338	4,343
Deposits from customers	18	93,833	117,058
Negative fair value of derivatives	8	188	125
Subordinated debt	19	1,427	2,049
Other liabilities and provisions	20	5,825	6,616
Total Liabilities		**104,611**	**130,191**
Share capital	21	10,638	10,638
Retained earnings and other reserves	21	8,305	6,161
Total Equity		**18,943**	**16,799**
Total Equity and Liabilities		**123,554**	**146,990**

The accompanying notes, set out on pages 142 to 215, are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

in MCZK	Note	2016	2015
Interest income	24	4,584	5,353
Interest expense	25	(1,802)	(2,459)
Net interest income		**2,782**	**2,894**
Fee and commission income	26	996	603
Fee and commission expense	27	(159)	(127)
Net fee and commission income		**837**	**476**
Dividends from financial assets available for sale		187	14
Dividends from ownership interests		207	384
Net trading income	28	175	25
Impairment of assets available for sale	9b	32	(32)
Other operating income	29	32	776
Operating income		**4,252**	**4,537**
Personnel expenses	30	(702)	(731)
Other operating expenses	31	(925)	(975)
Depreciation and amortisation	13, 14	(63)	(67)
Operating expenses		**(1,690)**	**(1,773)**
Profit before provisions, allowances and income tax expenses		**2,562**	**2,764**
Net change in provisions from financial activities	20	22	(23)
Net change in allowances for impairment of loans	12	(673)	(542)
Allowances for ownership interests	1	(57)	(236)
Profit before tax		**1,854**	**1,963**
Income tax expenses	22	(302)	(230)
Profit for the period		**1,552**	**1,733**
PROFIT FOR THE PERIOD ATTRIBUTABLE TO			
Shareholders		1,552	1,733
Profit for the period		**1,552**	**1,733**

in MCZK	Note	2016	2015
OTHER COMPREHENSIVE INCOME – ITEMS THAT ARE OR MAY BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS			
Revaluation reserve – financial assets available for sale			
Net change in fair value		95	146
Net amount reclassified to profit or loss		(132)	(123)
Foreign exchange translation differences		3	(5)
Other comprehensive income for the period, net of tax		**(34)**	**18**
Total comprehensive income for the period		**1,518**	**1,751**

The accompanying notes, set out on pages 142 to 215, are an integral part of these financial statements.

The Board of Directors approved these financial statements on 30 March 2017.

Signed on behalf of the Board:

Štěpán Ašer
Member of the Board of Directors

Igor Kováč
Member of the Board of Directors

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

in MCZK	Share capital	Retained earnings
Balance at 1 January 2015	**9,558**	**3,770**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		
Issue of capital	1,080	–
Profit for the period	–	1,733
Dividends	–	(1,143)
Issue of capital instruments	–	–
Contribution to Perpetuity fund	–	(100)
OTHER COMPREHENSIVE INCOME		
Fair value reserve (available-for-sale financial assets):		
Net change in fair value	–	–
Net amount reclassified to profit or loss	–	–
Foreign exchange translation differences	–	–
Balance at 1 January 2016	**10,638**	**4,260**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		
Issue of capital	–	–
Profit for the period	–	1,552
Issue of capital instruments	–	–
Contribution to Perpetuity fund	–	(312)
OTHER COMPREHENSIVE INCOME		
Fair value reserve (available-for-sale financial assets):		
Net change in fair value	–	–
Net amount reclassified to profit or loss	–	–
Foreign exchange translation differences	–	–
Balance at 31 December 2016	**10,638**	**5,500**

On November 10, 2015 the J&T Bank's sole shareholder J&T FINANCE GROUP SE increased share capital of the Bank by subscription of new shares totaling CZK 1 080 million.

Information about Other capital funds and Perpetuity fund is disclosed in note 21.

The accompanying notes, set out on pages 142 to 215, are an integral part of these financial statements.

Other reserves and funds	Perpetuity fund	Other capital i nstruments	Revaluation reserve	Total
–	**80**	**899**	**69**	**14,376**
–	–	–	–	1,080
–	–	–	–	1,733
–	–	–	–	(1,143)
–	(108)	843	–	735
–	100	–	–	–
–	–	–	146	146
–	–	–	(123)	(123)
–	–	–	(5)	(5)
–	**72**	**1,742**	**87**	**16,799**
–	–	–	–	–
–	–	–	–	1,552
–	(229)	855	–	626
–	312	–	–	–
–	–	–	95	95
–	–	–	(132)	(132)
–	–	–	3	3
–	**155**	**2,597**	**53**	**18,943**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

in MCZK	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,854	1,963
Adjustments for:			
Depreciation and amortisation	13, 14	63	67
Allowances for impairment of loans	12	673	542
FX difference from allowances for impairment of loans	12	–	(8)
Amortized costs of sold intangible and tangible fixed assets		–	6
Change in other provisions		(63)	180
Change in revaluation of financial assets at fair value through profit or loss		31	45
Ownership interests – unrealised FX difference / FV hedge		(491)	998
Creation of allowances for ownership interests	1	57	236
Profit from sale of associate		–	(737)
Financial assets availale for sale – unrealised FX difference / FV hedge		1	92
Impairment of financial assets available for sale	9b	–	32
Net unrealized foreign exchange gains/losses		(49)	(191)
(Increase) / decrease of operating assets:			
Compulsory minimum reserves in central banks		408	(526)
Due from financial institutions		(317)	770
Originated loans and receivables		(345)	(4,265)
Financial assets held to maturity		(8)	702
Financial assets at fair value through profit or loss		35	5,992
Financial assets availale for sale		6,325	6,153
Prepayments, accrued income and other assets		170	(309)
Increase / (decrease) of operating liabilities:			
Deposits and loans from banks		(1,005)	(194)
Deposits from customers		(23,225)	16,702
Other assets/liabilities		(728)	2,666
Income tax expenses paid		(312)	(431)
Net increase / (decrease) in fair values of derivatives			
Fair value of derivative instruments		(37)	(865)
Net cash flows from operating activities		**(16,963)**	**29,620**
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in share capital – subscription of new shares		–	1,080
Dividends paid		–	(1,143)
Issue of other capital instruments		855	843
Distribution from capital instruments		(229)	(108)
Subordinated debt		(624)	124
Foreign currency difference from subordinated debt		2	28
Net cash flows from financing activities		**4**	**824**

in MCZK	Note	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of and proceeds from sale of intangible and tangible fixed assets, net		(56)	(58)
Participations – contribution to capital		(314)	(3,138)
Disposal of associate		7	6,865
Net cash flows used in investing activities		**(363)**	**3,669**
Net increase in cash and cash equivalents		**(17,322)**	**34,113**
Cash and cash equivalents at beginning of period	5, 32	50,459	16,155
Effects of exchange rate fluctuations on cash held		4	191
Cash and cash equivalents at end of period	5, 32	33,141	50,459
Cash flows from operating activities include:			
Interest received		4,372	5,408
Interest paid		2,059	1,966
Dividends received		408	423

The accompanying notes, set out on pages 142 to 215, are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

J & T BANKA, a.s. ("the Bank") is a joint stock company incorporated on 13 October 1992 in the Czech Republic.

The Bank received a licence to act as securities trader on 25 April 2003 and on 22 December 2003, the Bank's licence was extended to include that activity.

The Bank's activities are focused on private, investment, corporate and retail banking.

The Bank is subject to the regulatory requirements of Czech National Bank ("CNB"). These requirements include limits and other restrictions concerning capital adequacy, the classification of loans and off-balance sheet liabilities, large exposure with clients of the Bank, liquidity and the Bank's foreign currency position etc.

The registered office of the Bank is at Pobřežní 14, Prague 8, Czech Republic. The Bank (including a branch in the Slovakia) had on average 454 employees in 2016 (2015: 443). The Bank operates in the Czech Republic and Slovakia.

Slovakia branch of the Bank was established on 23 November 2005, and was registered in the Commercial Register of the District Court Bratislava I, section Po, file 1320/B as the organizational unit "J & T BANKA, a.s., pobočka zahraniční banky", Dvořákovo nábrežie 8, 811 02 Bratislava, and with the identification number 35 964 693.

On December 15, 2006, J&T FINANCE GROUP, a.s. contributed its 100% interest in the Bank to the capital of J&T FINANCE, a.s., Pobřežní 297/14, 186 00 Praha 8, which became the Bank's sole shareholder.

On January 1, 2009, Slovakia joined the Euro Area and adopted Euro to replace Slovak crown. With effect from that date, the Branch prepares financial statements and maintains its accounting records in Euro.

As a result of a cross-border merger by acquisition dated September 23, 2013, J&T FINANCE, a.s., the Bank's parent company, merged with J&T Finance GROUP, a.s. and Techno Plus, a.s. as at 1 January 2014. J&T FINANCE, a.s. became the successor company, changing its name to J&T FINANCE GROUP SE and its legal form to European Society (Societas Europaea, SE).

The Bank's ultimate parent is J&T FINANCE GROUP SE, a joint-stock company owned by Jozef Tkáč (45.05%), Ivan Jakabovič (45.05%), CEFC Shanghai International Group Limited (5.40%) and CEFC Hainan International Holdings CO., Ltd. (4.50%).

Ownership interests
The below listed comanies became the Bank´s subsidiaries, associated companies and joint venture with the intention of the shareholder to centralize financial services under the Bank´s supervision.

The Bank provides customers with comprehensive banking services, asset management, financial and capital market transactions for the retail segment, as well as support to start-up and restructuring projects. It is expected, that all the acquisitions will significantly contribute to the growth of the Bank's revenues.

Company	Netto balance at 31.12.2016	Ownership interest impairment at 31.12.2016	Share capital in mil. CZK	% shareholding	Principal activities	Country of incorporation
J&T Bank, a.o.	2,996	–	2,686	99.95	Banking activities	Russia
ATLANTIK finanční trhy, a.s.	82	192	81	100	Investment activities	Czech Republic
J&T INVESTIČNÍ SPOLEČNOST, a.s.	149	–	20	100	Investment activities	Czech Republic
J&T IB and Capital Markets, a.s.	2	–	2	100	Advisory activities	Czech Republic
TERCES MANAGEMENT LIMITED	391	200	0,06	99	Investment activities	Cyprus
PGJT B.V.	161	–	216	50	Financial activities	Netherlands
J&T REALITY, o.p.f.	665	9	–	53.08	Investment activities	Czech Republic
Vaba d.d. banka Varaždin	865	48	1,098	82.55	Banking activities	Croatia
Total	**5,311**					

In 2016, the Bank increased the ownership interest in Vaba d.d. Bank of Varaždin. On July 8, 2016 subscribed for 7 600 000 unites of new ordinary shares in total nominal value of HRK 76 million. Hereby the Bank gained more than 82% of Vaba d.d. Bank of Varaždin.

On July 9, 2016, the Bank increased its ownership interest in PGJT B.V. by contribution to capital funds in the amount of RUB 107 million.

On June 30, 2016, the ownership J&T Cafe, s.r.o. was liquidated and erased from the Commercial register.

In 2016, the Bank sold its ownership interest in ART FOND - Stredoeurópsky fond súčastného umenia, a.s.

The Bank created allowances for ownership interests totaling CZK 57 million in 2016.

Disposal groups held for sale as at 31 December 2016 are as follows:

Company	Balance at 31.12.2016	% shareholding	Principal activities	Country of incorporation
J&T Ostravice Active Life UPF	107	46.74	Investments in companies owning real estate	Czech Republic
Total	**107**			

The sale of ownership interest in the fund J&T Ostravice Active Life UPF has been delayed due to the approval of land planning, which is beyond the Bank´s control. Approval of land planning is a requirement for successful start of activities and initiating a sale. The method used in presenting share for the following years will be pursuant to the development of condition in 2017.

In 2016, the Bank withdrew from the agreement on sale of 49.97% interest in J&T Bank, a.o. and decided to keep its existing interest in the company (99.95%).

Subsidiaries of Bank as at 31 December 2015 are shown in the following table:

Company	Balance at 31.12.2015	Ownership interest impairment at 31.12.2015	Share capital in mil. CZK	% shareholding	Principal activities	Country of incorporation
J&T Bank, a.o.	2,522*	–	2,144	99.95*	Banking activities	Russia
ATLANTIK finanční trhy, a.s.	82	192	81	100	Investment activities	Czech Republic
J&T INVESTIČNÍ SPOLEČNOST, a.s.	149	–	20	100	Investment activities	Czech Republic
J&T IB and Capital Markets, a.s.	2	–	2	100	Advisory activities	Czech Republic
TERCES MANAGEMENT LIMITED	377	200	0.06	99	Investment activities	Cyprus
PGJT B.V.	121	–	216	50	Financial activities	Netherlands
J&T REALITY, o.p.f.	675	–	–	53.08	Investment activities	Czech Republic
Vaba d.d. banka Varaždin	635	–	818	76.81	Banking activities	Croatia
J&T Cafe, s.r.o.	–	–	3	100	Hospitality activities	Czech Republic
ART FOND – Stredoeurópsky fond súčastného umenia, a.s.	7	–	18	38.46	Activities in the Arts	Slovakia
Total	**4,570**					

* In September 2015, an agreement was signed between CEFC Shanghai and J&T Bank, a.s. based on which CEFC Shanghai would acquire 50% ownership interest in J&T Bank, a.o. (i.e. CZK 1 261 million). The transaction is subject of approval by the national regulators in Russia. As a result of the agreement, the Bank presents J&T Bank, a.o. as an asset held for sale.

On February 16, 2015, the subsidiary company J&T Bank, zao changed its trade name to J&T Bank, a.o.

On May 20, 2015, the Bank increased its ownership interest in J&T Bank, a.o. by a subscription of 112 000 000 pieces of new ordinary shares in total nominal value of RUB 5.6 million.

In 2015, the Bank increased its ownership interest in Vaba d.d. Bank of Varaždin. On February 5, 2015, subscribed for 3 750 000 units of new ordinary shares in total nominal value of HRK 37.5 million. On September 28, 2015, the Bank subscribed for 6 500 000 units of new ordinary shares in total nominal value of HRK 65 million. By these steps Bank gained more than 76% of Vaba dd Bank Varazdin.

On February 24, 2015, the Bank entered into an agreement with J & T FINANCE GROUP SE relating to the sale of shares in Poštová banka, a.s. The agreement became effective on March 13, 2015, and resulted in transfer of 3.17% ownership interest, 10 473 pieces of ordinary shares, nominal value 1 107 EUR per share, to J & T FINANCE GROUP SE.

On February 25, 2015, the Bank entered into an agreement with PBI, a.s. for the sale of 34% ownership interest in Poštová banka, a.s. The agreement became effective on December 23, 2015, and resulted in transfer of 112 506 pieces of ordinary shares, nominal value 1 107 EUR per share.

In 2015, the Bank increased its ownership interest in the company J & T Cafe, s.r.o. by the amount of CZK 0.8 million as an additional charge beside the share capital.

On July 16, 2015, the Bank increased its ownership interest in the company PGJT B.V. by contribution to capital funds in the amount of RUB 30 million.

On December 31, 2015, the Bank created allowance for the entire value of the ownership interest in the company of J & T Cafe, s.r.o. on December 31, 2015 due to its planned liquidation in 2016.

The Bank created allowances for ownership interests totaling CZK 236 million in 2015.

Disposal groups held for sale as at 31 December 2015 are as follows:

Company	Balance at 31.12.2015	% shareholding	Principal activities	Country of incorporation
J&T Ostravice Active Life UPF	107	46.74	Investments in companies owning real estate	Czech Republic
J&T Bank, a.o.	1,261	49.97	Banking activities	Russia
Total	**1,368**			

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements comprise the accounts of the members of the Bank and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union for the reporting period of 1 January 2016 – 31 December 2016 ("reporting period").

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention except for investment property, financial assets and liabilities at fair value through profit or loss, available-for-sale assets and derivatives, which are measured at fair value.

The Bank maintains their accounting books and prepare their statements for regulatory purposes in accordance with local statutory accounting principles. The accompanying financial statements are based on the statutory accounting records together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with IFRS.

Below stated accounting methods have been applied consistently in all periods presented in this financial statements.

In particular, information about significant areas of uncertainty estimation and critical judgements in applying accounting policies that have a significant effect on the amounts recognized in the financial statements are described in note 4.

Issued but not yet effective International Financial Reporting Standards

A number of new standards, amendments to standards and interpretations are not yet effective or not yet adopted by the EU for the year ended 31 December 2016, and have not been applied in preparing these financial statements:

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments that replaces the existing standard IAS 39 - Financial Instruments: Recognition and Measurement.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group currently plans to apply IFRS 9 initially on 1 January 2018.

The impact of IFRS 9 on the Bank's consolidated financial statements in the first year of adopting (2018) is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Bank holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Bank to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. However, the Bank is assessing of the potential impact of adoption of IFRS 9 based on its positions at 31 December 2016 and hedging relationships designated during 2016 under IAS 39.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity (HTM), loans and receivables (L&R) and available for sale (AFS).

Based on the SPPI test´s results loans can be classified as either AC or FVTPL. Portfolio analysis is currently underway. The Bank assumes that the vast majority of the loan portfolio meets conditions of the above SPPI test and will thus classified as AC, i.e. it will be recognized practically unchanged from the current reporting under IAS 39.

Impairment – Financial assets and contract assets

IFRS 9 replaces the ´incurred loss´ model in IAS 39 with a forward/looking ´expected credit loss´ (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances will be measured on either of the following bases:

– 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
– Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if the has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Bank expects that the loss allowances within the model in accordance with IFRS 9 will increase and become more volatile. The Bank is currently working on finalizing of the methodology for ´expected credit loss´ calculating.

Classification – Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Bank's preliminary assessment did not indicate any material impact if IFRS 9's requirements regarding the classification of financial liabilities were applied at 31 December 2016.

Hedge accounting

When an entity first applies IFRS 9, it may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9. The Bank decided to apply the hedge accounting requirements of IAS 39.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Bank's preliminary assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- Bank plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

Impact quantification

The Bank, due to the complexity of the changes in the new Standard and ongoing implementation projects does not present the expected impact of the initial application of IFRS 9 on its financial statements at this time since the model for ´expected credit loss´ calculation is currently being precised.

Qualitative information related to new Standard´s impact

The Bank expects the main impact mainly due to an increase of allowances for impairment because the new Standard requires the creation of allowances for impairment for expected losses for the assets where there is no objective evidence of impairment as at balance sheet date.

Upon initial recognition as at 1 January 2018, the effect of changes in the impairment of financial assets is going to be recognized against equity balances. Ongoing changes due to new requirements on impairment after 1 January 2018 is going to be reported in the Statement of comprehensive income.

In the area of regulatory capital planning under Basel III standards (in the form of CRR Regulation issued by EU) one-time reduction is expected as of 1 January 2018. This effect is caused by one-off reducing of retained earnings from previous periods that constitute one of the main components of CET 1 capital.

Note: Based on the Basel Committee on Banking Supervision (BCBS) documents issued in October 2016, the distribution of the new Standard´s impact on regulatory capital CET 1 is expected over the horizon of several years. The new proposal of CRR 2 from November 2016 is intended to set the distribution of the new Standard´s impact of to 5 years.

IFRS 15 Revenue from contracts with customers

Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. The Group will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) the Group transfer control of goods or services to a customer at the amount to which the Group expect to be entitled. Depending on whether certain criteria are met, revenue is recognised:
- over time, in a manner that depicts the Group's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that the Group shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Bank expects that the amendments, when initially applied, will not have a significant effect on the financial statements of the Bank.

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

The effective date has not yet been determined by the IASB, however earlier adoption is permitted.

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 recognised 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 recognised 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.

The Bank expects that the amendments, when initially applied, will not have a significant effect on the financial statements of the Bank.

Standards and Interpretations Issued but not yet Endorsed by the EU

IFRS 16 Leases

Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the Group also applies IFRS 15.

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:
– leases with a lease term of 12 months or less and containing no purchase options, and
– leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

The Bank expects that the amendments, when initially applied, will not have a significant effect on the financial statements of the Bank.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted.

The amendments clarify share-based payment accounting on the following areas:
– the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
– share-based payment transactions with a net settlement feature for withholding tax obligations; and
– a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Bank expects that the amendments, when initially applied, will not have a a significant effect on the financial statements of the Bank.

Amendments to IAS 7

Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted.

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The Bank expects that the amendments, when initially applied, will not have a a significant effect on the financial statements of the Bank.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

Effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted.

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Bank expects that the amendments, when initially applied, will not have a a significant effect on the financial statements of the Bank.

Amendments to IAS 40 Transfers of Investment Property

Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Bank expects that the amendments, when initially applied, will not have a a significant effect on the financial statements of the Bank.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

Effective for annual periods beginning on or after 1 January 2018.

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which the Bank initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Bank expects that the amendments, when initially applied, will not have a a significant effect on the financial statements of the Bank.

Annual improvements

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

The Bank expects that the improvements, when initially applied, will not have a a significant effect on the financial statements of the Bank.

Other new International Financial Reporting Standards and Interpretations not yet due

The Bank has not early adopted any IFRS standards where adoption is not mandatory at the statement of financial position date. Where transition provisions in adopted IFRS give an entity the choice of whether to apply new standards prospectively or retrospectively, the Bank elects to apply the standards prospectively from the date of transition.

(c) Functional and presentation currency

The accompanying financial statements are presented in the national currency of the Czech Republic, the Czech crown ("CZK"), rounded to the nearest million.

3. ACCOUNTING POLICIES

The particular accounting policies adopted in preparation of the accompanying financial statements are described below.

(a) Financial instruments

Classification

Financial instruments at fair value through profit or loss are those that the Bank principally holds for the purpose of short-term profit taking. These include investments and derivative contracts that are not designated as effective hedging instruments and liabilities from short sales of financial instruments.

Originated loans and receivables comprise loans, advances to banks and customers other than purchased loans and promissory notes.

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity.

Available-for-sale assets are financial assets that are not measured at fair value through profit or loss or held to maturity.

The Bank's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", management has determined that the Bank meets the description of trading assets and liabilities;
- The Bank regularly evaluates the liquidity of particular financial instrument with respect to market conditions;
- In classifying financial assets as held-to-maturity, management has determined that the Bank has both the positive intention and the ability to hold the assets until their maturity date as required.

Recognition

Financial assets at fair value through profit or loss are recognized on the date the Bank commits to purchase the assets. From this date, any gains or losses arising from changes in the fair value of the assets are recognized in the statement of comprehensive income.

The Bank recognizes available-for-sale assets on the date it commits to purchase the assets. From this date, any gains or losses arising from changes in the fair value of the assets are recognized in equity as differences from revaluation of assets.

Held-to-maturity assets are accounted for at trade date.

Measurement

Financial instruments are measured initially at fair value, including transaction costs, with the exception of transaction costs related to financial instruments designated at fair value through profit or loss which are recognized directly in the statement of comprehensive income.

Subsequent to initial recognition, all instruments designated at fair value through profit or loss and all available-for-sale assets are measured at fair value according to Note 4 (Determining fair values), except any instrument that does not have a quoted market price on an active market and whose fair value cannot be reliably measured, which is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the statement of financial position date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the statement of financial position date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the statement of financial position date.

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of financial instruments at fair value through profit or loss are recognised in the statement of comprehensive income while gains and losses arising from changes in the fair value of available-for-sale assets are recognized directly in equity as differences arising from revaluation of assets and liabilities. Changes in fair value are derecognised from equity through profit or loss at the moment of sale. Interest from available-for-sale assets is recorded in the statement of comprehensive income.

Derecognition

A financial asset is derecognised when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and financial assets at fair value through profit or loss that are sold are derecognised and the corresponding receivables from the buyer are recognised on the day the Bank commits to sell the assets.

Held-to-maturity assets and originated loans and receivables are derecognised on the day they are sold by the Bank.

Impairment

Financial assets are reviewed quarterly and at each statement of financial position date to determine whether there is objective evidence of impairment. If any such indication exists, the recoverable amount of the asset is estimated.

The Bank assesses at the end of each quarter, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganisation; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If an impairment of a financial asset available for sale is identified, the accumulated gains or losses recorded earlier in other comprehensive income are reclassified and recorded in profit or loss in the given period.

In case of an impairment of a financial asset available for sale as a result of a decrease in the registered capital, the resulting income is recognised as a received dividend in profit or loss.

Loans and advances to customers and deposits with banks

Loans and advances to customers and deposits with banks are carried at the amount of principal outstanding including accrued interest, net of impairment. The impairment is booked as specific allowance for loan losses.

The Bank classifies all its receivables from clients into the following five basic categories laid down by Decree of the Czech National Bank No. 163/2014 Sb.: receivables without obligor default divided into standard and watch receivables, and receivables with obligor default divided into non-standard, doubtful and loss receivables.

In the evaluation of individual loans, the classification takes into account both qualitative and quantitative criteria. The criteria mentioned include the following:

- major financial problems of the debtor
- breach of a contract, e.g. delayed payment of interest or principal or failure to pay them;
- relief provided by the creditor to the debtor for economic or other legal reasons relating to debtor's financial problems, that the creditor would not have otherwise provided;
- likelihood of bankruptcy or other financial restructuring of the debtor;
- extinction of an active market for the given financial asset for financial reasons; or
- observable facts demonstrating a measurable decline of estimated future cash flow from the group of financial assets after their initial recognition despite the existing impossibility to detect the decrease for individual financial assets in the group
- and other.

Forbearance

The Bank treats forbearance in accordance with the Technical Standard on non-performing exposures and forbearance measures published by the European Banking Authority (EBA) and in accordance with the Public Statement of the European Securities and Markets Authority (ESMA) on the treatment of forbearance practices in the financial statements of the financial institutions prepared in accordance with International Financial Reporting Standards (further "IFRS").

Forbearance is an exposure where the bank decides, due to debtor's financial problems, to grant a concession which in other circumstances would not be granted. The concession may consist in the modification of the terms and conditions of the contract or in debt refinancing. The modification of terms and conditions may include, but is not limited to, a decrease in interest rate, reduction of the interest or principal, change in the repayment schedule (e.g. postponement of interest payment due date, temporary payment holiday, prolongation of the final due date of the loan, fee or accessories for the debtor, modification or non-monitoring of covenants, interest or instalment capitalisation, partial debt write-off). Any modification of terms and conditions or refinancing which is not result of debtor's financial problems cannot be interpreted as forbearance. Concessions may result in better interest risk management and mitigation of potential future loan losses.

Performing and non-performing exposures may also be recognised as exposures without concession provided no modification of terms and conditions or refinancing was made in respect to the given receivable.

Non-performing exposures comprise receivables with debtor's failure.

Details regarding the structure and quality of the credit portfolio are described in note 37.

Based on regular reviews of the outstanding balances, specific allowances for impairment of loans are made for the carrying amount of loans and advances that are identified as being impaired to reduce these loans and advances to the amounts recoverable.

The Bank mainly uses the financial statements of the client and the Bank's own analysis as the basis for assessment of the loan's collectability.

Allowances made, less amounts released during the reporting period, are charged to statement of comprehensive income. Outstanding loan exposures are written off only when there is no realistic prospect of recovery. If in a subsequent period the amount of an allowance for loan losses decreases and the decrease can be linked objectively to an event occurring after the allowance was booked, the allowance is reversed through the statement of comprehensive income.

In estimating the amount of allowances necessary, management evaluates the likelihood of repayment of individual loans and takes into account the value of collateral and the ability of the Bank to realize the collateral.

Calculated amount of allowances is allocated proportionally to the partial components of the carrying amount of receivable, i.e. principal, interest income and penalty interest.

Treasury bills

Treasury bills, comprising bills issued by Czech Republic government agencies, are stated at cost including the amortised discount arising on purchase. The discount is amortised over the term to maturity with the amortisation being included in interest income.

Derivatives

Derivatives including currency forwards and options are initially recognized in the statement of financial position at cost (including transaction costs) and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices and discounted cash flow models. The positive fair value of derivatives is recognized as an asset while the negative fair value of derivatives is recognized as a liability.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss.

Changes in the fair value of derivatives are included in Net trading income.

Hedge accounting – Fair Value Hedge

When a derivative is designated as a hedge of the change in fair value of a recognised asset or liability or a commitment, changes in the fair value of the derivative are recognised immediately in the statement of comprehensive income together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line as the hedged item). Hedge accounting is discontinued if the derivative expire or is sold, terminated, or exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked. Any adjustment to a hedged item for which the effective interest rate method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(b) Sale and repurchase agreements

Where securities are sold under a commitment to repurchase at a predetermined price ("repurchase agreements"), they remain on the statement of financial position and a liability is recorded equal to the consideration received. Conversely, securities purchased under a commitment to resell ("reverse repurchase agreements") are not recorded on the statement of financial position and the consideration paid is recorded as a loan. The difference between the sale price and repurchase price is treated as interest and accrued evenly over the life of the transaction. Repos and reverse repos are recognised on a settlement date basis.

(c) Intangible assets

Intangible assets are stated at historical cost less accumulated amortization and impairment losses. Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of 5 years.

(d) Tangible assets

Tangible assets are stated at historical cost less accumulated amortization and impairment losses.Depreciation is provided on a straight-line basis over the estimated useful economic life of the asset. Assets under construction are not depreciated.

The average depreciation rates used are as follows:

Buildings	2.5 %
Office equipment	12.5 % – 33 %
Fixtures and fittings	12.5 % – 33 %

Land is not depreciated.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset.

(e) Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total expense, over the term of the lease.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances.

(f) Foreign currency

Transactions denominated in foreign currencies are translated into CZK at the official Czech National Bank exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the statement of financial position date. All resulting gains and losses are recorded in the statement of comprehensive income in Net trading income, in the period in which they arise.

(g) Income and expense recognition

Interest income and interest expense are recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability. In case of modification of loan conditions, such as change of interest rate or instalment calendar, the effective interest rate is updated in line with newly agreed conditions. The calculation of the effective interest rate includes all fees and points paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

The negative income from the financial assets is booked as interest expense, positive income from financial liabilities is booked as interest income.

The recognised average interest rate is determined as the annual weighted average from open contracts as at the date of the balance sheet date.

Fees and commissions are recognized on an accrual basis.

(h) Taxation

Tax paid is calculated in accordance with the provisions of the relevant legislation based on the profit recognized in the statement of comprehensive income prepared pursuant to local statutory accounting standards, after adjustments for tax purposes.

Deferred tax is calculated using the statement of financial position liability method, providing for temporary differences between the accounting and taxation basis of assets and liabilities. Deferred tax liabilities are recognized for deductible temporary differences. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Currently enacted tax rates are used to determine deferred income taxes.

(i) Social security and pension schemes

Contributions are made to the government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year based on gross salary payments. The cost of social security payments is charged to the statement of comprehensive income in the same period as the related salary cost. The Bank has no further pension or post retirement commitments.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks and other banks and short-term highly liquid investments with original maturities of three months or less.

(k) Provisions

A provision is recognized in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(l) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Bank has a legally enforceable right to offset the recognized amounts and the transactions are intended to be settled on a net basis.

(m) Ownership interests

The subsidiary consists of participation with controlling influence in an entity where the Bank identified control/supervision. Control arises when the Bank receives or is entitled to receive variable returns from its participation in the company and has the ability to affect those returns through its power over the company, regardless of the ownership share.

In case of control/supervision all following conditions must be met:

- power over the company in which has been invested;
- the right or authority to acquire rights to obtain variable returns based on the investment in the company;
- the ability to use the power over the company, in order to influence the amount of the Bank's returns from this investment.

An associate enterprise consists of participation with significant influence in an entity where the Bank has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in decisions on the financial and operating policy of the invested subject, but it does not involve control or joint control over those policies.

A joint venture is a joint arrangement where parties that together control the arrangement have rights to the net assets of this arrangement. Joint control is the contractually agreed sharing of control over the arrangement which exists when decisions about the relevant activities require the unanimous consent of the parties that share control.

Ownership interests are appraised at cost. The Bank creates allowances to this appraised ownership interests on the date of the annual financial statements in the amount of the difference between the value of appraised ownership interests recorded in the accounting and the recoverable amount.

The Bank applies fair value hedge accounting for ownership interests held in foreign currency that applies only to foreign currency risk.

(n) Disposal groups held for sale

Disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the disposal group is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to be completed within one year from the date of classification.

Disposal groups held for sale are measured at the lower of:
- Net book value of the asset at the date of classification to "disposal group held for sale";
- The fair value less estimated costs to sell.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

(o) Segment reporting
Segment analysis is based on type of clients and provided services. The management of the entity is provided with the information that allows evaluating the performance of individual segments.

The Bank's reportable segments according to IFRS 8 are as follows:
- Financial markets
- Corporate banking
- Private banking
- Retail banking
- ALCO
- Unallocated

Accounting policies applied to operating segments comply with those described in Note 3. The profits of the segments represent profits before tax achieved by each segment excluding overhead costs and salaries of management. This segment analysis is basis for review and strategic and operational decision making of the management.

For operating segment analysis, all assets and liabilities are allocated to the individual reportable segments except for "other" financial assets and liabilities and current and deferred income tax asset / liability.

IFRS 8 requires that operating segments are identified based on internal reporting about the business units of the Bank which are regularly reviewed by the Board of directors and allow proper allocation of resources and evaluation of the performance.

(p) Dividends
Dividends are recognised in the statement of changes in equity and recorded as liabilities in the period in which they are declared.

(q) Employee benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Amounts due to employees, such as amounts relating to accrued vacation pay or performance bonuses, are recognized as other liabilities.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

These principles supplement the commentary on financial risk management.

Key sources of estimation uncertainty

Allowances for impairment of loan

Assets accounted for at amortised cost are evaluated for impairment on the basis described in accounting policy 3(a).

The specific counterparty component of the total allowances for impairment of loans applies to claims evaluated individually for impairment and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash-flows, management makes judgements about the counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits and the workout strategy. All estimates of cash flows for the calculation of the allowances are independently approved by the Credit Risk Management.

The allowances are created on an on-going basis as a difference between the book value of the receivable and the amount recoverable.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable quoted market price requires the use of valuation techniques as described in accounting policy 3(a). For financial instruments that are traded infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of the market factors, pricing assumptions and other risks affecting the specific amounts.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

– Level 1: quoted priced (unadjusted) in active markets for identical assets or liabilities;
– Level 2: derived from quoted prices, either directly (i.e. as prices of similar instruments) or indirectly (i.e. derived from prices);
– Level 3: inputs for the asset or liability that are not derived from quoted prices (calculated using valuation techniques).

If the market for a financial instrument is not active, fair value is estimated by using valuation techniques. In applying valuation techniques, management uses estimates and assumptions that are consistent with available information about estimates and assumptions that market participants would use in setting a price for the financial instrument.

If the fair values had been higher or lower by 10% than management's estimates, the net carrying amount of Level 3 financial instruments would have been estimated to be CZK 234 million higher or lower than as disclosed as at 31 December 2016 (2015: CZK 441 million).

Financial instruments

In the vast majority of cases, the fair value of Level 3 investments was estimated using discounted cash flow ("DCF") models, with inputs coming from the specific investment's business plan or cash flow projections. The individual business plans and cash flow projections were critically reviewed by management before inclusion in the models. The discount rates were based on the specificities of the industries and countries in which the investments operate. The key assumptions used in the valuations were the expected cash flows and discount rates. Further information about level 3 financial instruments is disclosed in the notes 9a and 9b.

5. CASH AND CASH EQUIVALENTS

in MCZK	2016	2015
Cash on hand and current accounts with central banks (note 6)	641	162
Term deposits in central banks up to 3 months (note 6)	12,226	17,150
Loans to central banks – repurchase agreements (note 7)	20,000	30,000
Loans due from banks – repurchase agreements (note 7)	55	2,411
Current accounts with banks or payable within 3 months (note 7)	219	736
Total	**33,141**	**50,459**

6. CASH AND BALANCES WITH CENTRAL BANKS

in MCZK	2016	2015
Balances with central banks (including obligatory minimum reserves)	1,303	1,711
Current accounts with central banks	503	1
Term deposits in central banks up to 3 months	12,226	17,150
Total balance with central banks	14,032	18,862
Cash on hand	138	161
Total	**14,170**	**19,023**

Balances with central banks represent the obligatory minimum reserves maintained under Czech National Bank („CNB") and National Bank of Slovakia („NBS"). The obligatory minimum reserve is stated as 2% of primary deposits with maturity of less than two years. The Bank must maintain the obligatory minimum reserves in accounts with the respective central banks. Compliance with this requirement is measured using the average daily closing balance over the whole month.

With regard to the current uncertain situation on the financial markets, the Bank has a prudent liquidity policy and holds a significant part of its liquidity surplus in highly liquid assets. Highly liquid assets include balances with the central banks, short term deposits in financial institutions and highly liquid corporate and government bonds. The Bank decides on placements based on the credibility of the counterparty and the offered conditions.

7. DUE FROM FINANCIAL INSTITUTIONS

in MCZK	2016	2015
Current accounts with banks	212	656
Term deposits and loans up to 3 months	7	80
Fixed term deposits and loans over 3 months	68	66
Loans to central banks – repurchase agreements (note 10)	20,000	30,000
Loans due from banks – repurchase agreements (note 10)	55	2,411
Subordinated loans to banks	495	398
Other receivables due from banks	268	50
Total	**21,105**	**33,661**

Subordinated loans to banks are provided to related banks.

Other receivables due from banks includes primarily cash collateral of derivative transactions amounting to CZK 264 million (2015: CZK 48 million).

There were no overdue current account with banks as of 31 December 2016 and 31 December 2015.

The contractual weighted average interest rate on deposits and loans with other banks was 0.25% p.a. (2015: 0.3% p.a.).

8. DERIVATIVES

(a) Derivatives held for trading:

in MCZK	2016 Notional amount buy	2016 Notional amount sellj	2016 Fair value Positive	2016 Fair value Negative
Forward currency contracts	55,696	(55,650)	202	(157)
Other derivates	20	(20)	–	(4)
Total as at 31 December 2016	**55,716**	**(55,670)**	**202**	**(161)**

in MCZK	2015 Notional amount buy	2015 Notional amount sellj	2015 Fair value Positive	2015 Fair value Negative
Forward currency contracts	38,434	(38,473)	97	(113)
Other derivates	197	(198)	1	–
Total as at 31 December 2015	**38,631**	**(38,671)**	**98**	**(113)**

All derivatives held for trading are classified as level 2 according to the fair value hierarchy.

Purchased and written options are recognized in the trading portfolio as other derivatives. Written options comprise derivatives embedded in structured client deposits. The Bank has purchased matching options (with the same underlying assets, maturity and strike prices) from third parties in order to hedge the exposures. Accordingly, the fair value of the purchased options portfolio equals to the fair value of the sum of the written options.

Forward currency contracts are commitments to either purchase or to sell a designated currency at a specified date for a specified price. Forward currency contracts result in a credit exposure at a specified future date for a specified price. Forward currency contracts also result in exposure to market risk based on changes in quoted market prices relative to the contracted amounts.

Although all these derivatives represent an economic hedge, they are presented as trading, because IAS 39 does not allow include this type of derivatives in the category of hedging derivatives.

The foreign currency structure of these transactions was as follows:

	CZK	EUR	USD	Other
LONG POSITION				
31 December 2016	60 %	30 %	8 %	2 %
31 December 2015	74 %	22 %	2 %	2 %

The foreign currency structure of the second leg of these transactions was as follows:

	CZK	EUR	USD	Other
SHORT POSITION				
31 December 2016	25 %	61 %	7 %	7 %
31 December 2015	14 %	69 %	8 %	9 %

(b) Derivatives held for risk management:

Fair value hedging

in MCZK	2016 Notional amount buy	2016 Notional amount sell	2016 Fair value Positive	2016 Fair value Negative
Forward currency contracts	7,124	(7,150)	–	(27)
Total as at 31 December 2016	**7,124**	**(7,150)**	**–**	**(27)**

in MCZK	2015 Notional amount buy	2015 Notional amount sellj	2015 Fair value Positive	2015 Fair value Negative
Forward currency contracts	6,055	(6,063)	4	(12)
Total as at 31 December 2015	**6,055**	**(6,063)**	**4**	**(12)**

All derivatives held for risk management are classified as level 2 according to fair value hierarchy.

The objective of this hedge is to cover the foreign currency exposure to changes in fair value of financial assets available for sale and investment in equity accounted investees denominated in foreign currency over the hedging period. The Bank uses currency forwards to reach effectiveness within the hedging relationship.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS, FINANCIAL ASSETS AVAILABLE FOR SALE AND FINANCIAL ASSETS HELD TO MATURITY

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

in MCZK	2016 Fair value	2015 Fair value
SHARES		
– domestic	198	316
– foreign	253	53
ALLOTMENT CERTIFICATES		
– foreign	–	1
BONDS		
– domestic	1,574	1,040
– foreign	640	1,321
Total	**2,665**	**2,731**

in MCZK	2016 Fair value	2015 Fair value
SHARES		
– listed	451	369
ALLOTMENT CERTIFICATES		
– not listed	–	1
BONDS		
– listed	2,214	2,361
Total	**2,665**	**2,731**

Shares in portfolio as at 31 December 2016 comprise mainly non-government bonds of CZK 403 million (2015: CZK 1 094 million), Slovakian bonds of CZK 227 milion (2015: CZK 234 million), Netherlands bonds of CZK 56 million (2015: CZK 170 million), in the structure of Luxemburgian bonds of CZK 44 million (2015: CZK 317 million), Cyprian bonds of CZK 28 million (2015: CZK 196 million) and Russian bonds of CZK 27 million (2015: CZK 24 million).

Foreign government bonds totaling the amount of CZK 237 million (2015: CZK 227 million) represent Poland government bonds of CZK 155 million (2015: CZK 163 million), Turkish government bonds of CZK 54 million (2015: CZK 64 million) and Romanian government bonds of CZK 28 million (2015: CZK 0 million).

in MCZK	2016 Fair value	2015 Fair value
SHARES		
– financial institutions	111	90
– corporate	340	279
ALLOTMENT CERTIFICATES		
– financial institutions	–	1
BONDS		
– government	1,675	608
– financial institutions	114	832
– corporate	425	921
Total	**2,665**	**2,731**

in MCZK	2016 Fair value	2015 Fair value
SHARES		
– Level 1 – quoted market price	438	367
– Level 3 – calculated using valuation techniques	13	2
ALLOTMENT CERTIFICATES		
– Level 1 – quoted market price	–	1
BONDS		
– Level 1 – quoted market price	2,167	2,305
– Level 3 – calculated using valuation techniques	47	56
Total	**2,665**	**2,731**

The contractual weighted average interest rate on bonds was 2.65% p.a. (2015: 5.35% p.a.).

The following table shows a reconciliation of the opening and closing balances of Level 3 financial assets that are recorded at fair value:

in MCZK	Shares	Bonds	Total
Balance as at 1 January 2016	**2**	**56**	**58**
Addition	3	–	3
Disposal	–	(9)	(9)
Transfer from Level 1	8	–	8
Balance as at 31 December 2016	**13**	**47**	**60**

The Bank regularly monitors changes in market conditions of particular financial assets and in case there are available quoted prices of those financial assets on the active market, those are transferred from Level 3 to Level 1. In 2016, the Bank did not transfer from Level 3 to Level 1 any bonds and shares (2015: CZK 0 million).

(b) Financial assets available for sale:

in MCZK	2016 Fair value	2015 Fair value
SHARES		
– domestic	142	189
– foreign	167	135
ALLOTMENT CERTIFICATES		
– domestic	3,060	3,022
– foreign	2,045	1,942
BONDS		
– domestic	329	3,713
– foreign	2,783	5,851
Total	**8,526**	**14,852**

in MCZK	2016 Fair value	2015 Fair value
SHARES		
– listed	309	324
ALLOTMENT CERTIFICATES		
– not listed	5,105	4,964
BONDS		
– listed	2,234	8,432
– not listed	878	1,132
Total	**8,526**	**14,852**

Foreign shares in portfolio as at 31 December 2016 comprise mainly Slovakian corporate shares in the amount of CZK 127 million (2015: CZK 120 million) and Swiss corporate shares in the amount of CZK 40 million (2015: CZK 15 million).

Foreign allotment certificates comprise Malta certificates of CZK 1 921 million (2015: CZK 1 813 million) and Slovakian certificates of CZK 124 million (2015: CZK 129 million).

Foreign bonds include Slovakia bonds of CZK 2 410 million (2015: CZK 5 298 million) and Luxembourg bonds of CZK 373 million (2015: CZK 359 million).

in MCZK	2016 Fair value	2015 Fair value
SHARES		
– corporate	309	324
ALLOTMENT CERTIFICATES		
– financial institutions	5,105	4,964
BONDS		
– government	–	3,384
– financial institutions	548	1,540
– corporate	2,564	4,640
Total	**8,526**	**14,852**

in MCZK	2016 Fair value	2015 Fair value
SHARES		
– Level 1 – quoted market price	182	162
– Level 3 – calculated using valuation techniques	127	162
ALLOTMENT CERTIFICATES		
– Level 1 – quoted market price	–	4,964
– Level 2 – derived from quoted price	5,105	–
BONDS		
– Level 1 – quoted market price	412	5,379
– Level 2 – derived from quoted price	549	–
– Level 3 – calculated using valuation techniques	2,151	4,185
Total	**8,526**	**14,852**

In 2016, the Bank transferred from Level 1 to Level 2 bonds of CZK 549 million and allotment certificates. Precising of the presentation in a hierarchy system is the aim of this reclassification representing the influence of non-market inputs and the market practice changes in the banking sector arising during last years. No movements from level 1 to level 2 occurred in 2015.

The contractual weighted average interest rate on bonds was 4.81% p.a. (2015: 2.76% p.a.).

In 2015, the Bank has identified an impairment of financial assets available for sale amounting to CZK 32 million. Impairment resulted in permanent decrease of market price of an individual financial asset available for sale.

In 2016, this impairment amounting to CZK 32 million has been released due to the sale and no other impairment of financial assets available for sale was identified.

The following table shows a reconciliation of the opening and closing balances of Level 3 financial assets that are recorded at fair value:

in MCZK	Shares	Bonds	Total
Balance as at 1 January 2016	**162**	**4,185**	**4,347**
Total gains / (losses) recognised in equity	7	–	7
Transfer to Level 1	–	(39)	(39)
Disposal	(42)	(1,995)	(2,037)
Balance as at 31 December 2016	**127**	**2,151**	**2,278**

The Bank regularly monitors changes in market conditions of particular financial assets and in case there are available quoted prices of those financial assets on the active market, those are transferred from Level 3 to Level 1. In 2016, the Bank transferred from Level 3 to Level 1 no shares (2015: CZK 0 million), and transferred bonds in amount of CZK 39 million (2015: CZK 0 million).

(c) Financial assets held to maturity:

in MCZK	2016 Amortised cost	2015 Amortised cost
BONDS		
– foreign	617	609
Total	**617**	**609**

in MCZK	2016 Amortised cost	2015 Amortised cost
BONDS		
– listed	617	609
Total	**617**	**609**

in MCZK	2016 Amortised cost	2015 Amortised cost
BONDS		
– corporate	617	609
Total	**617**	**609**

The contractual weighted average interest rate on bonds was 5.88% p.a. (2015: 5.88% p.a.).

Foreign bonds include Hungarian corporate bonds amounting to CZK 617 million (2015: CZK 609 million).

10. REPURCHASE AND RESALE AGREEMENTS

(a) Resale agreements

The Bank purchases financial assets under agreements to resell them at future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Legal right to financial assets is transferred to the Bank, respectively entity which is a loan provider. Reverse repurchases are entered into as a facility to provide funds to customers. As of 31 December 2016 and 31 December 2015, assets purchased pursuant to the agreements to resell them were as follows:

in MCZK	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase date	Repurchase price
Loans to central banks (note 7)	19,641	20,000	To 1 Month	20,022
Loans to banks (note 7)	49	55	To 1 Month	55
Loans and advances to customers (note 11)	5,801	3,554	To 3 months	3,549
Loans and advances to customers (note 11)	336	251	To 1 year	255
Total as at 31 December 2016	**25,827**	**23,860**		**23,881**

in MCZK	Fair value of assets held as collateral	Carrying amount of receivable	Repurchase date	Repurchase price
Loans to central banks (note 7)	30,000	30,000	To 1 Month	30,000
Loans to banks (note 7)	3,862	2,411	To 3 Months	2,415
Loans and advances to customers (note 11)	4,866	3,027	To 3 Months	3,045
Total as at 31 December 2015	**38,728**	**35,438**		**35,460**

(b) Repurchase agreements

Transactions where securities are sold under a repurchase agreement (repo transaction) at a predetermined price are accounted for as loans collateralised by the securities. The legal title to the respective securities is transferred to the lender. However, the securities transferred under a repo transaction are still recognised in the statement of financial position. The price for the sold securities are recognised as a liability and presented under "Deposits and loans from banks" or "Deposits from customers".

in MCZK	Fair value of assets given as collateral	Carrying amount of liability	Repurchase date	Repurchase price
Loans and advances from customers (note 18)	5	5	To 1 Month	5
Total as at 31 December 2015	**5**	**5**		**5**

in MCZK	Fair value of assets given as collateral	Carrying amount of liability	Repurchase date	Repurchase price
Loans from banks (note 17)	57	57	To 1 Month	57
Loans and advances from customers (note 18)	34	33	To 3 Months	33
Total as at 31 December 2015	**91**	**90**		**90**

As at 31 December 2016, the Bank does not recognize any sold securities under repurchase agreements in the statement of financial position (2015: CZK 57 million), however recognizes securities under repurchase agreements at CZK 5 million (2015: CZK 34 million) which were purchased under reverse repurchase operations before.

11. LOANS AND ADVANCES TO CUSTOMERS

in MCZK	2016	2015
Loans and advances to customers	59,185	63,120
Loans and advances to customers – repurchase agreements (note 10)	3,805	3,027
Bank overdraft	7,845	5,030
Debt securities – promissory notes	103	103
Other receivables	767	93
Less allowances for impairment of loans (note 12)	(1,991)	(1,331)
Total net loans and advances to customers	**69,714**	**70,042**

Loans and advances to customers as at 31 December 2016 include loans amounting to CZK 21 357 million (2015: CZK 19 401 million) where the repayment of the loans is dependent upon the successful realization of the assets whose acquisition was financed by the relevant loans. These assets are pledged in favour of the Bank. The financed assets may comprise both tangible and intangible assets. The Bank recognises the loans dependent on asset realisation according to the actual nature of each individual loan.

Allowances for impairment of loans and advances to customers are determined and created based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realizable value of any underlying collateral as well as guarantees from third parties. Methodology for allowance creation is described in note 4. Critical accounting estimates and assumptions.

The amount of non-interest bearing loans as at 31 December 2016 totalled to CZK 254 million (2015: CZK 209 million). These loans were mostly acquired from the former Podnikatelská banka or loans that are already overdue and no interest is charged. Receivables from these loans are fully impaired.

The contractual weighted average interest rate on promissory notes was 5% p.a. (2015: 5% p.a.).
The contractual weighted average interest rate on loans to customers was 5.9% p.a. (2015: 6.57% p.a.).

For the additional information about Loans and advances to customers refer to note 37.

12. ALLOWANCES FOR IMPAIRMENT OF LOANS

in MCZK	2016	2015
1 January	1,331	940
Charge / (reversal) in the reporting period	673	542
Use / write-offs	(13)	(143)
Currency difference	–	(8)
Total as at 31 December	**1,991**	**1,331**

Use of allowances for impairment of loans for the year ended 31 December 2016 amounting to CZK 13 million (2015: CZK 133 million) represents the sale of receivables with gross value of CZK 37 million (2015: CZK 154 million), to which provisions of CZK 21million (2015: CZK 137 million) were created at the time of sale. The selling price of these receivables was CZK 24 millions (2015: CZK 21 million).

There was no use of allowances for impairment of loans writen-off for the year ended 31 December 2016 (2015: CZK 10 million, the gross amount of these loans was CZK 10 million).

13. PROPERTY, PLANT AND EQUIPMENT

The movements during the period were as follows:

in MCZK	Land and buildings	Fixtures, fittings and equipment	Total
COST			
1 January 2015	20	72	92
Additions	1	6	7
Disposals	–	(1)	(1)
31 December 2015	**21**	**77**	**98**
ACCUMULATED DEPRECIATION			
1 January 2015	5	36	41
Depreciation	2	7	9
31 December 2015	**7**	**43**	**50**
COST			
1 January 2016	21	77	98
Additions	–	1	1
Disposals	–	(7)	(7)
31 December 2016	**21**	**71**	**92**
ACCUMULATED DEPRECIATION			
1 January 2016	7	43	50
Depreciation	2	5	7
Disposals	–	(7)	(7)
31 December 2016	**9**	**41**	**50**
NET BOOK VALUE			
31 December 2015	**14**	**34**	**48**
31 December 2016	**12**	**30**	**42**

The Bank did not record any fixed tangible assets under construction at the end of 2016 and 2015.

Property is insured against theft and natural disaster.

14. INTANGIBLE ASSETS

The movements during the period were as follows:

in MCZK	Software	Total
COST		
1 January 2015	320	320
Additions	51	51
Disposals	(5)	(5)
31 December 2015	**366**	**366**
ACCUMULATED AMORTISATION		
1 January 2015	205	205
Amortisation	58	58
Disposals	(2)	(2)
31 December 2015	**261**	**261**
COST		
1 January 2016	366	366
Additions	55	55
31 December 2016	**421**	**421**
ACCUMULATED AMORTISATION		
1 January 2016	261	261
Amortisation	56	56
31 December 2016	**317**	**317**
NET BOOK VALUE		
31 December 2015	**105**	**105**
31 December 2016	**104**	**104**

The Bank did not record any Intangible assets under construction at the end of 2016 and 2015.

15. OPERATING LEASES

(a) Leases entered into as lessee

The Bank has non-cancellable operating lease payables as follows:

in MCZK	2016	2015
Less than one year	96	99
Between one and five years	286	305
More than five years	3	38
Total	**385**	**442**

(b) Leases entered into as lessor

The Bank has non-cancellable operating lease receivables as follows:

in MCZK	2016	2015
Less than one year	3	1
Between one and five years	6	2
Total	**9**	**3**

16. PREPAYMENTS, ACCRUED INCOME AND OTHER ASSETS

in MCZK	2016	2015
Prepayments and accrued income	61	65
Receivables from customers from securities trading	289	538
Other trading receivables	369	270
Receivables from fees for portfolio management	50	32
Other receivables	32	58
Advance payments – other	23	31
Allowances for impairment of other assets	(1)	(1)
Total	**823**	**993**

Other trading receivables as at 31 December 2016 include reward for the issue of bonds and promissory notes of CZK 42 million (2015: CZK 57 million) and large number of sundry items that are not significant on an individual basis.

Receivables from customers from securities trading decreased primarily because of a lower volume of trades in the client accounts.

Allowances for impairment of other assets:

in MCZK	2016	2015
1 January	1	2
Charged / (reversed) in the period	–	(1)
Total as at 31 December	**1**	**1**

17. DEPOSITS AND LOANS FROM BANKS

Deposits and loans from banks comprise:

in MCZK	2016	2015
Deposits from banks	2,933	4,286
Deposits from central banks	405	–
Loans from banks – repurchase agreements	–	57
Total	**3,338**	**4,343**

Deposits from banks includes current deposits, term deposits and other financial liabilities.

The contractual weighted average interest rate on deposits and loans from banks was -0,26% p.a. as at 31 December 2016 (2015: 0,64% p.a.).

18. DEPOSITS FROM CUSTOMERS

Deposits from customers comprise:

in MCZK	2016	2015
Current accounts	20,963	17,856
Term deposits	72,859	99,169
Loans from customers – repurchase agreements	5	33
Other liabilities	6	–
Total	**93,833**	**117,058**

The contractual weighted average interest rate on deposits from customers was 1.57% p.a. as at 31 December 2016 (2015: 1.79% p.a.).

19. SUBORDINATED DEBT

Subordinated debt at amortised cost:

in MCZK	2016	2015
Issued subordinated bonds	676	674
Subordinated debt – term deposit from customers	751	1,375
Total	**1,427**	**2,049**

On 28 February 2007, the Bank issued subordinated bonds with a notional amount of EUR 25 million maturing in 2022. Czech National Bank approved the subordinated debt as a part of the capital for regulatory purposes. The interest rate was 4.43% p.a. as at 31 December 2016 (2015: 4.75% p.a.).

The subordinated debt – term deposit from customers with a maturity up to 2025 bear an interest rate between 5% and 9% p.a. Czech National Bank approved the subordinated debt as a part of the capital for regulatory purposes.

20. OTHER LIABILITIES AND PROVISIONS

in MCZK	2016	2015
Payables from securities of clients at trader´s disposal	4,538	4,841
Provision for employee bonuses	557	506
Trade payables	148	140
Accruals and deferred income	110	172
Provision for off-balance sheet items	49	71
Other tax liabilities	49	61
Provision for loyalty programmes - employees	31	120
Payables to employees	24	24
Other current provisions	23	28
Provision for untaken vacation	10	10
Payables related to social costs	10	10
Provision for loyalty programmes - customers	4	2
Other liabilities	272	631
Total	**5,825**	**6,616**

Other liabilities primarily include payables from unsettled short sales of securities of CZK 117 million (2015: CZK 168 million), clearing of CZK 36 million (2015: CZK 10 million) and incoming and outgoing payments from nostro accounts of CZK 40 million (2015: CZK 8 million).

A provision for employee bonuses is established in relation to the approval of Group employees' annual bonuses. The annual bonus is defined as variable benefit component of employee remuneration which the company may grant and pay to an employee in proportion to his job performance in the evaluated period, most commonly a year. It also comprises the management bonuses with deferred due payment. The Bank's remuneration policy is in accordance with the policies of risk management and remuneration in accordance with Decree 163/2014 Sb., on the performance of the activities of banks, credit unions and investment firms.

The loyalty programme has been established to provide non-monetary performances to employees in relation to the employment and similar relationships, and bonuses and to customers when they sign up for any of selected Group products. Since the performance is provided for an unlimited period of time and the withdrawals can be made continuously, the provision for loyalty programme is a long-term one. The Bank establishes a provision for loyalty programme for bonuses to customers of CZK 31 million (2015: CZK 119 million) and to employees of CZK 4 million (2015: CZK 2 million).

A provision for off-balance sheet items comprises in particular the provision for the loan promises and guarantees of CZK 49 million (2015: CZK 70 million).

As at 31 December 2016, other provisions amounted to CZK 23 million (2015: CZK 28 million). It is expected that these provisions will be utilised after 12 or more months after the balance sheet date. These provisions include in particular a provision for unpaid premium interest from municipal deposits and a provision for commission fees in respect of the bond emission.

Provisions:

in MCZK	Balance as at 1 January 2016	Additions / Creations	Use	Balance as at 31 December 2016
Employee bonuses	506	363	(312)	557
Off-balance sheet items	71	12	(34)	49
Loyalty programmes – customers	120	20	(109)	31
Untaken vacation	10	10	(10)	10
Loyalty programmes – employees	2	5	(3)	4
Other current provisions	28	7	(12)	23
Total	**737**	**417**	**(480)**	**674**

21. SHARE CAPITAL, RETAINED EARNINGS AND OTHER RESERVES

in MCZK	2016
SHARE CAPITAL IS FULLY PAID AND CONSISTS OF:	
10 637 126 ordinary shares with a nominal value of CZK 1 000 per share	10,637
700 000 ordinary shares with a nominal value of CZK 1.43 per share	1
Total share capital	**10,638**

The owners of ordinary shares are entitled to the payment from approved dividends.

The allocation of the profit will be approved at the General Meeting. The Bank's Management assumes that relevant part of the profit will be paid to the purpose-built capital fund for the payment of revenue from certificates, that is part of the Equity, and the rest of the profit will be paid as a dividend to shareholders.

The Bank does not provide any employee incentive scheme involving the option to buy own shares, or remuneration in the form of equity options.

Retained earnings

Retained earnings are distributable to the Bank's shareholders and are subject to the shareholders meeting resolution. As at 31 December 2016, retained earnings amounted to CZK 5 500 milllion (2015: CZK 4 260 million). For detail of retained earnings see Statement of changes in equity.

Capital funds

Capital funds consist of a special purpose fund for income distribution from subordinated income certificates.

For details related to the special purpose fund refer to last paragraph in Other capital instruments.

Revaluation reserve

a) Revaluation reserve from financial assets availale for sale

Gains and losses on the revaluation of financial assets available for sale are recognized directly in equity through a revaluation reserve. On 31 December 2016, the revaluation reserve from the revaluation of financial assets available for sales amounted to CZK 53 million (2015: CZK 90 million).

b) Other revaluation reserves

Other revaluation reserves are represented by the FX difference from the translation of the Slovak branch's statements amounted to CZK 0 million (2015: CZK minus 3 million).

Other capital instruments

Other capital instruments comprise issued subordinated unsecured revenue certificates with fixed interest revenue dependent of the fulfilment of pre-defined conditions, with no fixed maturity date. The certificates are hybrid financial instruments combining the economic features of capital and debt securities. These certificates are also considered capital instruments compliant with the conditions for the inclusion thereof into the additional Tier 1 capital (AT1). This inclusion is subject to the approval by the Czech National Bank.

On 19 June 2014, the Czech National Bank approved the prospectus of revenue certificate emission of total estimated value of CZK 1 000 million with interest revenue of 10% p.a.

On 12 September 2015, the Czech National Bank approved the prospectus of second revenue certificate emission of total estimated value of CZK 1 000 million with interest revenue of 9% p.a.

On 11 December 2015, the Czech National Bank approved the prospectus of third revenue certificate emission of total estimated value of EUR 50 million with interest revenue of 9% p.a.

As at 31 December 2016, the volume of emitted certificated reached CZK 2 597 million (2015: CZK 1 742 million).

On 30 June 2014, the Bank's Board of Directors also approved the establishment of a purpose-built capital fund for the payment of revenue from certificates of CZK 100 million. This fund was created from retained earnings. In 2016, another CZK 312 million (2015: CZK 100 million) was transferred to this fund from the 2015 profit. The payment of revenue from certificates is governed by the conditions defined in the prospectus. In 2016, revenue of CZK 229 million (2015: CZK 108 million) was paid out from the fund.

22. INCOME TAX

Income tax was calculated in accordance with Czech tax regulations at the rate of 19% in 2016 (2015: 19%). The income tax rate for 2017 will be 19%.

The Slovak branch pays tax in accordance with Slovak tax law. The tax paid by the branch in Slovakia is offset against the income tax for the Bank as a whole paid in the Czech Republic. The income tax rate in Slovakia for 2016 is 22%. As from 1 January 2017 the tax rate in Slovakia is 21%.

The Czech Republic currently has a number of laws related to various taxes imposed by governmental authorities. Applicable taxes include value-added tax, corporate tax, and payroll (social) taxes and various others. Tax declarations, together with other legal compliance areas (such as customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose fines, penalties and interest charges. This results in tax risks in the Czech Republic which are substantially more significant than typically found in countries with more developed tax systems.

Management believes that it has adequately provided for the tax liabilities in the accompanying financial statements.

The reconciliation of the expected income tax expense is as follows:

in MCZK	2016	2015
Profit before tax	1,854	1,963
Tax non-deductible expenses	702	874
Non-taxable revenues and tax refund for the last period	(1,116)	(1,558)
Statutory income tax rate	19 %	19 %
Income tax expenses	**274**	**243**
Correction of tax expenses from previous periods and additional payments	4	–
Difference from Slovak branch tax	26	12
Deferred tax (note 23)	(2)	(25)
Total income tax expenses	**302**	**230**
Effective tax rate	16.3%	11.7%

The main adjustments when calculating the taxable profit from the accounting profit relate to tax exempt income and expenses to be added to the tax base. The main non-deductible expenses are tax non-deductible provisions to receivables, creation of provisions and representation expenses.

Main tax non-deductible expenses are dividend income from ownership interests, dissolve/use of allowances for receivables and use/write-offs of allowances. A significant portion of non-taxable revenues was represented by the gain from the sale of ownership interests.

Income tax expenses amounting to CZK 274 million (2015: CZK 243 million) are calculated in accordance with the Czech accounting standards from profit adjusted according to the Czech Law on Income Tax, as amended.

23. DEFERRED TAX

The Bank has the following deferred tax assets and liabilities:

in MCZK	2016	2015
DEFERRED TAX ASSET / (LIABILITY)		
Property, plant and equipment	(7)	(7)
Financial assets available for sale	(13)	(21)
Other temporary differences	119	116
Net deferred tax liability	**99**	**88**

The deferred tax asset and liability is calculated using the 2016 income tax rate of 19% (2015: 19%).

The following table shows the reconciliation between the deferred tax income and the change in deferred tax receivables in 2016.

in MCZK	2016	2015
Deferred tax liability, net as at 1 January	88	70
Deferred tax income in the period (note 22)	2	25
Deferred tax recognized in equity	8	(6)
Currency difference (Slovak branch)	1	(1)
Net deferred tax liability as at the end of the period	**99**	**88**

24. INTEREST INCOME

in MCZK	2016	2015
INTEREST INCOME FROM:		
Due from financial institutions	42	31
Loans and advances to customers	3,940	4,497
Repo transactions	200	297
Bonds and other fixed income securities	402	508
Other operations	–	20
Total	**4,584**	**5,353**

Item "Loans and advances to customers" includes commissions for origination of loans of CZK 82 million (2015: CZK 50 million), which are part of effective interest rate.

Interest income according to classes of assets:

in MCZK	2016	2015
INTEREST INCOME FROM:		
Financial assets at fair value through profit or loss:		
– those held for trading	141	226
Financial assets available for sale	217	245
Financial assets held to maturity	43	57
Loans and other receivables	4,183	4,825
– of which: Impaired loans and receivables	86	83
– of which: Forborne	123	160
Total	**4,584**	**5,353**

25. INTEREST EXPENSE

in MCZK	2016	2015
INTEREST EXPENSE ON:		
Deposits and loans from banks	(10)	(27)
Deposits from customers	(1,759)	(2,377)
Repo transactions	–	(1)
Subordinated bonds and promissory notes	(33)	(36)
Other operations	–	(18)
Total	**(1,802)**	**(2,459)**

Interest expense according to classes of liabilities:

in MCZK	2016	2015
INTEREST EXPENSE ON:		
Financial liabilities at amortised cost	(1,802)	(2,441)
Financial liabilities at fair value through profit or loss	–	(18)
Total	**(1,802)**	**(2,459)**

26. FEE AND COMMISSION INCOME

in MCZK	2016	2015
FEE AND COMMISSION INCOME FROM:		
Securities and derivatives for customers	835	506
Loan activities	55	59
Payment transactions	97	31
Other	9	7
Total	**996**	**603**

27. FEE AND COMMISSION EXPENSE

in MCZK	2016	2015
FEE AND COMMISSION EXPENSE ON:		
Transactions with securities	(123)	(104)
Payment transactions	(19)	(12)
Other	(17)	(11)
Total	**(159)**	**(127)**

28. NET TRADING INCOME

in MCZK	2016	2015
Realised and unrealised losses on financial instruments at fair value	383	260
Net gains / (losses) on derivative operations	40	(661)
Net profit / (loss) from foreign currency translation	(254)	401
Net gains / (losses) on hedging derivative operations	(8)	(1)
Dividend income	14	26
Total net trading income	**175**	**25**

Net trading income comprises of:

in MCZK	2016	2015
Financial assets and liabilities at fair value through profit or loss:		
– those held for trading	211	(536)
Financial assets available for sale	218	160
Exchange rate differences	(254)	401
Total	**175**	**25**

29. OTHER OPERATING INCOME

in MCZK	2016	2015
Income from outsourcing	15	16
Income from re-invoicing of services	5	5
Income from rent	2	1
Income from sale of ownership interests	–	737
Other income	10	17
Total	**32**	**776**

Income from the sale of ownership interests of CZK 737 million represents realized gain on the sale of 37.17% shares of Poštová banka, a.s.

Other income includes a large number of sundry items that are not significant on an individual basis.

30. PERSONNEL EXPENSES

in MCZK	2016	2015
Wages and salaries	(519)	(560)
Directors' and Supervisory Board members' remuneration	(41)	(31)
Compulsory soc. security contributions	(128)	(124)
Other social costs	(14)	(16)
Total personnel expenses	**(702)**	**(731)**
Average number of employees during the reporting period	**454**	**443**

There were 4 members of the Bank's Board of Directors at 31 December 2016 (2015: 4).

31. OTHER OPERATING EXPENSES

in MCZK	2016	2015
Rent expense	(126)	(120)
Contributions to Deposit Insurance Fund	(44)	(166)
Contributions to Crisis Resolution Fund	(71)	–
Taxes and fees	(60)	(57)
OPERATING COSTS:		
Outsourcing	(191)	(178)
Advertising expenses and representation	(153)	(157)
Rep Outsourcing airs and maintenance – IS, IT	(36)	(38)
Sponsoring and gifts	(31)	(24)
Services related to rent	(29)	(29)
Audit, legal and tax consulting	(26)	(35)
Consulting expenses	(17)	(24)
Communication expenses	(16)	(17)
Transport and accommodation, travel expenses	(14)	(18)
Materials	(12)	(13)
Repairs and maintenance – other	(3)	(4)
Other operating costs	(96)	(95)
Total	**(925)**	**(975)**

Other operating costs of CZK 96 million at 31 December 2016 (2015: CZK 95 million) include a large number of sundry items that are not significant on an individual basis.

The Crisis Resolution Fund is a source for the use of crisis resolution tools at the Bank, the use of which may be proposed by the Czech National Bank in situations when it is feasible, credible and in the public interest. This fund does not serve for direct payouts of deposit compensation.

Taxes and fees include a special bank levy to the Slovak Tax Authority. This levy does not fall within the scope of IAS 12 Income

Taxes. The Bank considers the levy to be operational in nature and has accrued the respective cost within "Other operating expenses".

32. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE STATEMENT OF CASH FLOWS

in MCZK	Cash and balances with central banks	Term deposits in central banks up to 3 months	Loans to central banks – repurchase agreements	Loans to banks – repurchase agreements	Current bank accounts or up to 3 months	Total
31 December 2014	**181**	**10,963**	**–**	**2,299**	**2,712**	**16,155**
Change in 2015	(19)	6,187	30,000	112	(1 976)	34,304
31 December 2015	**162**	**17,150**	**30,000**	**2,411**	**736**	**50,459**
Change in 2016	479	(4,924)	(10,000)	(2,356)	(517)	(17,318)
31 December 2016	**641**	**12,226**	**20,000**	**55**	**219**	**33,141**

33. FINANCIAL COMMITMENTS AND CONTINGENCIES

Financial commitments and contingencies comprise:

in MCZK	2016	2015
Granted guarantees	2,193	2,602
Unused credit lines	9,006	6,415
Securities held on behalf of clients	39,816	27,453
Total	**51,015**	**36,470**

34. SEGMENT REPORTING

Segment information is presented in respect of the Bank's business and geographical segments. The primary format, business segments, is based on the Bank's management and internal reporting structure

(a) Business segments

The Bank comprises the following main business segments:

- Financial markets
  - Includes the trading and corporate finance activities, mainly activities within financial markets department regardless of level of service and client business segment;
- Corporate Banking
  - Includes loans, deposits and other transactions and balances with corporate customers (including business segment: corporations, non-profit organisations, financial institutions);
- Private Banking
  - Includes loans, deposits and other transactions and balances with private banking and premium banking customers (the customer's aggregate sum of deposits with the Bank is at least CZK 3 million);
- Retail Banking

  – Includes loans, deposits and other transactions and balances with retail customers (the customer's aggregate sum of deposits with the Bank is at least CZK 0.5 million);
- ALCO
  – Includes balance sheet items of strategic importance that are managed by the Asset and Liability Committee;
- Unallocated
  – Includes balance sheet items that are not included in the segments above.

ALCO includes balance sheet items of strategic importance that are managed by the Asset and Liability Committee. The most important items are:
- Financial assets available for sale and held to maturity,
- Due from financial institutions,
- Deposits and loans from banks,
- Cash and balances with central banks.

Personnel costs, operating expenses and depreciation charges that are not allocated to business segments are included in the segment "Unallocated".

The Bank also has a central Shared Services operation that manages the Bank's premises and certain corporate costs. Cost-sharing agreements are used to allocate central costs to business segments on a reasonable basis.

Statement of financial position as at 31 December 2016:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Cash and balances with central banks	–	–	–	–	14,170	–	14,170
Due from financial institutions	–	–	–	–	21,105	–	21,105
Positive fair value of derivatives, financial assets	2,866	–	–	–	9,144	–	12,010
Ownership interests	–	–	–	–	5,311	–	5,311
Loans and advances to customers	7,737	56,197	5,748	32	–	–	69,714
Current tax assets	–	–	–	–	–	69	69
Deferred tax assets	–	–	–	–	–	99	99
Prepayments, accrued income and other assets	–	–	–	–	–	969	969
Disposal groups held for sale	–	–	–	–	107	–	107
Total Assets	**10,603**	**56,197**	**5,748**	**32**	**49,837**	**1,137**	**123,554**
Negative fair value of derivatives	161	–	–	–	27	–	188
Deposits and loans from banks	–	–	–	–	3,338	–	3,338
Deposits from customers	–	25,497	21,960	46,376	–	–	93,833
Subordinated debt	–	794	224	409	–	–	1,427
Other liabilities and provisions	–	–	–	–	–	5,825	5,825
Total Liabilities	**161**	**26,291**	**22,184**	**46,785**	**3,365**	**5,825**	**104,611**

Statement of financial position as at 31 December 2015:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Cash and balances with central banks	–	–	–	–	19,023	–	19,023
Due from financial institutions	–	2,411	–	–	31,250	–	33,661
Positive fair value of derivatives, financial assets	2,830	–	–	–	15,464	–	18,294
Ownership interests	–	–	–	–	3,309	–	3,309
Loans and advances to customers	6,586	55,082	8,318	56	–	–	70,042
Current tax assets	–	–	–	–	–	59	59
Deferred tax assets	–	–	–	–	–	88	88
Prepayments, accrued income and other assets	–	–	–	–	–	1,146	1,146
Disposal groups held for sale	–	–	–	–	1,368	–	1,368
Total Assets	**9,416**	**57,493**	**8,318**	**56**	**70,414**	**1,293**	**146,990**
Negative fair value of derivatives	124	–	–	–	1	–	125
Deposits and loans from banks	–	–	–	–	4,343	–	4,343
Deposits from customers	–	42,673	23,122	51,263	–	–	117,058
Subordinated debt	–	1,104	508	437	–	–	2,049
Other liabilities and provisions	–	–	–	–	–	6,616	6,616
Total Liabilities	**124**	**43,777**	**23,630**	**51,700**	**4,344**	**6,616**	**130,191**

Statement of comprehensive income for the period ended 31 December 2016:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Net interest income	212	1,298	554	405	289	24	2,782
Fee and commission income	888	99	5	4	–	–	996
Fee and commission expense	(123)	(36)	–	–	–	–	(159)
Dividends from financial assets available for sale	–	–	–	–	187	–	187
Dividends from investment in equity	–	–	–	–	207	–	207
Impairment of assets available for sale	32	–	–	–	–	–	32
Net trading income / (expense)	175	–	–	–	–	–	175
Other operating income	–	–	–	–	–	32	32
Operating income	**1,184**	**1,361**	**559**	**409**	**683**	**56**	**4,252**
Personnel expenses	(83)	(50)	(164)	(21)	–	(384)	(702)
Other operating expenses	(43)	(14)	(58)	(47)	–	(763)	(925)
Depreciation and amortisation	–	–	–	–	–	(63)	(63)
Profit before provisions, allowances and income taxes	**1,058**	**1,297**	**337**	**341**	**683**	**(1,154)**	**2,562**
Net change in provisions from financial activities	–	22	–	–	–	–	22
Net change in allowances for loan losses	–	(639)	(37)	3	–	–	(673)
Allowances for investment in equity	–	–	–	–	(57)	–	(57)
Profit before tax	**1,058**	**680**	**300**	**344**	**626**	**(1,154)**	**1,854**
Income tax expenses	(172)	(111)	(49)	(56)	(102)	188	(302)
Profit for the period	**886**	**569**	**251**	**288**	**524**	**(966)**	**1,552**

The values disclosed are net of inter-segment transactions and are submitted to the executive manager as such.

When assessing the performance of the segment and issuing the decision about the funds which should be allocated to the segment, the executive manager decided that unallocated operating expenses need not be re-allocated to individual segments.

Statement of comprehensive income for the period ended 31 December 2015:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Net interest income	166	1,516	629	415	162	6	2,894
Fee and commission income	520	76	4	3	–	–	603
Fee and commission expense	(103)	(24)	–	–	–	–	(127)
Dividends from financial assets available for sale	–	–	–	–	14	–	14
Dividends from investment in equity	–	–	–	–	384	–	384
Impairment of assets available for sale	(32)	–	–	–	–	–	(32)
Net trading income / (expense)	25	–	–	–	–	–	25
Other operating income	–	–	–	–	736	40	776
Operating income	**576**	**1,568**	**633**	**418**	**1,296**	**46**	**4,537**
Personnel expenses	(81)	(45)	(142)	(27)	–	(436)	(731)
Other operating expenses	(50)	(9)	(28)	(29)	–	(859)	(975)
Depreciation and amortisation	–	–	(1)	–	–	(66)	(67)
Profit before provisions, allowances and income taxes	**445**	**1,514**	**462**	**362**	**1,296**	**(1,315)**	**2,764**
Net change in provisions from financial activities	–	(23)	–	–	–	–	(23)
Net change in allowances for loan losses	–	(532)	(6)	(4)	–	–	(542)
Allowances for investment in equity	–	–	–	–	(236)	–	(236)
Profit before tax	**445**	**959**	**456**	**358**	**1,060**	**(1,315)**	**1,963**
Income tax expenses	(52)	(112)	(54)	(42)	(124)	154	(230)
Profit for the period	**393**	**847**	**402**	**316**	**936**	**(1,161)**	**1,733**

(b) Geographical segments

In presenting information on the basis of geographical areas, revenue is based on the customer's country of domicile and assets/liabilities are based on the geographical location of the assets/liabilities. More details about splitting the credit risk for loans according to the actual loan purpose and location are comprised in note 37d.

Statement of financial position as at 31 December 2016:

in MCZK	Czech Republic	Slovakia	Other European Union	Other countries	Total
Cash and balances with central banks	13 940	230	–	–	14,170
Due from financial institutions	20,196	277	266	366	21,105
Fair value of derivatives, financial assets	8,013	2,778	825	393	12,009
Investment in equity accounted investees	899	–	1,416	2,996	5,311
Loans and advances to customers	14,868	16,613	33,327	4,906	69,714
Current tax assets	(9)	78	–	–	69
Deferred tax assets	58	41	–	–	99
Prepayments, accrued income and other asset	702	108	153	7	970
Disposal groups held for sale	107	–	–	–	107
Total Assets	**58,774**	**20,125**	**35,987**	**8,668**	**123,554**
Negative fair value of derivatives	32	41	113	2	188
Deposits and Loans from banks	55	964	54	2,265	3,338
Deposits from customers	62,362	22,313	6,207	2,951	93,833
Subordinated debt	693	1	707	26	1,427
Other liabilities and provisions	3,308	455	1,544	518	5,825
Total Liabilities	**66,450**	**23,774**	**8,625**	**5,762**	**104,611**

Statement of financial position as at 31 December 2015:

in MCZK	Czech Republic	Slovakia	Other European Union	Other countries	Total
Cash and balances with central banks	18,715	308	–	–	19,023
Due from financial institutions	30,514	285	332	2,530	33,661
Fair value of derivatives, financial assets	8,828	5,251	4,043	172	18,294
Investment in equity accounted investees	908	7	1,133	1,261	3,309
Loans and advances to customers	12,053	19,517	35,079	3,393	70,042
Current tax assets	89	(30)	–	–	59
Deferred tax assets	63	25	–	–	88
Prepayments, accrued income and other asset	916	99	121	10	1,146
Disposal groups held for sale	107	–	–	1,261	1,368
Total Assets	**72,193**	**25,462**	**40,708**	**8,627**	**146,990**
Negative fair value of derivatives	58	20	43	4	125
Deposits and Loans from banks	819	2,112	112	1,300	4,343
Deposits from customers	78,653	26,543	8,202	3,660	117,058
Subordinated debt	999	319	707	24	2,049
Other liabilities and provisions	3,124	633	2,643	216	6,616
Total Liabilities	**83,653**	**29,627**	**11,707**	**5,204**	**130,191**

Statement of comprehensive income for the year ended 31 December 2016:

in MCZK	Czech Republic	Slovakia	Other European Union	Other countries	Total
Net interest income	(168)	875	1,765	310	2,782
Fee and commission income	414	307	235	40	996
Fee and commission expense	(132)	(19)	(4)	(4)	(159)
Dividends from financial assets available for sale	92	–	95	–	187
Dividends from investment in equity	107	–	–	100	207
Net trading income / (expense)	650	18	303	(796)	175
Impairment of assets available for sale	32	–	–	–	32
Other operating income	28	3	1	–	32
Operating income	**1,023**	**1,184**	**2,395**	**(350)**	**4,252**
Personnel expenses	(446)	(256)	–	–	(702)
Other operating expenses	(616)	(294)	(6)	(9)	(925)
Depreciation and amortisation	(60)	(3)	–	–	(63)
Profit before provisions, allowances and income taxes	**(99)**	**631**	**2,389**	**(359)**	**2,562**
Net change in provisions from financial activities	22	–	–	–	22
Net change in allowances for impairment of loans	(124)	(120)	(429)	–	(673)
Allowances for investment in equity	(9)	–	(48)	–	(57)
Profit before tax	**(210)**	**511**	**1,912**	**(359)**	**1,854**
Income tax expenses	(279)	(23)	–	–	(302)
Profit for the period	**(489)**	**488**	**1,912**	**(359)**	**1,552**

Statement of comprehensive income for the year ended 31 December 2015:

in MCZK	Czech Republic	Slovakia	Other European Union	Other countries	Total
Net interest income	(264)	685	2,325	148	2,894
Fee and commission income	192	199	190	22	603
Fee and commission expense	(103)	(21)	(1)	(2)	(127)
Dividends from financial assets available for sale	11	–	–	3	14
Dividends from investment in equity	104	280	–	–	384
Net trading income / (expense)	(784)	66	350	393	25
Impairment of assets available for sale	(32)	–	–	–	(32)
Other operating income	31	741	4	–	776
Operating income	**(729)**	**1,950**	**2,868**	**564**	**4,537**
Personnel expenses	(454)	(276)	–	(1)	(731)
Other operating expenses	(532)	(427)	(9)	(7)	(975)
Depreciation and amortisation	(64)	(3)	–	–	(67)
Profit before provisions, allowances and income taxes	**(1,895)**	**1,244**	**2,859**	**556**	**2,764**
Net change in provisions from financial activities	(23)	–	–	–	(23)
Net change in allowances for impairment of loans	(203)	(302)	(37)	–	(542)
Allowances for investment in equity	(69)	–	(167)	–	(236)
Profit before tax	**(2,190)**	**942**	**2,655**	**556**	**1,963**
Income tax expenses	(110)	(120)	–	–	(230)
Profit for the period	**(2,300)**	**822**	**2,655**	**556**	**1,733**

35. RELATED PARTIES - GENERAL

The outstanding balances and transactions with related parties of the Bank are with general related parties as presented in the following tables. All transactions with such entities took place under standard market conditions.

The related parties are sorted in the following categories:

I. Parent company. This category includes J&T FINANCE GROUP SE and its majority owners Jozef Tkáč and Ivan Jakabovič and companies they own. Those companies do not prepare consolidated financial statements that would include the Bank except of the company J&T FINANCE GROUP SE.

II. Subsidiaries. This category includes subsidiaries of J&T FINANCE GROUP SE which are included in its consolidated financial statements by reason of majority ownership and subsidiaries of the Bank.

III. Associates and joint ventures. This category includes associates and joint ventures of the Bank and J&T FINANCE GROUP SE.

IV. Key management personnel of the entity or its parent and companies they own or co-own. This category includes related parties which are connected through key management personnel of the Bank or its parent and companies they own or co-own.

in MCZK	I.	II.	III.	IV.	Total
BALANCE SHEET ITEMS AS AT 31 DECEMBER 2016					
Receivables	1	1,041	–	7,116	8,158
Payables	75	3,088	–	713	3,876
Granted guarantees	–	32	–	4	36
Received guarantees	1,010	55	–	201	1,266
Provided loan commitments	540	616	–	573	1,729
Received collateral	–	41	–	450	491
PROFIT / LOSS ITEMS FOR PERIOD ENDED 31 DECEMBER 2016					
Expenses	(71)	(1 312)	–	(53)	(1 436)
Income	82	876	2	500	1,460

in MCZK	I.	II.	III.	IV.	Total
BALANCE SHEET ITEMS AS AT 31 DECEMBER 2015					
Receivables	204	1,155	14	7,549	8,922
Payables	1,190	3,505	–	386	5,081
Granted guarantees	–	246	–	2	248
Received guarantees	1,055	225	–	262	1,542
Provided loan commitments	7	506	1	28	542
Received collateral	–	73	–	442	515
PROFIT / LOSS ITEMS FOR PERIOD ENDED 31 DECEMBER 2015					
Expenses	(155)	(257)	(100)	(88)	(600)
Income	126	884	145	756	1,911

Receivables from members of the Board of Directors and the Supervisory Board

in MCZK	31.12.2016	31.12.2015
THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD		
Provided loans	21	24

Loans to employees of the Bank as at 31 December 2016 amounted to CZK 48 million (2015: CZK 70 million). The loans provided to the Board of Directors and Supervisory Board were provided under standard market conditions

36. RISK MANAGEMENT POLICIES AND DISCLOSURES

The strategy, main goals and processes

The fundamental goal of risk management is profit maximization with respect to the exposed risk taken, while considering the Bank's risk appetite.

In doing so, it must be ensured that the Bank activities outcome is predictable and in compliance with both trading goals and risk appetite of the Bank.

In order to meet this goal, the risks faced by the Bank are managed in a quality and prudential manner within the framework of the Bank:

- In terms of that, risks are monitored, assessed and eventually limited, at least as strictly as required by Czech National Bank. The internal limits are being reconsidered regularly and in case of significant changes of market conditions to ensure their compliance with both the overall group´s strategy and market and credit conditions. The adherence to the limits is monitored and reported daily. In case of their potential breach, the Bank immediately adopts adequate remedial measures.
- The Bank establishes goals for capital adequacy that it wants to attain over a specified time horizon (i.e. the level to which risks should be covered by capital) and threshold limits below which capital adequacy cannot decrease.
- The Bank establishes targets for selected indicators of liquidity, that wants to achieve in a specified time horizon, and certain limits, below which the system of liquidity indicators cannot decrease.
- The Bank establishes goals and on other selected risk indicators (the risk of excessive leverage, the credit risk, the concentration risk, etc.) and threshold limits below which the system of indicators cannot decrease.

All internal limits have been approved independently of business units of the Bank. The key indicators (capital adequacy ratio, liquidity and other risk categories) and their limits are part of Bank´s Risk Appetite Declaration.

37. CREDIT RISK

The amount of credit exposure in this regard is represented by the carrying amounts of the assets in the statement of financial position. In addition, the Bank is exposed to off balance sheet credit risk through commitments and guarantess to extend credit.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

(a) Exposition forborne:

in MCZK	2016	2015
Performing exposition	64,494	65,426
– performing exposition forborne	2,971	3,132
Non-performing exposition	5,220	4,616
– non-performing exposition forborne	1,818	3,736
Total	**69,714**	**70,042**

	2016	2015
The share of exposition forborne on the total loans provided to clients	**6.87%**	**9.81%**

(b) Concentration of loans to customers by economic sector:

in MCZK	2016	2015
Total not forborne	**64,925**	**63,174**
Non-financial organisations	43,776	44,491
Financial organisations	19,397	15,668
Households	1,752	3,012
Other	–	3
Total forborne	**4,789**	**6,868**
Non-financial organisations	4,482	6,222
Financial organisations	140	467
Households	117	129
Other	50	50
Total	**69,714**	**70,042**

(c) Concentration of loans to customers by industry:

in MCZK	2016	2015
Financial activities	24,382	21,267
Real estate activities	8,972	14,316
Manufacturing	8,116	6,802
Information and communication	7,402	4,707
Construction	5,932	5,588
Production and distribution of electricity, gas and heat	5,054	5,748
Professional, scientific and technical activities	2,240	475
Accommodation and food service activities	2,137	3,452
Mining and quarrying, agriculture	1,844	2,591
Transporting and storage	1,091	1,583
Private households and employed persons	813	1,773
Sports, entertainment and recreation activities	749	913
Wholesale and retail trade	477	476
Health and social care	267	1
Administrative and support service activities	37	156
Other	201	194
Total	**69,714**	**70,042**

(d) Concentration of loans to customers by location:

in MCZK	2016	2015
Cyprus	21,472	26,111
Slovakia	16,613	19,517
Czech Republic	14,868	12,053
Luxembourg	4,558	4,461
Netherlands	3,524	692
Switzerland	2,756	–
Poland	1,638	2,450
Croatia	653	–
British Virgin Islands	643	1,813
Malta	643	304
Maldives	605	631
Jersey, C.I.	487	866
Ireland	449	570
Russia	366	77
France	279	–
Great Britain	111	58
Austria	–	433
Others	49	6
Total	**69,714**	**70,042**

(e) Concentration of loans to customers by location of realization of project and collateral:

in MCZK	2016	2015
Czech Republic	35,120	32,009
Slovakia	19,281	23,249
Poland	3,040	2,450
China	2,868	–
Austria	2,337	214
Slovenia	1,608	1,922
Russia	978	3,870
Greece	944	707
Ukraine	663	640
Croatia	653	1,601
Maldives	605	631
Great Britain	574	1,097
France	323	–
Cyprus	293	684
USA	185	184
Malta	177	199
Luxembourg	–	41
Other	65	544
Total	**69,714**	**70,042**

The concentration of credit risk arising from repurchase agreements and loans to clients of brokers reflects the counterparty risk associated with securities and cash received as collateral.

(f) Credit risk associated with financial assets

As at 31 December 2016

in MCZK	Loans to banks	Repurchase agreements – financial institutions	Loans and advances to customers	Repurchase agreements – customers
IMPAIRED FINANCIAL ASSETS AT AMORTISED COST INDIVIDUALLY ASSESSED NOT FORBORNE:				
Gross amount	–	–	1,968	–
Impairment	–	–	(369)	–
Carrying amount	–	–	1,599	–
IMPAIRED FINANCIAL ASSETS AT AMORTISED COST INDIVIDUALLY ASSESSED FORBORNE:				
Gross amount	–	–	2,708	–
Impairment	–	–	(1,622)	–
Carrying amount	–	–	1,086	–
Total financial assets impaired	**–**	**–**	**2,685**	**–**
NEITHER PAST DUE NOR IMPAIRED:				
– not forborne	1,050	20,055	59,120	3,805
– forborne	–	–	3,656	–
PAST DUE NOT IMPAIRED:				
– not forborne	–	–	401	–
– forborne	–	–	47	–
to maturity date	–	–	315	–
up to 1 month	–	–	87	–
1 month to 6 months	–	–	–	–
6 months to 12 months	–	–	–	–
more than 12 months	–	–	46	–
Total financial assets not forborne	**1,050**	**20,055**	**61,120**	**3,805**
Total financial assets forborne	**–**	**–**	**4,789**	**–**
of which: Financial assets neither past due nor impaired with a sign of impairment:	**–**	**–**	**9,369**	**–**
Gross amount not forborne	–	–	5,666	–
Gross amount forborne	–	–	3,703	–

As at 31 December 2015

in MCZK	Loans to banks	Repurchase agreements – financial institutions	Loans and advances to customers	Repurchase agreements – customers
IMPAIRED FINANCIAL ASSETS AT AMORTISED COST INDIVIDUALLY ASSESSED NOT FORBORNE:				
Gross amount	–	–	426	–
Impairment	–	–	(32)	–
Carrying amount	–	–	394	–
IMPAIRED FINANCIAL ASSETS AT AMORTISED COST INDIVIDUALLY ASSESSED FORBORNE:				
Gross amount	–	–	2,767	–
Impairment	–	–	(1,299)	–
Carrying amount	–	–	1,468	–
Total financial assets impaired			**1,862**	**–**
NEITHER PAST DUE NOR IMPAIRED:				
– not forborne	1,250	32,411	59,752	3,027
– forborne	–	–	5,340	–
PAST DUE NOT IMPAIRED:				
– not forborne	–	–	1	–
– forborne	–	–	60	–
to maturity date	–	–	1	–
up to 1 month	–	–	13	–
1 month to 6 months	–	–	–	–
6 months to 12 months	–	–	–	–
more than 12 months	–	–	47	–
Total financial assets not forborne	**1,250**	**32,411**	**60,147**	**3,027**
Total financial assets forborne	**–**	**–**	**6,868**	**–**
of which: Financial assets neither past due nor impaired with a sign of impairment:	**–**	**–**	**9,085**	**–**
Gross amount not forborne	–	–	3,685	–
Gross amount forborne	–	–	5,400	–

Assets classified as "Financial assets neither past due nor impaired with a sign of impairment" and "Past due not impaired" represent those loans with a sign of impairment whose net present value of expected cash flows exceeds their carrying value, and therefore no provision has been created.

The part of the receivables that is not past due is presented in the line "To maturity date" and the Bank does not assume any problems with counterparty's payment discipline. Past due receivables are presented in the appropriate columns according to the period past due.

The amounts in the table on the previous page represent the maximum accounting loss that would be recognized in the statement of financial position if counterparties had completely failed to fulfill their obligations and if any potential collateral had no value as well. Those amounts are therefore considerably higher than expected losses that are included in the allowance for the loan losses. The Bank's policy is to require collateral from certain customers before loans can be drawn.

(g) Collateral and credit enhancements for financial assets

in MCZK	2016 Carrying value	2016 Fair value	2015 Carrying value	2015 Fair value
Neither past due nor impaired:	**48,931**	**56,180**	**60,549**	**87,559**
Guarantees	1,729	1,786	2,691	3,114
Acceptances of promissory note	1,336	1,978	1,128	1,973
Real estate	3,250	4,513	6,606	8,858
Cash deposits	2,313	2,313	2,248	2,248
Securities	7,872	8,390	4,352	6,305
Other	6,604	11,347	4,796	7,045
Securities received under reverse repurchase agreements	25,827	25,827	38,728	38,728

in MCZK	2016 Carrying value	2016 Fair value	2015 Carrying value	2015 Fair value
Past due but not impaired:	**129**	**372**	**60**	**344**
Guarantees	16	16	–	–
Acceptances of promissory note	–	–	–	–
Real estate	113	356	58	342
Cash deposits	–	–	2	2
Securities	–	–	–	–
Other	–	–	–	–
Securities received under reverse repurchase agreements	–	–	–	–
Impaired:	**5,686**	**9,304**	**1,425**	**1,967**
Guarantees	314	332	81	81
Acceptances of promissory note	–	–	–	–
Real estate	2,631	4,858	1,120	1,636
Cash deposits	59	60	8	8
Pledges – securities	2,496	3,808	96	103
Other	186	246	120	139
Securities received under reverse repurchase agreements	–	–	–	–

Other is mainly represented by movable assets and receivables.

Only co-accepted promissory notes of a 3rd party were accepted as security of loans by the Bank. The amount of security is up to the value of guarantee provided by promissory note guarantor. The Bank did not receive any financial assets from indemnity claims based on loans in default.

The carrying value represents the collateral value adjusted by the collateral stress coefficient. The carrying value is limited by the carrying value of receivable. The fair value is not adjusted by stress coefficient and it is not limited by the carrying value of receivable.

The carrying value of securities received under reverse repurchase agreements is represented in the quoted market price of the securities.

(h) Unconsolidated structured entities

The Bank engages in various business activities with structured entities which are companies designed to achieve a specific business purpose and usually designed so that voting or similar rights are not dominant factor in deciding who controls the entity.

A structured entity has often some or all of the following features or attributes:

- Restricted activities;
- A narrow and well defined objective;
- Insufficient equity that does not enable to finance its activities without subordinated financial support.

The Bank provides financing to certain structured entities for the purchase of assets that are collateralized in favor of the Bank by the structured entities. The Bank enters into transactions with these entities in the normal course of business to facilitate customer transactions and for specific investment opportunities. The entities covered by this disclosure note are not consolidated because the Bank does not control them through voting rights, contract, funding agreements, or other means.

Income derived from involvement with structured entities represents interest income recognized by the Bank on the funding provided to structured entities.

The Bank's interests in unconsolidated structured entities refer to contractual involvement that exposes the group to variability of returns from the performance of the structured entities.

The maximum exposure to loss for the Bank is determined by considering the nature of the interest in the unconsolidated structured entity and represents the maximum loss that the Bank could be required to report as a result of its involvement with unconsolidated structured entities regardless of the probability of the loss being incurred.

The maximum exposure for loans is reflected by their carrying amounts in the balance sheet as at 31 December 2016 amounting to CZK 3 078 million (2015: CZK 3 246 million) and there was no loss incurred in respect of these loans provided.

The total assets value for the significant unconsolidated structured entity which was identified, as indication of its size, is CZK 9 509 million (2015: CZK 7 059 million).

(i) Credit risk processes

Evaluating the risk of failure of counterparty is based on a credit analysis, processed by the Credit Risk Management dept. These analyses provide conclusions for prompt measures when the counterparty's credit situation worsens.

The results from the credit development analyses are reported to the Board of Directors, which decides on adjustments of limits or relations with the counterparty (namely in the form of closing or limiting positions or adjustment of limits).

Credit risk is monitored on a regularly basis, except for the credit risk of banking book reported on a monthly basis.

The extent of the risk is evaluated by Risk Management dept. When actual or possible breach of the adopted internal credit limits is identified (trading book exposures, derivates transactions, margin trading), the Financial Markets dept. is informed, in order to ensure the compliance of the risk exposure with the set limits. In pre-determined cases, the information is passed to the Board of Directors.

(j) Credit risk monitoring

Assessment of the credit risk in respect of counterparty or an issued debt is based on an internal rating of the Bank. The rating is determined using the credit scale of either S&P or Moody's. If the counterparties or their debt are not externally rated, an internal rating is assigned based on the Bank scoring system.

The Bank scoring system has seven rating levels based on a standardized point evaluation of relevant criteria, which describe the financial position of the contractual party and its ability and willingness to fulfil its credit obligations – in both cases including the expected development, quality and adequacy of the collateral, as well as proposed conditions for effecting the transaction.

(k) Credit risk measurement

The Bank regularly analyses and monitors credit risk. Credit risk at trading book and derivates transactions level is managed primarily based on the IRB (Internal Rating Based - BASEL II) methodology. Credit risk of investment book is quantified on the Standardized approach basis. Concentration risk is calculated for both of the books (for the level of Client, ECG, sector).

In order to assess the impact of extremely unfavourable credit conditions, the Bank performs credit development analyses. This enables identification of sudden potential changes in the values of open positions of the Bank that might arise as a result of events that are improbable, but possible.

For the trading portfolio, an impact of a sudden drop of credit rating by one level to open positions in bonds is evaluated.

The decrease in fair value at the end of the corresponding reporting period:

in MCZK	2016	2015
Decrease of the trading portfolio value due to a rating migration by one credit class	33	82

(in the Standard & Poor's scale)

(I) Risk management of customer trades

The Bank prevents the possibility of a credit exposure arising from customer trades, i.e. trades which are transacted on the customer's account and where the Bank has the role of a commissioner (customer trades such as spot buy, spot sell, sell / buy or buy / sell) as follows:

1. The amount of the customer collateral is continuously held higher than the amount of the customer loan at least by a pre-specified minimum required haircut. The level of this haircut is assigned to every instrument.
2. Should the current collateralization of the customer portfolio fall below the 30 per cent of the minimum required haircut, the Bank closes all of the customer's positions immediately.
3. The Bank accepts only instruments of specified minimal creditworthiness as collateral for customer trades.

In addition, the Bank also restricts the total volume of individual instruments used as collateral.

As of 31 December 2016, the Bank does not record any customer trades that would not be recognized in the Bank financial statements (2015: CZK 411 million).

38. LIQUIDITY RISK

Liquidity risk represents a risk that the Bank is not able to meet its commitments as they are becoming mature. The Bank is required to report several indicators to the National Bank which is done on a regular basis. The Bank's effort in terms of liquidity risk is to diversify its sources of funding so as to decrease the degree of risk emerging from specific source cut-off and hence forego problems.

The Bank performs an everyday monitoring of its liquidity position to indicate potential liquidity problems. The analysis takes into account all sources of funding that the Bank is using and interconnected obligations the Bank has to pay. For the purpose of sufficient liquidity reserve the Bank holds sufficient amount of liquid instruments (such as government bonds), maintains balances with central banks on a reasonable level and collects short-term receivables.

The Bank assorts all cash flows into timeframes according to maturities of the instruments to which the cash flows relate, and subsequently observes the resulting cumulative liquidity profile which is crucial for sound liquidity risk management. Such an analysis is also done for cash flows denominated in currencies different from CZK.

Three scenarios are used in terms of liquidity risk management:

A) Expected Scenario
B) Risk Scenario
C) Stress Scenarios

Stress Scenarios are based on stress imposed on components that might be negatively affected when liquidity crisis starts to approach. The stress scenario helps identify periods when it is necessary to manage the cash flows of the Bank with caution.

For the purposes of measuring liquidity risk on the basis of the scenarios, liquidity indicators are evaluated and their compliance with adopted internal / external limits is monitored on a daily basis. When present or possible breach of the adopted internal /

external liquidity limits is identified, the Treasury dept. as well as ALCO is informed, in order to ensure the compliance with the set limits. In pre-determined cases, the information is passed to the Board of Directors.

The Bank has an emergency plan for liquidity management that establishes the procedures applied in the case of possible liquidity crisis. The decision-making power is given by internal rules to the Board of Directors or ALCO.

The main precautionary measures introduced by the Risk dept. of the Bank in this area to respond to the economic crisis were as follows:
– implementation of stress tests based on various crisis scenarios;
– prudent internal limits for on-demand and mid-term available liquidity.

Liquidity risk of liquidity relevant instruments as of 31 December 2016:
Table shows the liquidity risk based on remaining contractual maturity dates.

in MCZK	Carrying amount	Contractual cash flows	Up to 3 month	Over 3 month & up to 1 year	1 to 5 years	>5 years	Undefined maturity
ASSETS							
Cash and balances with the central banks	14,170	14,170	12,867	–	–	–	1,303
Due from financial institutions	21,105	21,318	20,551	95	353	319	–
Financial assets (without derivatives)	11,808	13,381	9	849	1,554	5,104	5,865
Loans and advances to customers	69,714	83,430	10,724	20,393	35,395	16,918	–
Total	**116,797**	**132,299**	**44,151**	**21,337**	**37,302**	**22,341**	**7,168**
OFF BALANCE							
Unused credit lines	9,006	9,006	9,006	–	–	–	–
Granted guarantees	2,193	2,193	2,193	–	–	–	–

in MCZK	Carrying amount	Contractual cash flows	Up to 3 month	Over 3 month & up to 1 year	1 to 5 years	>5 years	Undefined maturity
LIABILITIES							
Deposits and loans from banks	3,338	2,933	2,933	–	–	–	–
Deposits from customers	93,833	95,053	48,704	23,722	22,520	107	–
Subordinated debt	1,427	1,757	17	63	897	780	–
Total	**98,598**	**99,743**	**51,654**	**23,785**	**23,417**	**887**	**–**
Net Liquidity position	**18,198**	**32,556**	**(7,503)**	**(2,448)**	**13,885**	**21,454**	**7,168**
Cumulative liquidity position	**–**	**–**	**(7,503)**	**(9,951)**	**3,934**	**25,388**	**32,556**

Contractual cash flows represents expected contractual future cash flows.

Expected liquidity

In the worst case scenario, the latest possible repayment date is assumed, which is based on latest expected completion date of each particular project. The projects' latest expected completion date may not be the same as the contractual maturity date.

Loans that are already in the process of refinancing negotiation are presented according the expected date of refinancing.

in MCZK	Carrying amount	Contractual cash flows	Up to 3 month	Over 3 month & up to 1 year	1 to 5 years	>5 years	Undefined maturity
Loans and advances to customers	69,714	83,768	10,282	19,759	35,704	18,018	5

Liquidity risk of derivatives as of 31 December 2016:

in MCZK	Carrying amount	Contractual cash flow	Up to 3 months	Up to 1 year	1 year to 5 years
DERIVATIVE FINANCIAL ASSETS					
Forward currency contracts					
– inflow	202	202	153	47	2
Total	**202**	**202**	**153**	**47**	**2**

in MCZK	Carrying amount	Contractual cash flow	Up to 3 months	Up to 1 year	1 year to 5 years
DERIVATIVE FINANCIAL LIABILITIES					
Forward currency contracts					
– outflow	184	184	130	40	14
Commodity derivates					
– inflow	4	4	4	–	–
Total	**188**	**188**	**134**	**40**	**14**

Liquidity risk of liquidity relevant instruments as of 31 December 2015:

Table shows the liquidity risk based on remaining contractual maturity dates.

in MCZK	Carrying amount	Contractual cash flows	Up to 3 month	Over 3 month & up to 1 year	1 to 5 years	>5 years	Undefined maturity
ASSETS							
Cash and balances with the central banks	19,023	19,023	17,317	–	–	–	1,706
Due from financial institutions	33,661	34,218	33,208	20	224	766	–
Financial assets (without derivatives)	18,192	20,571	213	1,589	4,814	8,297	5,658
Loans and advances to customers	70,042	85,777	11,461	15,293	38,888	20,135	–
Total	**140,918**	**159,589**	**62,199**	**16,902**	**43,926**	**29,198**	**7,364**
OFF BALANCE							
Unused credit lines	6,415	6,415	6,415	–	–	–	–
Granted guarantees	2,602	2,602	2,602	–	–	–	–

in MCZK	Carrying amount	Contractual cash flows	Up to 3 month	Over 3 month & up to 1 year	1 to 5 years	>5 years	Undefined maturity
LIABILITIES							
Deposits and loans from banks	4,343	4,353	3,527	826	–	–	–
Deposits from customers	117,058	119,026	60,899	30,219	27,858	50	–
Subordinated debt	2,049	2,788	29	100	1,001	1,658	–
Total	**123,450**	**126,167**	**64,454**	**31,145**	**28,859**	**1,708**	**–**
Net Liquidity position	**17,468**	**33,422**	**(786)**	**(14,243)**	**15,067**	**27,490**	**5,895**
Cumulative liquidity position	**–**	**–**	**(786)**	**(15,029)**	**38**	**27,528**	**33,423**

Expected liquidity

in MCZK	Carrying amount	Contractual cash flows	Up to 3 month	Over 3 month & up to 1 year	1 to 5 years	>5 years	Undefined maturity
Loans and advances to customers	70,042	85,784	9,382	15,129	40,181	21,042	50

Liquidity risk of derivatives as of 31 December 2015:

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Up to 1 year	1 year to 5 years
DERIVATIVE FINANCIAL ASSETS					
Forward currency contracts					
– outflow	–	(19,036)	(18,462)	(534)	(40)
– inflow	101	19,124	18,534	549	41
Other derivatives					
– inflow	1	1	–	–	1
Total	**102**	**89**	**72**	**15**	**2**

in MCZK	Carrying amount	Contractual cash flows	Up to 3 months	Up to 1 year	1 year to 5 years
DERIVATIVE FINANCIAL LIABILITIES					
Forward currency contracts					
– outflow	(125)	(25,496)	(23,525)	(1,909)	(62)
– inflow	–	25,362	23,456	1,844	62
Total	**(125)**	**(134)**	**(69)**	**(65)**	**–**

39. MARKET RISK

Market risk is the risk of loss to the Bank arising from market movements in quoted market prices of investment instruments, exchange rates and interest rates. Market risk consists of the trading portfolio market risk and investment portfolio market risk.

Market risk of the investment portfolio includes:
- Interest rate risk;
- Foreign exchange risk;
- Other market risk (equity risk, commodity risk).

Further information on interest rate risk and foreign exchange risk is provided in note 40 and 41, respectively.

The Bank uses the Value at Risk ("VaR") methodology to evaluate market risk of its trading portfolio, the foreign currency ("FX") and commodity position using a confidence level of 99% and a horizon of 10 business days.

The risks are evaluated and compared to limits set by the Risk Management dept. on a daily basis. If the limits are breached, the Financial Markets dept. is informed, in order to ensure the compliance of the risk exposure with the limits. In pre-determined cases, the information is passed to the Board of Directors.

The decision making power is given by internal rules to the Board of Directors and Investment Committee.

The Bank performs back testing on a daily basis for market risk by applying a method of hypothetical back testing.

The VaR statistics as of 31 December 2016 and 31 December 2015 are as follows:

in MCZK	2016	2015
VaR market risk overall	65	101
VaR interest rate risk (general risk)	26	40
VaR FX risk	47	100
VaR stock risk	45	15
VaR commodity risk	4	3

In order to assess the impact of extremely unfavourable market conditions, the Bank performs stress testing. This enables identification of sudden potential changes in the values of open positions of the Bank that might arise as a result of events that are improbable, but possible. As part of the stress testing, a short-term, medium-term and long-term historic shock scenario is applied to the trading portfolio, and the foreign currency and commodity positions of the Bank as a whole. These scenarios evaluate the deepest drop of the current portfolio value which would have happened in the previous one or ten years. The potential change in the fair value of the portfolio is monitored and assessed.

The decline in overall risk is primarily associated with a decline in FX rate risk, while the fall in the FX rate risk is because of a reduced volatility of FX exchange rates. The increase in the stock risk is caused by increase of stock positions.

Change in the fair value of the trading portfolio due to historic shock scenario:

in MCZK	2016	2015
Short-term scenario	45	66
Medium-term scenario	49	66
Long-term scenario	132	83

The impact of stress scenarios has not changed significantly compared to the previous year.

The market risk of the investment portfolio consists mainly of FX risk.

For details of the interest rate risk see note 40.

The Bank performs stress testing of the investment portfolio using a standardised interest rate shock, i.e. an immediate decrease / increase in interest rates by 200 basis points ('bp') along the entire yield curve (for selected currencies the decrease / increase in interest rates can be above 200 basis points).

The decrease in the present value of the investment portfolio in percentage points of equity would be as follows:

in MCZK	2016	2015
(% TIER 1 + TIER 2)		
Decrease in the present value of the investment portfolio due to a sudden change in interest rates by 200 bp	5.68	12.03

40. INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed for a financial instrument indicates to what extent it is exposed to an interest rate risk. The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have a contractual maturity date or are zero-interest-bearing are grouped together in the "maturity undefined" category.

Interest rate risk exposure as at 31 December 2016 was as follows:

in MCZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
ASSETS					
Cash and balances with central banks	12,927	–	–	1,243	14,170
Due from financial institutions	20,479	–	414	212	21,105
Fair value of derivatives, financial assets	2,730	758	2,657	5,865	12,010
Loans and advances to customers	42,773	13,067	2,298	11,576	69,714
Investment in equity	–	–	–	5,311	5,311
Investment property, property, plant and equipment, intangible assets	–	–	–	146	146
Current tax assets	–	–	–	69	69
Deferred tax assets	–	–	–	99	99
Prepayments, accrued income and other assets	–	–	–	823	823
Disposal groups held for sale	–	–	–	107	107
Total assets	**78,909**	**13,825**	**5,369**	**25,451**	**123,554**
LIABILITIES					
Deposits and loans from banks	1,008	–	–	2,330	3,338
Deposits from customers	63,614	21,585	87	8,547	93,833
Negative fair value of derivatives	183	5	–	–	188
Subordinated debt	749	663	21	(6)	1,427
Other liabilities and provisions	16	–	–	5,809	5,825
Share capital	–	–	–	10,638	10,638
Retained earnings and other reserves	–	–	–	8,305	8,305
Total liabilities and equity	**65,570**	**22,253**	**108**	**35,623**	**123,554**
Net interest rate risk position	**13,339**	**(8,428)**	**5,261**	**(10,172)**	**–**
Cumulative interest rate risk position	**13,339**	**4,911**	**10,172**	**–**	**–**

Interest rate risk exposure as at 31 December 2015 was as follows:

in MCZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
ASSETS					
Cash and balances with central banks	17,394	–	–	1,629	19,023
Due from financial institutions	32,688	–	317	656	33,661
Fair value of derivatives, financial assets	7,792	1,651	3,096	5,755	18,294
Loans and advances to customers	48,725	10,981	2,361	7,975	70,042
Investment in equity	–	–	–	3,309	3,309
Investment property, property, plant and equipment, intangible assets	–	–	–	153	153
Current tax assets	–	–	–	59	59
Deferred tax assets	–	–	–	88	88
Prepayments, accrued income and other assets	3	–	–	990	993
Disposal groups held for sale	–	–	–	1,368	1,368
Total assets	**106,602**	**12,632**	**5,774**	**21,982**	**146,990**
LIABILITIES					
Deposits and loans from banks	4,342	–	–	1	4,343
Deposits from customers	90,532	26,637	40	(151)	117,058
Negative fair value of derivatives	124	1	–	–	125
Subordinated debt	760	535	761	(7)	2,049
Other liabilities and provisions	108	3	40	6,465	6,616
Share capital	–	–	–	10,638	10,638
Retained earnings and other reserves	–	–	–	6,161	6,161
Total liabilities and equity	**95,866**	**27,176**	**841**	**23,107**	**146,990**
Net interest rate risk position	**10,736**	**(14,544)**	**4,933**	**(1,125)**	**–**
Cumulative interest rate risk position	**10,736**	**(3,808)**	**1,125**	**–**	**–**

41. FOREIGN EXCHANGE RISK

Assets and liabilities denominated in foreign currencies, including off-balance sheet exposures, represent the Bank's exposure to currency risk. Both realized and unrealized foreign exchange gains and losses are reported directly in the statement of comprehensive income. The main tool used for managing foreign currency risk is the VaR methodology which is applied using a 99% confidence level and a ten-day holding period.

As at 31 December 2016, the exposure to Group's foreign exchange risk was as follows:

in MCZK	CZK	USD	EUR	RUB	Other	Total
ASSETS						
Cash and balances with the central banks	13,399	18	740	–	13	14,170
Due from financial institutions	20,030	403	421	138	113	21,105
Fair value of derivatives, financial assets	2,929	115	8,467	–	499	12,010
Loans and advances to customers	23,432	2,163	43,595	5	519	69,714
Investment in equity accounted investees	234	390	826	2,996	865	5,311
Current tax assets	(9)	–	78	–	–	69
Deferred tax assets	58	–	41	–	–	99
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	705	58	206	–	–	969
Disposal groups held for sale	107	–	–	–	–	107
Total	**60,885**	**3,147**	**54,374**	**3,139**	**2,009**	**123,554**

in MCZK	CZK	USD	EUR	RUB	Other	Total
LIABILITIES						
Deposits and loans from banks	241	715	2,284	1	97	3,338
Deposits from customers	60,954	2,256	30,132	346	145	93,833
Subordinated debt	691	–	736	–	–	1,427
Other liabilities and equity	23,098	493	1,241	–	124	24,956
Total	**84,984**	**3,464**	**34,393**	**347**	**366**	**123,554**
Long position off-balance sheet:						
items from derivative transactions	38,001	4,624	19,147	299	769	62,840
items from spot transactions with share instruments	14	39	2	–	–	55
Short position off-balance sheet:						
items from derivative transactions	15,412	4,384	38,540	2,368	2,116	62,820
items from spot transactions with share instruments	14	41	–	–	–	55
Open position asset/(liability)	**(1,510)**	**(79)**	**590**	**723**	**296**	**20**

As at 31 December 2015, the exposure to foreign exchange risk was as follows:

in MCZK	CZK	USD	EUR	RUB	Other	Total
ASSETS						
Cash and balances with the central banks	18,671	12	332	–	8	19,023
Due from financial institutions	30,250	2,583	629	116	83	33,661
Fair value of derivatives, financial assets	5,708	397	11,902	–	287	18,294
Loans and advances to customers	17,623	2,276	48,998	49	1,096	70,042
Investment in equity accounted investees	908	377	128	1,261	635	3,309
Current tax assets	89	–	(30)	–	–	59
Deferred tax assets	63	–	25	–	–	88
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	423	118	600	4	1	1,146
Disposal groups held for sale	107	–	–	1,261	–	1,368
Total	**73,842**	**5,763**	**62,584**	**2,691**	**2,110**	**146,990**

in MCZK	CZK	USD	EUR	RUB	Other	Total
LIABILITIES						
Deposits and loans from banks	1,157	199	2,951	–	36	4,343
Deposits from customers	77,670	2,329	36,793	164	102	117,058
Subordinated debt	997	–	1,052	–	–	2,049
Other liabilities and equity	20,603	289	2,616	5	25	23,540
Total	**100,427**	**2,821**	**43,412**	**169**	**163**	**146,990**
Long position off-balance sheet:						
items from derivative transactions	32,927	733	9,614	206	1,206	44,686
items from spot transactions with share instruments	15	63	–	–	–	78
Short position off-balance sheet:						
items from derivative transactions	6,284	3,530	30,839	1,942	2,139	44,734
items from spot transactions with share instruments	15	63	–	–	–	78
Open position asset/(liability)	**59**	**147**	**(2,053)**	**785**	**1,014**	**(48)**

42. OPERATIONAL RISK

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency or system failure. It arises from all the Bank's activities and is a risk faced by all business organisations. Operational risk includes legal risk.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and avoid control procedures that would restrict initiative.

The primary responsibility for the implementation of controls to address operational risk is assigned to management within each subsidiary. This responsibility is supported by the development of overall standards within the Bank for the management of operational risk which is done by the Risk Management dept. and which cover the following areas:

- Requirements for the reconciliation and monitoring of transactions.
- Identification of operational risk within the framework of each subsidiary's control system and development of conditions for decreasing and limiting operational risk (while the required level of activities is secured), as well as its impacts and consequences; recommendations for appropriate solutions in this area.
- Reporting of operational risk events by entering the corresponding information into the Bank's database of operational risk events
- This overview of the Bank's operational risk events allows the Bank to specify the direction of the steps and processes to take in order to limit these risks, as well as to make decisions with regard to:
  - accepting the individual risks that are faced;
  - initiating processes leading to limitation of possible impacts; or
  - decreasing the scope of the relevant activity or discontinuing it entirely.

43. CAPITAL MANAGEMENT

The Bank policy is to hold strong capital base in order to maintain the confidence of creditors and the market, while ensuring the future development of her business.

Starting 1 January 2014 the capital adequacy ratios are calculated in accordance with the Regulation (EU) no. 575/2013 of the European Parliament and Council Regulation (the "CRR") of 26 June 2013. Until 31 December 2013 the capital adequacy ratio was calculated in accordance with the Czech National Bank ("CNB") decree no. 123/2007 Coll.

Own funds (regulatory capital) of the Bank are analysed in two parts:

- Tier 1 capital, which consist of:
  - Common Equity Tier 1 capital (CET1), which includes paid-up ordinary share capital, share premium, retained earnings (profit for the period is not included), accumulated other comprehensive income, net of goodwill, intangible assets and additional value adjustments;
  - Additional Tier 1 capital (AT1), which includes capital instruments (subordinated income certificates) issued in accordance with CRR.
- Tier 2 capital, which consists of eligible subordinated debt approved by Czech National Bank in the amount of CZK 1 192 million (31 December 2015: CZK 1 932 million).

Until 31 December 2013, the capital adequacy ratio was calculated as the ratio of regulatory capital to capital requirements multiplied by 8% according to regulatory requirements. The capital adequacy ratio had to be a minimum value of 8%.

From 1 January 2014 the capital adequacy ratios are calculated for CET1, Tier 1 capital and total regulatory capital. The value represents the ratio of capital to risk weighted assets (RWA). CNB also requires every institution to hold additional capital conservation buffer of 2.5% on all the levels of regulatory capital.

Minimum requirements for capital ratios are as follows:

	Minimum requirement	Capital conservation buffer	Total requirement
Common Equity Tier 1 capital (CET1)	4.5%	2.5%	7%
Tier 1 capital	6%	2.5%	8.5%
Total regulatory capital	**8%**	**2.5%**	**10.5%**

Regulatory capital and equity reconciliation

The tables below summarize the composition of own funds (regulatory capital) and equity and capital ratios for 31 December 2016 and 31 December 2015, providing a complete reconciliation of individual items of regulatory capital to equity.

31 December 2016

in MCZK	Regulatory capital	Equity
Paid-up capital registered in the Commercial Register	10,638	10,638
Retained earnings	3,861	3,948
Profit for the period	–	1,552
Accumulated other comprehensive income	31	54
Reserve funds	–	154
(–) Additional value adjustments (AVA)	(11)	–
(–) Intangible assets other than goodwill	(97)	–
Paid-in AT1 instruments, share premium	2,597	2,597
Total Tier 1 capital	**17,019**	**n/a**
Total Tier 2 capital	1,192	–
Total regulatory capital/equity	**18,211**	**18,943**
Capital relevant for the large exposure limits, qualified share limits and capital adequacy calculation	**18,211**	**–**

31 December 2015

in MCZK	Regulatory capital	Equity
Paid-up capital registered in the Commercial Register	10,638	10,638
Retained earnings	2,433	2,527
Profit for the period	–	1,733
Accumulated other comprehensive income	79	87
Reserve funds	–	72
(–) Additional value adjustments (AVA)	(18)	–
(–) Intangible assets other than goodwill	(97)	–
Paid-in AT1 instruments, share premium	1,742	1,742
Total Tier 1 capital	**14,777**	**n/a**
Total Tier 2 capital	1,932	–
Total regulatory capital/equity	**16,709**	**16,799**
Capital relevant for the large exposure limits, qualified share limits and capital adequacy calculation	**16,709**	**–**

Based on the opinion of the Czech National Bank, retained earnings were reduced by the anticipated payment amount of the income from subordinated income certificates (AT1 instruments) in the next four quarters that are not covered by a special-purpose fund for the payment of the income from those certificates before its inclusion in regulatory capital.

RWA and capital ratios

in MCZK	31 December 2016	31 December 2015
Total risk weighted assets (RWA)	102,580	105,568

Capital adequacy ratios

In percentage	31 December 2016	31 December 2015
Common Equity Tier 1 capital (CET1)	14.06	12.34
Tier 1 capital	16.59	14.00
Total regulatory capital	**17.75**	**15.83**

The key goal of capital management of the Bank is to ensure that the risks faced do not threaten the solvency of the Bank and capital adequacy regulatory limit compliance. In addition, within the strategic framework of the Bank the board stipulated the value 16% for mid-term capital adequacy goal as a reflection of the risk appetite of the Bank.

The purpose for setting the minimum value for capital adequacy requirements is to establish a trigger mechanism, which provides a guarantee that the capital adequacy will not decrease to the regulatory minimum.

The compliance of the Bank capital with established limits and goals for the capital adequacy is evaluated regularly by the ALCO committee and the Bank's management.

The decision making power with regard to eventual measures that should be implemented to decrease the level of exposed risk (e.g., decreasing the size of risks, acquiring additional capital, etc.) is given to the Board of Directors.

44. FAIR VALUES INFORMATION

Estimation of fair values

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Loans and advances to customers and Due from financial institutions: Fair value is calculated based on discounted expected future cash flows of principal and interest using the appropriate yield curve and risk spread. Expected future cash flows are estimated considering the credit risk and any indication of impairment. The estimated fair values of loans reflect changes in credit status since the loans were provided and changes in interest rates in the case of fixed rate loans.

Financial assets held to maturity: Fair value is based on quoted market prices traded in active markets at the statement of financial position date.

Deposits and loans from banks and customers and Subordinated debt: For demand deposits and deposits with no defined maturity, fair value is taken to be the amount payable on demand at the statement of financial position date. The estimated fair value of fixed-maturity deposits is based on discounted cash flows using appropriate yield curve.

The fair value of the issued subordinated bonds does not contain direct transaction costs, which were expensed on issue.

Estimates of the fair value of financial assets measured at amortized cost, analyzed according to the hierarchy that reflects the significance of the inputs used in the valuation were as follows:

As at 31 December 2016

in MCZK	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
FINANCIAL ASSETS					
Cash and balances with central banks	–	14,168	–	14,168	14,170
Due from financial institutions	–	21,105	–	21,105	21,105
Loans and advances to customers	–	–	70,941	70,941	69,714
Financial assets held to maturity	604	–	–	604	617
FINANCIAL LIABILITIES					
Deposits and loans from banks	–	3,336	–	3,336	3,338
Deposits from customers	–	93,432	–	93,432	93,833
Subordinated debt	–	1,350	–	1,350	1,427

In 2016, the Loans and advances to customers were reclassified from Level 2 to Level 3. Precising of the presentation in a hierarchy system is the aim of this reclassification representing the influence of non-market inputs and the market practice changes in the banking sector arising during last years.

As at 31 December 2015

in MCZK	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
FINANCIAL ASSETS					
Cash and balances with central banks	–	19,023	–	19,023	19,023
Due from financial institutions	–	33,632	–	33,632	33,661
Loans and advances to customers	–	68,736	2,242	70,978	70,042
Financial assets held to maturity	625	–	–	625	609
FINANCIAL LIABILITIES					
Deposits and loans from banks	–	4,327	–	4,327	4,343
Deposits from customers	–	116,609	–	116,609	117,058
Subordinated debt	–	1,967	–	1,967	2,049

45. SUBSEQUENT EVENTS

On January 1, 2017, the subsidiary Vaba d.d. banka Varaždin changed its registered name to J&T banka (d.d).

On February 15, 2017 the Bank entered into an agreement to purchase securities with Stadium Arcadium Limited, on the basis that there was a transfer of 10 pieces of bulk documents, each representing 30 000 pcs of ordinary shares, representing 100% of the company's Health Care Financing, a.s. whose activity is providing of retail loans.

INDEPENDENT AUDITOR’S REPORT TO THE SHAREHOLDERS OF J & T BANKA, A.S.

Opinion

We have audited the accompanying financial statements of J & T BANKA, a.s. ("the Company"), 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 2016, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, 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, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loss allowances for loans and receivables to customers

We focused on this matter because of the highly subjective and complex judgements made by the Bank's management in determining the necessity for, and then estimating the size of, loss allowances against loans.

Loss allowances for loans and receivables to customers at CZK 1 991 million as at 31 December 2016 represent the management's estimate of impairment losses incurred within loans and receivables to customers (further only as the "Loans") at the balance sheet date.

The future quality of the portfolio depends on controls that are already embedded within the underwriting process.

A particularly important element in the impairment process is the assessment of any objective evidence of impairment for the respective loan exposure. The Bank has set a series of criteria to identify any objective evidence of impairment. This evidence includes observable data about the events such as, among others, delinquency in contractual payments of principal or interest, prospective cash flow difficulties, etc.

Allowances for the impaired part of the portfolio are determined by calculating discounted future cash flows. The impaired loans require the Bank's management to regularly monitor the borrowers' repayment abilities individually and to assess the individual allowances of each borrower. The key judgment for individual allowances is determining any future cash repayments of these loans taking into account the estimated value and timing of cash flows including estimating the recoverable value of underlying collateral.

For further information, please refer to note 3 (Accounting policies), note 11 (Loans and receivables to customers) and 12 (Allowances for impairment of loans) in the Notes to the financial statements.

How the audit matter was addressed

Among others, we performed the procedures outlined below to address this key audit matter:

We critically assessed and challenged the Bank's credit policies and evaluated the processes for identifying impairment indicators and the categorisation of receivables according to these policies.

On a sample of loans we tested the design, implementation and operating effectiveness of controls over the identification of the existence of impairment triggers by inquiry in combination with observation and inspection.

For a sample of loans we considered the latest developments in relation to the borrower, the existence of impairment triggers and the basis of measuring the loss allowance. Furthermore, we examined the forecast cash flows from the borrowers, as prepared by the credit risk department, and in particular challenged the key assumptions in relation to both the amount and timing of estimated cash flows. For the impaired loans we re-calculated specific allowances calculated by the credit risk department to check the accuracy of data captured in the accounting records.

On a sample, our real estate valuation specialist critically assessed the methodology used by the Bank for real estate appraisals. The specialist challenged the assumptions used in the appraisals by comparing them to our own expectations based on our knowledge of the client and our experience.

As a part of our substantive testing we performed analytical procedures for loans and reconciled significant balances between the accounting system and underlying systems.

We assessed the adequacy of the Bank's disclosures on the loss allowances and the related credit risk management in the Notes to the financial statements.

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

The Company has not prepared an annual report as at 31 December 2016, as it includes the respective information in the consolidated annual report. Consequently, this auditor's report does not include our statement on the other information.

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Financial Statements
The statutory body 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 statutory body 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 statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and Audit Committee are responsible for the oversight of the Company's financial reporting process.

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 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 regulations, we exercise professional judgment and maintain professional skepticism 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Company 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Statutory Auditor Responsible for the Engagement

Vladimír Dvořáček is the statutory auditor responsible for the audit of the financial statements of J & T BANKA, a.s. as at 31 December 2016, based on which this independent auditor's report has been prepared.

Prague, 30 March 2017

KPMG Česká republika Audit, s.r.o.
Registration number 71

Ing. Vladimír Dvořáček
Partner, Registration number 2332

REPORT ON RELATIONS BETWEEN RELATED PARTIES FOR THE ACCOUNTING PERIOD OF 2016

Prepared in accordance with Section 82 of Act No. 90/2012 Coll., on Commercial Companies and Cooperatives (the Act on Business Corporations).

I. STRUCTURE OF RELATIONS BETWEEN THE CONTROLLING ENTITIES AND THE CONTROLLED ENTITY AND BETWEEN THE CONTROLLED ENTITY AND ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY, THE ROLE OF THE CONTROLLED ENTITY IN THE STRUCTURE, AND MANNER AND MEANS OF CONTROL.

The Board of Directors of J & T BANKA, a.s. is aware that during the period from 1 January 2016 to 31 December 2016, J & T BANKA, a.s. was directly controlled by the following persons and entities:

J&T FINANCE GROUP SE
ID# 27592502, with its registered office at Praha 8, Pobřežní 297/14, postcode 186 00, Czech Republic

The Board of Directors of J & T BANKA, a.s. is aware that during the period from 1 January 2016 to 31 December 2016, J & T BANKA, a.s. was indirectly controlled by the following persons and entities:

Ing. Ivan Jakabovič,
Birth ID# 721008/6246, residing at 32 rue Comte Felix Gastaldi, 980 00 Monaco-Ville, who, along with Ing. Jozef Tkáč (see below), controls J&T FINANCE GROUP SE.

In addition, Ing. Ivan Jakabovič owns shares in the following companies:

J & T Securities, s.r.o.
ID# 31366431, with its registered office at Bratislava, Dvořákovo nábrežie 8, postcode 811 02, Slovakia, controlled by Ing. Ivan Jakabovič

DANILLA EQUITY LIMITED
ID# HE297027, with its registered office at SAVVIDES CENTER, 59-61, Akropoleos Avenue, 1st floor, Flat/Office 102, postcode 2012, Nicosia, Cyprus, controlled by Ing. Ivan Jakabovič along with Ing. Jozef Tkáč

Ing. Jozef Tkáč,
Birth ID# 500616/210, residing at Bratislava, Júlová 10941/32, postcode 831 01, Slovakia, who, along with Ing. Ivan Jakabovič (see above) controls J&T FINANCE GROUP SE.

The Board of Directors of J & T BANKA, a.s. is aware that during the period from 1 January 2016 to 31 December 2016, J & T BANKA, a.s. was controlled by the same entities as the following other controlled entities, through J&T FINANCE GROUP SE.

Poštová banka, a.s.
ID# 31340890, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by J&T FINANCE GROUP SE.

Poštová poisťovna, a.s. (Poisťovňa Poštovej banky, a. s.)
ID# 31405410, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

Dôchodková správcovská spoločnosť Poštovej banky, d.s.s., a. s.
ID# 35904305, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a. s.
ID# 31621317, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

PB Servis, a. s. (POBA Servis, a. s.)
ID# 47234571, with its registered office at Karloveská 34, Bratislava 841 04, Slovakia, controlled by Poštová banka, a.s.

PB PARTNER, a. s.
IČ: 36864013, se sídlem Dvořákovo nábrežie 4, Bratislava 811 02, Slovenská republika, ovládána společností Poštová banka, a.s.

PB Finančné služby, a. s.
ID# 35817453, with its registered office at Hattalova 12, Bratislava 831 03, Slovakia, controlled by Poštová banka, a.s.

SPPS, a. s.
ID# 46552723, with its registered office at Nám. SNP 35, Bratislava 811 01, Slovakia, controlled by Poštová banka, a.s.

PB IT, a. s.
ID# 47621320, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

J&T SERVICES ČR, a.s. (J&T Management, a.s.)
ID# 28168305, with its registered office at Praha 8, Pobřežní 297/14, postcode 186 00, Czech Republic, controlled by J&T FINANCE GROUP SE.

J&T SERVICES SR, s.r.o.
ID# 46293329, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by J&T SERVICES ČR, a.s.

J&T FINANCE, LLC
ID# 1067746577326, with its registered office at Rossolimo 17, Moscow, Russia, controlled by J&T SERVICES ČR, a.s.

Hotel Kadashevskaya, LLC.
ID# 1087746708642, with its registered office at Kadashevskaya Nabereznaya 26, 115 035 Moscow, Russia, controlled by J & T FINANCE, LLC.

J&T Bank Switzerland Ltd. in liquidation
ID# CH02030069721, with its registered office at Zurich, Talacker 50, 12th floor, postcode 8001, Switzerland, controlled by J&T FINANCE GROUP SE.

J&T Concierge, s.r.o.
ID# 28189825, with its registered office at Praha 8, Pobřežní 297/14, postcode 186 00, Czech Republic, controlled by J&T FINANCE GROUP SE.

PBI, a.s.
ID# 03633527, with its registered office at Praha 8, Sokolovská 394/17, postcode 186 00, Czech Republic, controlled by J&T FINANCE GROUP SE.

J&T Integris Group Ltd.
ID# HE207436, with its registered office at Klimentos, 41-43, KLIMENTOS TOWER, 2nd floor, Flat/Office 21, Nicosia, postcode 1061, Cyprus, controlled by J&T FINANCE GROUP SE.

Bayshore Merchant Services Inc.
ID# 01005740, with its registered office at TMF Place, Road Town, Tortola, British Virgin Islands, controlled by J&T Integris Group Ltd.

J&T Bank & Trust Inc.
ID# 00011908, with its registered office at Lauriston House, Lower Collymore Rock, St. Michael, Barbados, controlled by Bayshore Merchant Services Inc.

J and T Capital, Sociedad Anonima de Capital Variable
ID# 155559102, with its registered office at Explanada 905-A, Lomas de Chapultepec, postcode 11000, Ciudad de Mexico, Mexico, controlled by Bayshore Merchant Services Inc.

J&T MINORITIES PORTFOLIO LTD
ID# HE260754, with its registered office at SAVVIDES CENTER, 59-61, Akropoleos Avenue, 1st floor, Flat/Office 102, postcode 2012, Nicosia, Cyprus, controlled by J&T Integris Group Ltd.

Equity Holding, a.s.
ID# 10005005, with its registered office at Praha 8, Pobřežní 297/14, postcode 186 00, Czech Republic, controlled by J&T MINORITIES PORTFOLIO LTD.

ABS PROPERTY LIMITED
ID# 385594, with its registered office at 41 Central Chambers, Dame Court, Dublin 2, Ireland, controlled by J&T MINORITIES PORTFOLIO LTD. Until 31 May 2016.

J&T Global Finance I., B.V. in liquidatie
ID# 53836146, with its registered office at Weteringschans 26, Amsterdam, 1017 SG, the Netherlands, controlled by J&T Integris Group Ltd. Until 8 November 2016.

J&T Global Finance II., B.V. in liquidatie
ID# 53835697, with its registered office at Weteringschans 26, Amsterdam, 1017 SG, the Netherlands, controlled by J&T Integ-

ris Group Ltd. Until 8 November 2016.

J&T Global Finance III., s. r. o.
ID# 47101181, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by J&T Integris Group Ltd.

J&T Global Finance IV., B.V.
ID# 60411740, with its registered office at Weteringschans 26, Amsterdam, 1017 SG, the Netherlands, controlled by J&T Integris Group Ltd.

J&T Global Finance V., s. r. o.
ID# 47916036, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by J&T Integris Group Ltd.

J&T Global Finance VI., s.r.o.
ID# 50195131, with its registered office at Dvořákovo nábrežie 8, Bratislava 811 02, Slovakia, controlled by J&T Integris Group Ltd. Since 27 February 2016.

J&T Global Finance VII., s.r.o.
ID# 05243441, with its registered office at Praha 8, Pobřežní 297/14, postcode 186 00, Czech Republic, controlled by J&T Integris Group Ltd. Since 18 July 2016.

J & T BANKA, a.s. is a member of the consolidation unit of the financial holding company of Ing. Jakabovič and Ing. Tkáč in accordance with Act No. 21/1992 Coll., on Banks. The manner and means of control described in this report follow from control effected based on an interest in registered capital and voting rights of the company.

II. SUMMARY OF ACTS MADE IN THE ACCOUNTING PERIOD OF 2016 WHICH WERE MADE AT THE INSTIGATION OR IN THE INTEREST OF THE CONTROLLING ENTITY OR THE ENTITIES CONTROLLED BY THE CONTROLLING ENTITY IF THESE ACTS CONCERNED ASSETS THE VALUE OF WHICH EXCEEDS 10% OF THE CONTROLLED ENTITY'S EQUITY IDENTIFIED FROM THE LAST FINANCIAL STATEMENTS.

During the accounting period, no acts concerning assets the value of which exceeds 10% of the Bank's equity identified from the last financial statements were made in the interest or at the instigation of the controlling entity and entities controlled by the controlling entity.

III. SUMMARY OF CONTRACTS ENTERED INTO BETWEEN THE CONTROLLED ENTITY AND THE CONTROLLING ENTITY OR BETWEEN CONTROLLED ENTITIES.

With J&T FINANCE GROUP SE:

Contracts in force entered into between related parties:

- Agreement on protection of confidential information and the procedure to be applied when providing confidential information, dated 30 April 2014, based on which the parties to this agreement are obliged to maintain confidentiality.

– Agent agreement for the brokerage of purchase and sale of securities, dated 10 April 2008, as further amended.

Contracts in force entered into between related parties based on which performance was provided in 2016:

– Agent agreement dated 15 December 2008, based on which, in 2016, J & T BANKA, a.s. provided the related party with stock brokerage services based on the arm's length principle, in exchange for adequate consideration.
– Contract for the custody of financial instruments, dated 15 January 2007, based on which J&T BANKA, a.s. provided to related party in 2016 custody of securities to the appropriate payment.
– Contract agreement for the custody of financial instruments, dated 2 November 2005, based on which J&T BANKA, a.s. provided to related party in 2016 custody of securities to the appropriate payment.
– Financial settlement agreement dated 3 January 2012, based on which J & T BANKA, a.s. settles its receivables and liabilities arising in connection with value added tax, as they are members of a single VAT group of which the Bank is the representing member.
– Cost splitting agreement dated 31 December 2014, based on which the companies mutually covered 50% of the cost of the audit of group reporting packages in 2016, in exchange for adequate consideration.
– Contract for the provision of a guarantee, dated 15 December 2005, based on which, in 2016, J&T FINANCE GROUP SE provided a guarantee as to a minimum amount of revenue generated by a client's portfolio, in exchange for adequate consideration.
– Contract for the provision of a guarantee, dated 21 August 2006, based on which, in 2016, J&T FINANCE GROUP SE provided a guarantee to selected clients of the Bank, in exchange for adequate consideration.
– Liability sharing agreement dated 11 July 2007, based on which, in 2016, J&T FINANCE GROUP SE shared the potential liability of J & T BANKA, a.s. arising from a Purchase agreement with the original assignees of the subordinated debt, in exchange for adequate consideration.
– Contract for the business lease of movable assets, dated 22 September 2010, as further amended, based on which, in 2016, J&T FINANCE GROUP SE leased fixtures and fittings to the Bank, in exchange for adequate consideration – lease payment.
– Contract for the business lease of movable assets and financial settlement, dated 30 May 2011, as further amended, based on which J&T FINANCE GROUP SE leased fixtures and fittings in the building at Dvořákovo nábřežie 8, Bratislava to the Bank in 2016, in exchange for adequate consideration – lease payment.
– Agreement on the cooperation in providing the J&T Family and Friends with banking services and in participating in the Magnus loyalty scheme, dated 25 November 2011, based on which, in 2016, J & T BANKA, a.s. provided the related party with an advantageous package of services and participation rights on the loyalty scheme MAGNUS as an instrument of social policy, in exchange for adequate consideration.
– Contract for the business lease of movable assets and financial settlement, dated 1 December 2014, based on which J&T FINANCE GROUP SE leased fixtures and fittings in the River Park building complex in Bratislava to the Bank in 2016, in exchange for adequate consideration – lease payment.
– Contract for the provision of banking services, dated 22 January 2014, based on which J & T BANKA, a.s. undertook to provide services pursuant to this contract, in exchange for adequate consideration
– Cost splitting contract, dated 6 October 2014, based on which J&T FINANCE GROUP SE and J & T BANKA, a.s. share the costs connected with the entry of a strategic investor into the J&T financial group, in exchange for adequate consideration – payment of the costs.
– Brokerage contract dated 6 November 2013, based on which J&T FINANCE GROUP SE mediated opportunities to conclude a contract with potential clients, in exchange for adequate consideration.

- Contract for the provision of services, dated 10 September 2015, based on which J&T BANKA, a.s. provided services relating to debt securities of J&T FINANCE GROUP SE's client, in exchange for adequate consideration.
- General contract for the trading in financial markets, dated 2 January 2014, based on which J&T BANKA, a.s. negotiated currency derivative transactions, in exchange for adequate consideration.
- General contract for the trading in financial markets, dated 30 November 2015, based on which J&T BANKA, a.s, negotiated currency derivative transactions, in exchange for adequate consideration.
- Overdraft loan agreement No. EUR 61/KTK/2016, dated 11 November 2016, based on which J & T BANKA, a.s. undertook to provide funds (an overdraft loan) to the related party, and J&T FINANCE GROUP SE undertook to repay the loan, pay the interest and other fees in accordance with the agreed terms and conditions.
- Subordinated agreement, dated 1 July 2016, concluded between J & T BANKA, a.s. and J&T FINANCE GROUP SE (the subordinated creditor) regarding to the loan provided to the third party.
- Contract for the sale of movable assets, dated 31 December 2016, based on which, in 2016, J & T BANKA, a.s. sold IT equipment in exchange for adequate consideration.
- Administrator contract dated 17 March 2016, along with Special arrangement to this contract, based on which, in 2016, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration.
- Current account maintenance in accordance with the terms and conditions of the Bank.
- Issue of a debit card in accordance with the terms and conditions of the Bank.
- Provision of a safety deposit box in accordance with the terms and conditions of the Bank.
- Forward currency transactions in accordance with the terms and conditions of the Bank.

With Ing. Ivan Jakabovič:

Contracts in force entered into between related parties:

- Agent agreement No. 17726 for the brokerage of purchase and sale of securities, dated 13 March 2009.
- Statement of the qualified investor, dated 24 November 2015, based on which financial transactions with units can be concluded on the financial market.

Contracts in force entered into between related parties based on which performance was provided in 2016:

- General agreement for the custody of financial instruments, dated 5 October 2009, based on which J&T BANKA, a.s. provided to related party in 2016 custody of securities to the appropriate payment.
- General agreement on the private banking, dated 24 November 2015, based on which J & T BANKA, a.s. undertook to provide services pursuant to this agreement, in exchange for adequate consideration.
- Agreement for the execution of the Supervisory Board member, dated 30 December 2014, based on Act No. 90/2012 Coll., on Commercial Companies and Cooperatives (the Act on Business Corporations).
- Current account maintenance in accordance with the terms and conditions of the Bank.
- Issue of a debet and charge card in accordance with the terms and conditions of the Bank.

With J & T Securities, s.r.o.:

- Current account maintenance in accordance with the terms and conditions of the Bank.

With DANILLA EQUITY LIMITED:

- Contract for the provisions of banking services, dated 26 February 2015, based on which J & T BANKA, a.s. undertook to provide services pursuant to this contract, in exchange for adequate consideration.
- Current account maintenance in accordance with the terms and conditions of the Bank.

With Ing. Jozef Tkáč:

Contracts in force entered into between related parties based on which performance was provided in 2016:

- General agreement for the custody of financial instruments, dated 10 December 2009, based on which J&T BANKA, a.s. provided to related party in 2016 custody of securities to the appropriate payment.
- General agreement on the private banking, dated 15 March 2012, based on which J & T BANKA, a.s. undertook to provide services pursuant to this agreement in 2016, in exchange for adequate consideration.
- Agreement for the execution of the Supervisory Board member, dated 30 December 2014, based on Act No. 90/2012 Coll., on Commercial Companies and Cooperatives (the Act on Business Corporations).
- Current account maintenance in accordance with the terms and conditions of the Bank.
- Issue of a charge card in accordance with the terms and conditions of the Bank.

With Poštová banka, a.s.:

Contracts in force entered into between related parties:

- Lease contract for the lease of non-residential premises, dated 5 October 2010, based on which, in 2016, Poštová banka, a.s. leased to the Bank non-residential premises and fixtures and fittings in the River Park building complex, Dvořákovo nábřeží, Bratislava.
- Agreement on the cooperation in participating in the Magnus loyalty scheme, dated 22 October 2013, based on which, in 2016, J & T BANKA, a.s. provided the related party with a participation rights on the loyalty scheme MAGNUS as an instrument of social policy, in exchange for adequate consideration.
- Agreement on the protection of confidential information and the procedure to be applied when providing confidential information, dated 30 April 2014, based on which the parties hereto are obliged to maintain confidentiality.
- Agent agreement, dated 18 December 2008, based on which, in 2016, J & T BANKA, a.s. provided the related party with stock brokerage services based.

Contracts in force entered into between related parties based on which performance was provided in 2016:

- Subordinated loan agreement dated 21 September 2011, based on which J & T BANKA, a.s undertook to provide funds (a loan), and Poštová banka, a.s. undertook to repay the loan and pay interest and other fees in accordance with the agreed terms and conditions.
- Contract for support of membership in the card company MasterCard, dated 24 June 2014, based on which Poštová banka, a.s. provided payment system related services to J & T BANKA, a.s., a related party, in 2016, in exchange for adequate consideration.
- Contract for the cooperation, dated 5 October 2010, based on which Poštová banka, a.s. provided the Bank with the possibility to use an ATM in the River Park centre at Dvořákovo nábřeží in Bratislava in 2016, in exchange for adequate consideration.

- Contract for a loro account, dated 27 May 2014, based on which Poštová banka, a.s. provided services connected with keeping a Euro bank account used for settling transactions made with MasterCard payment cards.
- Contract for a loro account, dated 27 May 2014, based on which Poštová banka, a.s. provided services connected with keeping a CZK bank account used for settling transactions made with MasterCard payment cards.
- 2002 Master Agreement for derivative transactions between J&T BANKA, a.s. and Poštová banka, a.s., dated 10 June 2015, based on which J&T BANKA, a.s. negotiated mainly currency derivative transactions, in exchange for adequate consideration.
- Loan agreements between J & T BANKA, a.s. and Poštová banka, a.s., based on which J & T BANKA, a.s. provided arrangement services and acted as agent in respect of granting of credit line to third parties.
- Agreement for purchase and sale of securities between J & T BANKA, a.s. and Poštová banka, a.s., dated 24 February 2016, based on which J & T BANKA, a.s. undertook to transfer the securities of ART FOND – Stredoeurópský fond súčasného umenia, a. s., in exchange for adequate consideration.
- Forward currency transactions in accordance with the terms and conditions of the Bank.

With Poštová poisťovňa, a. s.:

Contracts in force entered into between related parties based on which performance was provided in 2016:
- General contract for the provision of banking services, dated 20 December 2012, based on which, in 2016, J & T BANKA, a.s. undertook to provide services pursuant to this contract, in exchange for adequate consideration.
- Current account maintenance in accordance with the terms and conditions of the Bank.
- Deposit account maintenance in accordance with the terms and conditions of the Bank.

With Dôchodková správcovská spoločnosť Poštovej banky, d.s.s., a. s.:

Contracts in force entered into between related parties:
- Contract for the provision of banking services, dated 21 May 2014, based on which J & T BANKA, a.s. undertook to provide services pursuant to this contract, in exchange for adequate consideration.

With PRVÁ PENZIJNÁ SPRÁVCOVSKÁ SPOLOČNOSŤ POŠTOVEJ BANKY, správ. spol., a. s.:

Contracts in force entered into between related parties:
- Agent agreement, dated 29 May 2014, based on which, in 2016, J & T BANKA, a.s. provided the related party with stock brokerage services.

Contracts in force entered into between related parties based on which performance was provided in 2016:
- Contract for the cooperation, dated 13 July 2009, as further amended, based on which J & T BANKA, a.s. provided the related party with services connected with collective investments in 2015 under the law which is in force in the Czech Republic, in exchange for adequate consideration.
- Contract for the provision of the investment service consisting in acceptance and execution of client's instructions, dated 13 September 2013, as further amended, based on which both parties agreed on cooperation in procuring purchase or sale of units issued by mutual funds managed by PPSS, in exchange for adequate consideration.
- Deposit account maintenance in accordance with the terms and conditions of the Bank.

With J&T SERVICES ČR, a.s. (J&T Management, a.s.):

Contracts in force entered into between related parties:

- Contract for the processing of personal data, dated 6 August 2014, based on which the parties hereto defined rights and obligations when processing personal data under the Contract for the provision of expert support.
- Confidentiality agreement dated 24 February 2015, based on which the parties hereto are obliged to maintain confidentiality.

Contracts in force entered into between related parties based on which performance was provided in 2016:

- Contract for the provision of expert support, dated 6 August 2014, based on which J&T SERVICES ČR, a.s. provided payroll and personnel services under this contract in 2016 and J & T BANKA, a.s. undertook to provide adequate consideration for the services.
- Overdraft loan agreement No. CZK 95/KTK/2013, dated 11 December 2013, as further amended, based on which J & T BANKA, a.s undertook to provide funds (an overdraft loan), and J&T SERVICES ČR, a.s. undertook to repay the loan and pay interest and other fees in accordance with the agreed terms and conditions.
- Bank guarantee agreement No. Z 09/OAO/2008, dated 21 April 2008, as further amended, based on which, in 2016, J & T BANKA, a.s. issued a bank guarantee to the related party, in exchange for adequate consideration.
- Contract for the sublease of non-residential premises, dated 1 July 2008, as further amended, based on which, in 2016, J&T SERVICES ČR, a.s. provided the Bank with the lease of non-residential premises and fixtures and fittings at Sokolovská 394/17, Praha 8, in exchange for adequate consideration – lease payment.
- Contract for the provision of premises, dated 1 January 2014, based on which, in 2016, J&T SERVICES ČR, a.s. provided the Bank with the lease of non-residential premises in the Prosek Point building complex, in exchange for adequate consideration – lease payment.
- Financial settlement agreement dated 1 January 2009, based on which J & T BANKA, a.s. settles its receivables and liabilities arising in connection with value added tax, as they are members of a single VAT group of which the Bank is the representing member.
- Contract for the provision of services (outsourcing), dated 1 September 2014, as further amended, based on which J&T SERVICES ČR, a.s. provided services consisting in preparation of prudential consolidated financial statements under this contract in 2016 and J & T BANKA, a.s. undertook to provide adequate consideration.
- Contract for the provision of services (outsourcing), dated 5 January 2015, based on which, in 2016, J&T SERVICES ČR, a.s. provided reporting services and central purchases pursuant to this contract, and J & T BANKA, a.s. undertook to provide adequate consideration.
- Contract for the provision of services, dated 31 January 2013, based on which, in 2016, J&T SERVICES ČR, a.s. provided legal services pursuant to this contract, and J & T BANKA, a.s. undertook to provide adequate consideration.
- Contract for the business lease of movable assets, dated 1 July 2013, as further amended, based on which J&T SERVICES ČR, a.s. leased office furniture and equipment to the Bank in 2016, in exchange for adequate consideration.
- Mandate contract for tax advisory services, dated 3 January 2011, based on which, in 2016, J&T SERVICES ČR, a.s. provided the Bank with tax advisory services, in exchange for adequate consideration.
- Service contract dated 26 March 2013, as further amended, based on which J&T SERVICES ČR, a.s. provided development and maintenance services in respect of the Quaestor banking information system in 2016 and J & T BANKA, a.s. undertook to provide adequate consideration.

- Contract for the cooperation in arranging social events, dated 1 January 2014, as further amended, based on which J&T SERVICES ČR, a.s. undertook to provide for cultural and social events for employees under the terms and conditions of this contract, and J & T BANKA, a.s. undertook to provide adequate consideration – proportionate part of the expenses.
- Contract for the sublease of a motor vehicle, dated 2 January 2014, based on which, in 2016, J&T SERVICES ČR, a.s. leased to the Bank motor vehicles, in exchange for adequate consideration – lease payment.
- Contract for the sublease of a motor vehicle, dated 23 January 2015, based on which, in 2016, J&T SERVICES ČR, a.s. provided the Bank with the lease of motor vehicles, in exchange for adequate consideration – lease payment.
- Contract for the provision of services with J & T BANKA, a.s., dated 31 December 2014, based on which, in 2016, J&T SERVICES ČR, a.s. provided logistic, operational and technical management services pursuant to this contract, and J & T BANKA, a.s. undertook to provide adequate consideration.
- Contract for the provision of services with J & T Banka, a. s. pobočka zahraničnej banky, dated 31 December 2014, based on which, in 2016, J&T SERVICES ČR, a.s. provided logistic, operational and technical management services pursuant to this contract, and J & T BANKA, a.s. undertook to provide adequate consideration.
- Contract for the provision of services, dated 18 December 2014, based on which, in 2016, J&T SERVICES ČR, a.s. provided IT/IS services pursuant to this contract, and J & T BANKA, a.s. undertook to provide adequate consideration.
- Contract for the sublease of business premises, dated 31 March 2015, based on which, in 2016, J&T BANKA, a.s. provided J&T SERVICES ČR, a.s. with premises in the Javor building, in exchange for adequate consideration.
- Contract for the delegation of activities and the provision of expert support, dated 1 January 2015, based on which, in 2016, J & T BANKA, a.s. provided risk management, internal audit, compliance and AML services, in exchange for adequate consideration for the services.
- Contract for the sale of movable assets, dated 31 December 2016, based on which, in 2016, J & T BANKA, a.s. sold IT equipment in exchange for adequate consideration.
- Current account maintenance in accordance with the terms and conditions of the Bank.
- Issue of a charge card in accordance with the terms and conditions of the Bank.
- Provision of a safety deposit box in accordance with the terms and conditions of the Bank.

With J&T SERVICES SR, s.r.o.:

Contracts in force entered into between related parties based on which performance was provided in 2016:

- Mandate contract for payroll and personnel services, dated 26 October 2012, as further amended, based on which, in 2016, J&T SERVICES SR, s.r.o. provided the Bank with personnel and payroll services, in exchange for adequate consideration.
- Overdraft loan agreement No. EUR 15/KTK_SR/2014, dated 31 December 2014, based on which J & T BANKA, a.s undertook to provide funds (an overdraft loan) to the related party, and J&T Services SR, s.r.o. undertook to repay the loan and pay interest and other fees in accordance with the agreed terms and conditions.
- Contract for the rent of motor vehicles, dated 2 January 2013, based on which, in 2016, J&T SERVICES SR, s.r.o. provided the Bank with rent of motor vehicles, in exchange for the payment of the rental price.
- Contract for the provision of services, dated 2 January 2013, as further amended, based on which, in 2016, J&T SERVICES SR, s.r.o. provided the Bank with operational and logistic services specified in the supplement of this contract, in exchange for adequate consideration.
- Agreement on the determination of remuneration for the provision of the services beyond the common framework, dated 30 December 2016, relating to the Contract for the provision of services from 2 January 2013, based on which, in 2016, J&T

SERVICES SR, s.r.o. provided the Bank with services pursuant to this contract, in exchange for adequate consideration.

- Brokerage contract dated 3 April 2013, based on which, in 2016, J&T SERVICES SR, s.r.o. brokered banking products pursuant to this contract, in exchange for adequate consideration.
- Contract for the delegation of activities and the provision of expert support, dated 1 January 2015, based on which, in 2016, J & T BANKA, a.s. provided risk management and internal audit services, in exchange for adequate consideration for the services.
- Mandate contract for payroll and personnel services, dated 31 December 2014, as further amended, based on which, in 2016, J&T SERVICES SR, s.r.o. provided the Bank with personnel and payroll services, in exchange for adequate consideration.
- Contract for the rent of a motor vehicle, dated 2 January 2013, as further amended, based on which, in 2016, J&T SERVICES SR, s.r.o. provided the Bank with rent of motor vehicles, in exchange for the payment of the rental price.
- Contract for the provision of services, dated 2 January 2013, as further amended, based on which, in 2016, J&T SERVICES SR, s.r.o. provided the Bank with operational and logistic services specified in the supplement of this contract, in exchange for adequate consideration.
- Agreement on the cooperation in providing the J&T Family and Friends with banking services and in participating in the Magnus loyalty scheme, dated 27 December 2011, based on which, in 2016, J & T BANKA, a.s. provided the related party with an advantageous package of services and participation rights on the loyalty scheme MAGNUS as an instrument of social policy, in exchange for adequate consideration.
- Service Legal Agreement for providing services, dated 18 December 2014, as further amended, based on which J&T SERVICES SR, s.r.o. provided the Bank with IT and press services, in exchange for adequate consideration.
- Contract for the sale of movable assets, dated 18 April 2016, based on which, in 2016, J & T BANKA, a.s. sold mobile phone in exchange for adequate consideration.
- Contract for the provision of services, dated 9 December 2015, as further amended, based on which, in 2016, J&T SERVICES SR, s.r.o. provided the Bank with concierge services and services specified in the supplement of this contract, in exchange for adequate consideration.
- Contract for the delegation of activities and the provision of expert support, dated 15 March 2016, based on which, in 2016, J&T SERVICES SR, s.r.o. undertook to provide organization and settlement of expenses for sport and recreational events for employees, in exchange for adequate consideration for the services.
- Agent agreement for provision of banking services, dated 7 January 2013, based on which, in 2016, J & T BANKA, a.s. provided the related party with banking services, in exchange for adequate consideration.
- Current account maintenance in accordance with the terms and conditions of the Bank.
- Issue of a charge card in accordance with the terms and conditions of the Bank.

With J&T FINANCE, LLC:

Contracts in force entered into between related parties based on which performance was provided in 2016:

- Loan agreement No. RUB 20/OAO/2014, dated 28 March 2014, based on which J & T BANKA, a.s. undertook to provide funds (a loan), and J&T FINANCE, LLC undertook to repay the loan and pay interest in accordance with the agreed terms and conditions.
- Brokerage contract No. 01-01/14, dated 17 January 2014, based on which J&T FINANCE, LLC mediated opportunities to conclude a contract with potential clients, in exchange for adequate consideration. A Protocol of provided services relates to this contract.

With J&T Concierge, s.r.o.:

Contracts in force entered into between related parties based on which performance was provided in 2016:

- Overdraft loan agreement No. CZK 23/KTK/2010, dated 9 June 2010, as further amended, based on which J & T BANKA, a.s undertook to provide funds (an overdraft loan) to the related party, and J&T Concierge, s.r.o. undertook to repay the loan and pay interest and other fees in accordance with the agreed terms and conditions.
- Overdraft loan agreement No. USD 100/KTK/2010, dated 30 December 2013, based on which J & T BANKA, a.s undertook to provide funds (an overdraft loan) to the related party, and J&T Concierge, s.r.o. undertook to repay the loan and pay interest and other fees in accordance with the agreed terms and conditions.
- Overdraft loan agreement No. EUR 99/KTK/2010, dated 30 December 2013, based on which J & T BANKA, a.s undertook to provide funds (an overdraft loan) to the related party, and J&T Concierge, s.r.o. undertook to repay the loan and pay interest and other fees in accordance with the agreed terms and conditions.
- Financial settlement agreement, dated 3 January 2012, based on which J & T BANKA, a.s. settles its receivables and liabilities arising in connection with value added tax, as they are members of a single VAT group of which the Bank is the representing member.
- Cooperation agreement, dated 31 August 2011, based on which, in 2016, J&T Concierge, s.r.o. provided J & T BANKA, a.s., a related party, with services pursuant to this contract relating to the provision of concierge services to payment card holders, in exchange for adequate consideration.
- Cooperation agreement, dated 1 January 2016, based on which, in 2016, J&T Concierge, s.r.o. provided J & T BANKA, a.s. with concierge services pursuant to this contract, in exchange for adequate consideration.
- General agreement for provision of legal services, dated 16 December 2016, based on which, in 2016, J & T BANKA, a.s. provided the related party with services pursuant to this contract, in exchange for adequate consideration.
- Current account maintenance in accordance with the terms and conditions of the Bank.
- Issue of a debit card in accordance with the terms and conditions of the Bank.

With PBI, a.s.:

Contracts in force entered into between related parties:

- Agent agreement, dated 18 December 2008, based on which, in 2016, J & T BANKA, a.s. provided the related party with stock brokerage services.

Contracts in force entered into between related parties based on which performance was provided in 2016:

- Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Integris Group Ltd.:

- Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Bank & Trust Inc.:

Contracts in force entered into between related parties based on which performance was provided in 2016:

- Agent agreement for the brokerage of purchase and sale of investment instruments, dated 13 August 2012, based on which,

in 2016, J & T BANKA, a.s. provided the related party with stock brokerage services based on the arm's length principle, in exchange for adequate consideration.
- Current account maintenance in accordance with the terms and conditions of the Bank.
- Issue of a charge card in accordance with the terms and conditions of the Bank.
- Forward currency transactions in accordance with the terms and conditions of the Bank.

With J&T MINORITIES PORTFOLIO LTD:

Contracts in force entered into between related parties based on which performance was provided in 2016:
- Agent agreement No. 19181 for the brokerage of purchase and sale of securities, dated 20 August 2010, based on which, in 2016, J & T BANKA, a.s. provided the related party with stock brokerage services based on the arm's length principle, in exchange for adequate consideration.
- Contract for the provision of banking services, dated 5 February 2015, based on which J & T BANKA, a.s. undertook to provide services pursuant to this contract, in exchange for adequate consideration.
- Current account maintenance in accordance with the terms and conditions of the Bank.

With Equity Holding, a.s.:

Contracts in force entered into between related parties:
- Agent agreement No. 17599, dated 15 December 2008, based on which, in 2016, J & T BANKA, a.s. provided the related party with stock brokerage services based on the arm's length principle, in exchange for adequate consideration.

Contracts in force entered into between related parties based on which performance was provided in 2016:
- General contract for the trading in financial markets, dated 30 November 2015, based on which J&T BANKA, a.s, negotiated currency derivative transactions, in exchange for adequate consideration.
- Current account maintenance in accordance with the terms and conditions of the Bank.

With ABS PROPERTY LIMITED:

Contracts in force entered into between related parties based on which performance was provided in 2016:
- Loan agreement No. USD 61/OAO/2012, dated 30 August 2012, as further amended, based on which J&T BANKA, a.s. undertook to provide funds (a loan), and ABS PROPERTY LIMITED undertook to repay the loan and pay interest in accordance with the agreed terms and conditions.
- Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Global Finance I., B.V. in liquidatie:

Contracts in force entered into between related parties based on which performance was provided in 2016:
- Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Global Finance II., B.V. in liquidatie:

Contracts in force entered into between related parties based on which performance was provided in 2016:

- Contract for the provision of banking services, dated 23 April 2014, based on which J & T BANKA, a.s. undertook to provide services pursuant to this contract, in exchange for adequate consideration.
- Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Global Finance III., s.r.o.:

Contracts in force entered into between related parties:

- General agent agreement for the purchase or sale of financial instruments, dated 19 December 2013.

Contracts in force entered into between related parties based on which performance was provided in 2016:

- Contract for the provision of banking services, dated 8 April 2013, based on which, in 2016, J & T BANKA, a.s. undertook to provide services pursuant to this contract, in exchange for adequate consideration.
- Bond placement agreement dated 13 May 2013, along with the Special arrangement to this agreement, based on which, in 2016, J & T BANKA, a.s. arranged a bond issue, in exchange for adequate consideration.
- Administration contract dated 21 June 2013, along with the Special arrangement to this contract, based on which, in 2016, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration.
- Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Global Finance IV., B.V.:

Contracts in force entered into between related parties:

- Bond placement agreement dated 26 August 2014, along with the Special arrangement to this agreement, based on which J & T BANKA, a.s. arranged a bond issue, in exchange for adequate consideration.
- Agent agreement dated 29 December 2014, based on which, in 2016, J & T BANKA, a.s. provided the related party with investment services based on the arm's length principle, in exchange for adequate consideration.

Contracts in force entered into between related parties based on which performance was provided in 2016:

- Administration contract dated 26 August 2014, along with the Special arrangement to this contract, based on which, in 2016, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration.
- Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Global Finance V., s. r. o.:

Contracts in force entered into between related parties::

- General agent agreement for the purchase or sale of financial instruments, dated 10 December 2014, based on which, in 2016, J & T BANKA, a.s. provided services pursuant to the contract, in exchange for adequate consideration.
- Bond placement agreement dated 27 November 2014, along with the Special arrangement to this agreement, based on which J & T BANKA, a.s. arranged a bond issue in 2016, in exchange for adequate consideration.

– Agent agreement dated 21 August 2015, based on which, in 2016, J & T BANKA, a.s. provided the related party with investment services based on the arm's length principle, in exchange for adequate consideration.

Contracts in force entered into between related parties based on which performance was provided in 2016:
– Administration contract dated 27 November 2014, along with the Special arrangement to this contract, based on which, in 2016, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration.
– Contract for the provision of banking services, dated 20 August 2014, based on which J & T BANKA, a.s. undertook to provide services pursuant to this contract, in exchange for adequate consideration.
– Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Global Finance VI., s.r.o.:

Contracts in force entered into between related parties based on which performance was provided in 2016:
– Administration contract dated 20 April 2016, along with the Special arrangement to this contract, based on which, in 2016, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration.
– Bond placement agreement dated 20 April 2016, along with the Special arrangement to this agreement, based on which J & T BANKA, a.s. arranged a bond issue in 2016, in exchange for adequate consideration.
– General agreement for provision of services, dated 7 March 2016, based on which, in 2016, J & T BANKA, a.s. provided the services pursuant to this contract, in exchange for adequate consideration.
– Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Global Finance VII., s.r.o.:

Contracts in force entered into between related parties based on which performance was provided in 2016:
– Bond placement agreement dated 16 November 2016, along with the Special arrangement to this agreement, based on which J & T BANKA, a.s. arranged a bond issue in 2016, in exchange for adequate consideration.
– Administration contract dated 16 November 2016, along with the Special arrangement to this contract, based on which, in 2016, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration.
– Current account maintenance in accordance with the terms and conditions of the Bank.

IV. ASSESSMENT OF WHETHER THE CONTROLLED ENTITY INCURRED A LOSS AND JUDGMENT OF ITS SETTLEMENT UNDER SECTIONS 71 AND 72 OF THE ACT ON BUSINESS CORPORATIONS.

The controlled entity incurred no loss from the relations mentioned above under Sections 71 and 72 of the Act on Business Corporations.

V. ASSESSMENT OF ADVANTAGES AND DISADVANTAGES ARISING FROM RELATIONS BETWEEN THE CONTROLLING ENTITY AND THE CONTROLLED ENTITY AND BETWEEN THE CONTROLLED ENTITY AND ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY INCLUDING A STATEMENT ON WHETHER ADVANTAGES OR DISADVANTAGES PREVAIL AND WHAT ARE THE RISKS ARISING FROM THIS FACT FOR THE CONTROLLED ENTITY.

The Bank provides related parties with standard banking services and the other relationships are concluded primarily to optimise the services used/provided and to utilise the synergies of related parties. As a result, the Bank is able to make its operations more effective and to provide its clients with comprehensive banking services and asset management, and to effect transactions in financial and capital markets also for retail clients. All transactions between the controlled entity and the Bank, or between the entities controlled by the same controlling entity and the Bank, were effected based on the arm´s length principle.

The Bank has no advantages or disadvantages from and faces no other additional risks in respect of the above relations.

VI. WE DECLARE THAT WE HAVE INCLUDED ALL INFORMATION KNOWN AS OF THE DATE OF THE SIGNATURE IN THE REPORT ON RELATIONS BETWEEN RELATED PARTIES OF J & T BANKA, A.S., PREPARED IN ACCORDANCE WITH SECTION 82 OF THE ACT ON BUSINESS CORPORATIONS FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 DECEMBER 2016.

Board of Directors
J & T BANKA, a.s.

INFORMATION ABOUT SECURITIES, RIGHTS AND OBLIGATIONS

Securities

In 2015, the Czech National Bank approved and J & T BANKA, a.s., ID: 47115378, registered office Prague 8, Pobřežní 297/14, postcode 186 00, registered in the Commercial Register maintained by the Metropolitan Court in Prague, Part B, entry 1731 (the "Bank" or the "Issuer") issued subordinated unsecured yield certificates without any maturity date with a yield of 9% p.a., in the nominal value of CZK 100,000, ISIN CZ0003704413 and subordinated unsecured yield certificates without any maturity date with a yield of 9% p.a., in the nominal value of EUR 5,000, ISIN CZ0003704421 (the "Certificates").

In 2014, the Bank issued Certificates with a yield of 10% p.a. in the nominal value of CZK 100,000, ISIN CZ0003704249.

Certificates are unnamed securities issued in the Czech Republic in accordance with Czech legal regulations. Certificates are hybrid financial instruments combining characteristics of equity and debt securities and are issued as book-entry registered shares.

Provided that conditions are met under Article 52 (1) of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, Certificates can be included to Additional Tier 1 instruments of the Bank.

Certificates are traded at the Prague Stock Exchange, a.s. A volume of issued Certificates amounted to CZK 2 597 million (2015 – CZK 1 742 million).

As at 31 December 2016, neither the Certificates nor the Bank had a valid rating.

Data on the number of shares, their nominal value and the Issuer's shareholder structure are given in the financial statements. The Issuer's persons with managing powers do not own any shares, options or comparable investment instruments whose value relates to shares or similar securities representing an ownership interest in the Issuer.

Rights and obligations of shareholders and certificate holders

The Certificates are not bonds as defined by Act No. 190/2004 Coll., the Bonds Act as amended. Holders of the Certificates are not the Bank's shareholders and are not entitled to dividend payments.

Holders of the Certificates have no ownership interest in the Bank's equity and their Certificates do not entitle them to exercise any direct or indirect voting rights. As approved by the Czech National Bank, the Bank is not subject to obligations stipulated in Section 118 (5) (a) through (l) of Act No. 256/2004 Coll., the Act on Business Activities on the Capital Market as amended.

Other rights and obligations are defined in issuing terms and conditions.

Rights and obligations of shareholders are governed by provisions of Act No. 90/2012 Coll., the Business Corporations Act. As the Bank has the sole shareholder, the general meeting is not held and its powers are exercised by the sole shareholder. Rights and obligations of the sole shareholders are identical to the powers of the general meeting, the position of which is defined in the Bank's Articles of Association. Other information on the performance of the sole shareholder, resp. the powers of the general meeting, is given in the chapter Corporate Governance and Data on the Issuer.

Definition of Alternative Performance Measures applied

In accordance with the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA/2015/1415) and in order to maintain transparency, the Bank has applied the following performance measures in the Annual Report:

Loan to Deposit ratio (LTD ratio): 'Loans and other receivables from clients at the end of the period' divided by 'Client deposits as at the end of the period'.

Return on Equity: 'Profit for the accounting period' divided by average 'Equity' for the current period determined as arithmetic average of 'Equity' as at the end of the current and prior period.

Return on Assets: 'Profit for the accounting period' divided by average 'Assets' for the current period determined as arithmetic average of 'Assets' as at the end of the current and prior period.

Operating expense ratio: 'Operating expense' divided by 'Operating income'.

Operating expense to Assets ratio: 'Operating expense' divided by 'Assets'.

CORPORATE GOVERNANCE

Corporate governance and the Code

The Issuer's financial performance depends upon maintaining a good reputation in the media, among clients, counterparties, shareholders, investors or regulatory bodies. Although the Issuer has won many awards for quality of its services and the volume of deposits has increase by 75% since the end of 2011, the potential loss of its good reputation might have an adverse impact on obtaining new deposits, outflow of deposits, availability of external financing, an increase in income and acquiring capital, i.e. on the Issuer's business and financial performance and its ability to disburse yields and meet obligations arising from the Certificates.

The Issuer has not obligatorily adopted any corporate governance code; it has, however, issued internal rules defining in detail the area of the corporate governance following the Issuer's Articles of Association, in particular the Bank's organization order. In addition, the Issuer observes provisions of the Business Corporations Act, the Act on Banks and other relevant legal regulations concerning corporate governance. As regards the Issuer's corporate governance, the compliance with the Company's Code of Corporate Governance based on the OECD guidelines from 2004 has been achieved to a large extent. The Issuer fulfils most of the crucial provisions of the Code which can be found on Issuer's website (https://www.jtbank.cz/public/97/2/e4/31778_129334_Kodex_CG_2004.pdf).

The above mentioned code has not been voluntarily adopted because in addition to the simple shareholder structure the Issuer considers the existing regulation of the corporate governance fully adequate and functional.

In order to minimize risks and injury to its good reputation, the Issuer internally avoids such risks by its organization and management. Employees act in compliance with the Issuer's ethical code and other internal rules. The Issuer also actively communicates with the media, clients, counterparties, shareholders, investors and regulators.

As an investment firm, the Issuer is obliged to pay an annual contribution to the Guarantee Fund in the amount of 2% of the volume of income from fees and commissions for provided investment services under Act No. 256/2004 Coll., the Act on Business Activities on the Capital Market. In 2016, the contribution amounted to CZK 14.6 million (2015: CZK 8.8 million).

Internal control principles and procedures relating to the financial reporting process

The Issuer, to ensure that the accounts give a true and fair view of the state of affairs and financial statements are prepared in a due manner, uses various tools to appropriately recognize individual transactions and to subsequently present them in the financial statements of the Issuer and its Group. Key tools include in particular maximum automation of recurring transactions, procedures and processes within appropriate systems and applications, regular monitoring and testing of these systems and setting of access rights to individual systems and applications. In addition to periodical reviews of the general ledger, the Issuer also applies a system of allocating responsibility and reconciliation of accounts in terms of individual analytical account balances. Each general ledger account has its administrator who has to provide regularly, or on demand, information on the particular analytical account (balance, reconciliation to primary data, breakdown to individual amounts, etc.). The compliance of applied accounting policies with, in particular, International Financial Reporting Standards and the setting of accounting controls fall within the responsibility of the Issuer's Finance Department that also lays down rules and methodology for the compilation of consolidated financial statements and examines the correctness of background materials used for the compilation of consolidated financial statements.

Information about applied accounting policies, valuation techniques and rules for establishing adjustments is disclosed in the Notes to the financial statements of this annual report.

The accuracy of information presented in the Issuer's financial statements is confirmed by the auditor's opinion. The annual report includes audited financial results of the Issuer and its Group.

In 2016, the Issuer and the Group spent financial means for audit and other services in a volume as follows:

In thousands of CZK	2016 Paid by the Issuer	2015 Paid by the Issuer	2016 Paid by other companies in the Group	20156 Paid by other companies in the Group
Audit services	14,698	17,635	4,214	4,731
Other services	–	–	–	–
Total	**14,698**	**17,635**	**4,214**	**4,731**

Powers of the General Meeting

The Issuer of the Certificate has only a sole shareholder, the general meetings do not take place, and the powers of the general meeting are exercised by that sole shareholder whose decisions have to be in writing and delivered to the company. The shareholder's decisions must be in the form of a notarial deed on legal actions in cases when a notarial deed is made on the decisions of the general meeting. Delivery to the company is made in writing for the attention of any member of the Board of Directors or to the address of the company's registered office recorded in the Commercial Register.

The powers of the general meeting also include decisions on a change in the Articles of Association, an amount of registered capital and the authorization of the Board of Directors to increase registered capital, election and removal of members of the Supervisory Board, the approval of regular, extraordinary or consolidated financial statements and, in cases when their preparation is stipulated by another legal regulation, of interim financial statements. The general meeting also decides on the distribution of profit and other own resources or the settlement of a loss, it gives instructions to the Board of Directors and approves principles of the Board of Directors' activity unless they are contrary to legal regulations. The general meeting can particularly prohibit certain legal actions to any Board member if it is in the interest of the company.

The powers of the general meeting (resp. the sole shareholder) are regulated in the Issuer's valid Articles and Association and respective legal regulations, in particular Act No. 90/2012 Coll., the Business Corporations Act.

Remuneration policy

As described in the 'Committees of the Bank' section of this Annual report, the Bank has established a special committee for its remuneration policy. The Remuneration Committee has at least 3 members (as at 31 December 2016, the Committee had 4 members). The Committee discusses the proposed policy with the Compliance and AML department, director of the Risk Management Department and director of the Internal Audit and Control Department. At least once a year, the Committee submits a report on activities including recommendations to be discussed and approved to the Bank's Supervisory Board. In addition, the Committee submits the proposals for the remuneration of management members to the Bank's Supervisory Board for the approval. The Committee also supervises individual bonuses of key internal control officers and recommends their remuneration to the Bank's Supervisory Board.

In 2016, the Bank did not use services of an external advisor.

The performance of employees principally influences only their variable remuneration component not the fixed component which is not changed. The fixed remuneration component includes salaries and benefits. The Bank provides annual and extraordinary bonuses as a variable remuneration component to which no claim can be applied. Its amount depends on the particular employee's performance and activity of the respective section and the Bank's financial results. In case of extraordinary bonuses, the Bank takes usually only the performance of the employee or a respective team into consideration.

Criteria for the evaluation and motivation include financial and non-financial figures that are to monitor quality and development of the Bank's services and abilities of an employee. They also include figures of the internal and external quality and development. The criteria further comprise profitability, acquisition activity, market potential, observance of internal rules, limits, contractual documentation quality and internal communication quality, complaints of clients, quality of services and rate of project fulfilment. Remuneration is conditioned in particular by the rate of performance of the above criteria in combination with the Bank's real financial situation. Annual bonuses are not paid in particular if a) the volume of net assets decreases year on year without an increase in own resources by shareholders and without the dividend payment, b) the operational profit decreases by more than 15% or c) the ROE is less than 300 bps above the annual reference rate valid at the beginning of the accounting period. An amount of the variable remuneration component may not exceed 100% of the fixed component of the total remuneration.

The variable remuneration component of employees having a significant influence on the Bank's overall risk profile and of employees whose working tasks include trading activity does not have to be allocated, may be reduced or deferred provided that after the allocation of a variable remuneration component to employees at lower management levels, the disbursement of bonuses to senior officials would mean a lower than planned economic or operational result of the Bank. The variable remuneration component will not be paid at all provided that its disbursement results in the Bank's limited ability to strengthen its capital (if relevant), in case of the Bank's unfavourable financial situation or in case of termination of employment.

The process of allocating annual bonuses is launched by the Board of Directors' decision on the maximum amount earmarked for the department, resp. section concerned (the bonus pool). The real volume of bonuses to be disbursed is reduced based on the rate of fulfilment of key criteria which have to be met for at least 70%. The total volume of annual bonuses for employees having a significant influence on the Bank's overall risk profile is distributed in time as follows: 60% the amount is immediately paid, 12% are paid next year and 12% are paid in two years, and 16 % are paid three years after the allocation (the deferred variable remuneration component). The total volume of annual bonuses for sales personnel is distributed in time as follows: 50% of the amount is immediately paid, 25% are paid next year and 25% are paid in two years.

In 2016, remuneration for top managers totalled CZK 56 million and the amount was divided among 14 recipients with executive powers. In 2016, members of the Board of Directors received CZK 18 million in salaries and CZK 1 million for executive services from the parent company. Members of the Supervisory Board received salaries of CZK 6 million. Other management members were paid CZK 31 million in salaries by the parent company. In 2016, the Bank did not pay any bonuses to Supervisory Board's members and other executives for their executive services.

Members of the Bank's Board of Directors received performances in cash from subsidiaries amounting to CZK 5 million. In 2006, members of the Supervisory Board and executives did not receive any payments or any other performances in kind from subsidiaries. In 2016, no redundancy payments were paid or awarded and no bonus exceeding EUR 1 million was paid to anybody.

The Bank and its subsidiaries do not contribute to the supplementary pension insurance or other similar performance. The Bank declares that the members of its administrative, management, and supervisory bodies or of those of subsidiaries have no special advantages connected with the termination of activity.

Real estate, machinery and equipment

As at 31 December 2016, the Issuer's total tangible assets amounted to CZK 42 million (as at 31 December 2015: CZK 48 million). As at 31 December 2016, total tangible assets and investment property of the Issuer's Group amounted to CZK 685 million (as at 31 December 2015: CZK 700 million).

The single largest item of the Group's assets is formed by a building in the Russian Federation owned by the subsidiary, Interznanie. The building consists of administrative premises and a hotel. The Issuer itself does not own any real property. It has hired premises for its registered office at Pobřežní 297/14, Prague 8 until 2021, premises in the OASIS building at Sokolovská 394/17, Prague 8 until 2019 and premises in the S9 FLORENC building at Sokolovská 9, Prague 8 until 2021.

The Issuer invests in the development of intangible assets from time to time, in particular in the development of its banking system, an internet portal and data services.

The Issuer confirms that it is not aware of any environmental impacts that might be caused by the Issuer's use of tangible fixed assets.

Issuer's dividend policy and significant litigations

The Issuer has not approved any specific long-term dividend policy. In every accounting period, any dividend payment is subject to an assessment of the Issuer's possibilities and needs and the Issuer also takes interests of Certificate owners into consideration.

Any payment of dividends is approved by the Issuer's sole shareholder or the general meeting, if the Issuer has more shareholders, based on the proposal of the Issuer's Board of Directors. The Issuer's management expects that the full audited profit amount for 2016 will be transferred to retained earnings and part of profit for 2016 will be transferred to a special fund for the payment of yields from the Certificates.

At the date of preparation of the annual report, legal proceedings are held regarding the action of Radoslav Hajduch, trustee in bankruptcy of the insolvent company, DEVIN BANKA, a.s. being in bankruptcy, for the payment of CZK 340 million with accessions and CZK 70 million with accessions. After several hearings, the action was dismissed. The plaintiff filed the appellate review. The Issuer believes that the plaintiff's chances of succeeding with this second appellate review are low.

As at the date of preparation of this annual report, the Issuer is not a party to any other ongoing or pending legal or arbitration proceedings.

Significant contracts

The Issuer's significant transactions made after 31 December 2016 are disclosed in the Notes to the financial statements. Contracts entered into between the Group members are given in a separate part of the annual report, the Report on relations between related parties.

In the period preceding the release of the annual report, neither the Issuer nor any other member of the Issuer's group entered into contracts beyond the ordinary course of business which might be considered material. No member of the Group entered into a contract containing any provisions under which any member of the Group has any obligation or claim significant for the Group.

The Issuer confirms that it is not aware of any conflict of interest between obligations of the members of the Board of Directors or the Supervisory Board towards the Issuer and between their private interests and other obligations. The Issuer also confirms that it is not aware of any agreements with the major shareholders, clients, suppliers or other entities under which a member of the Board of Directors or Supervisory Board is appointed as a member of administrative, management and supervisory bodies or a top management member.

The Issuer further confirms that it is not aware of any restrictions agreed with any member of the Board of Directors or Supervisory Board on the treatment of their interests in the Issuer's securities for a certain period of time.

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