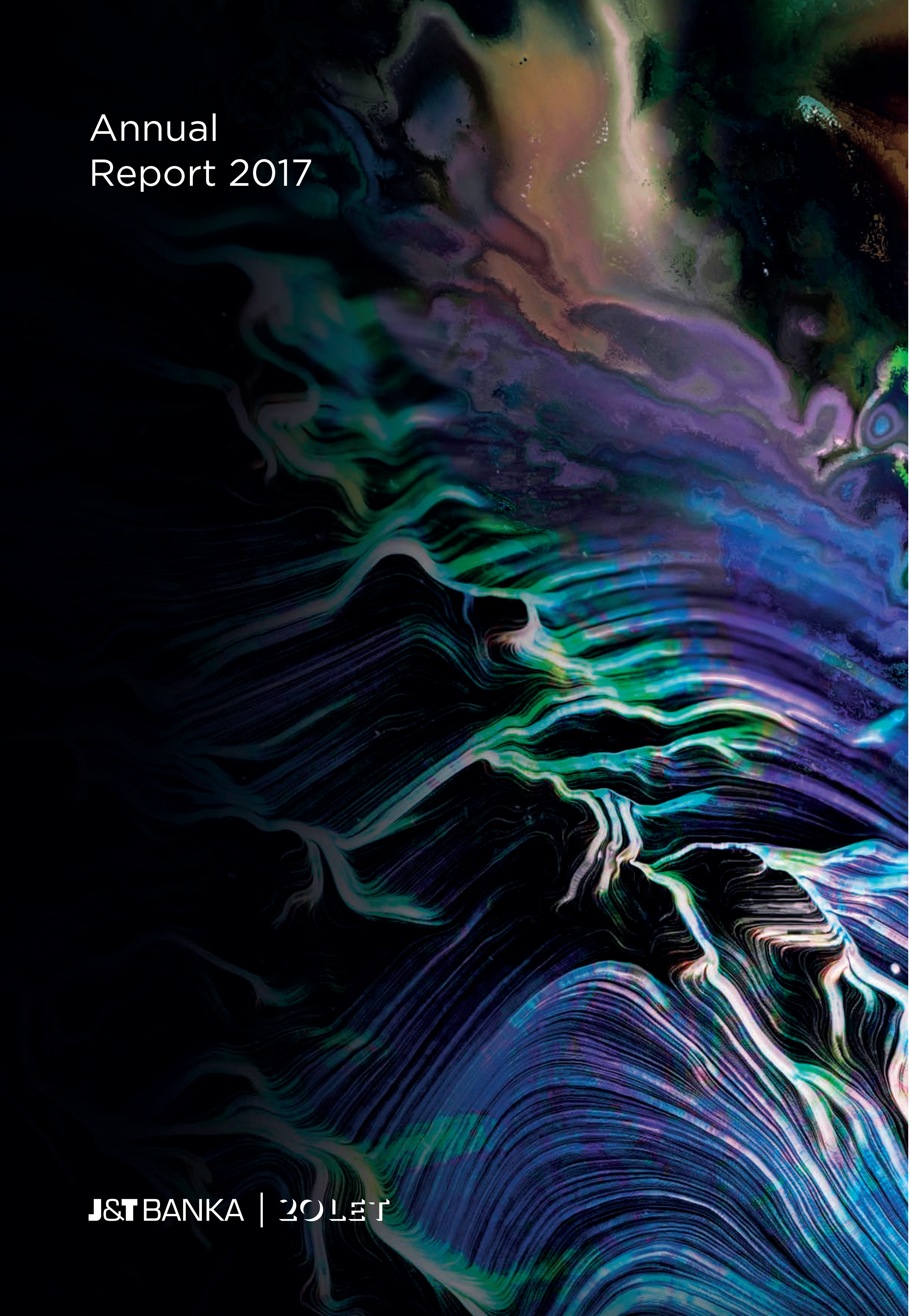
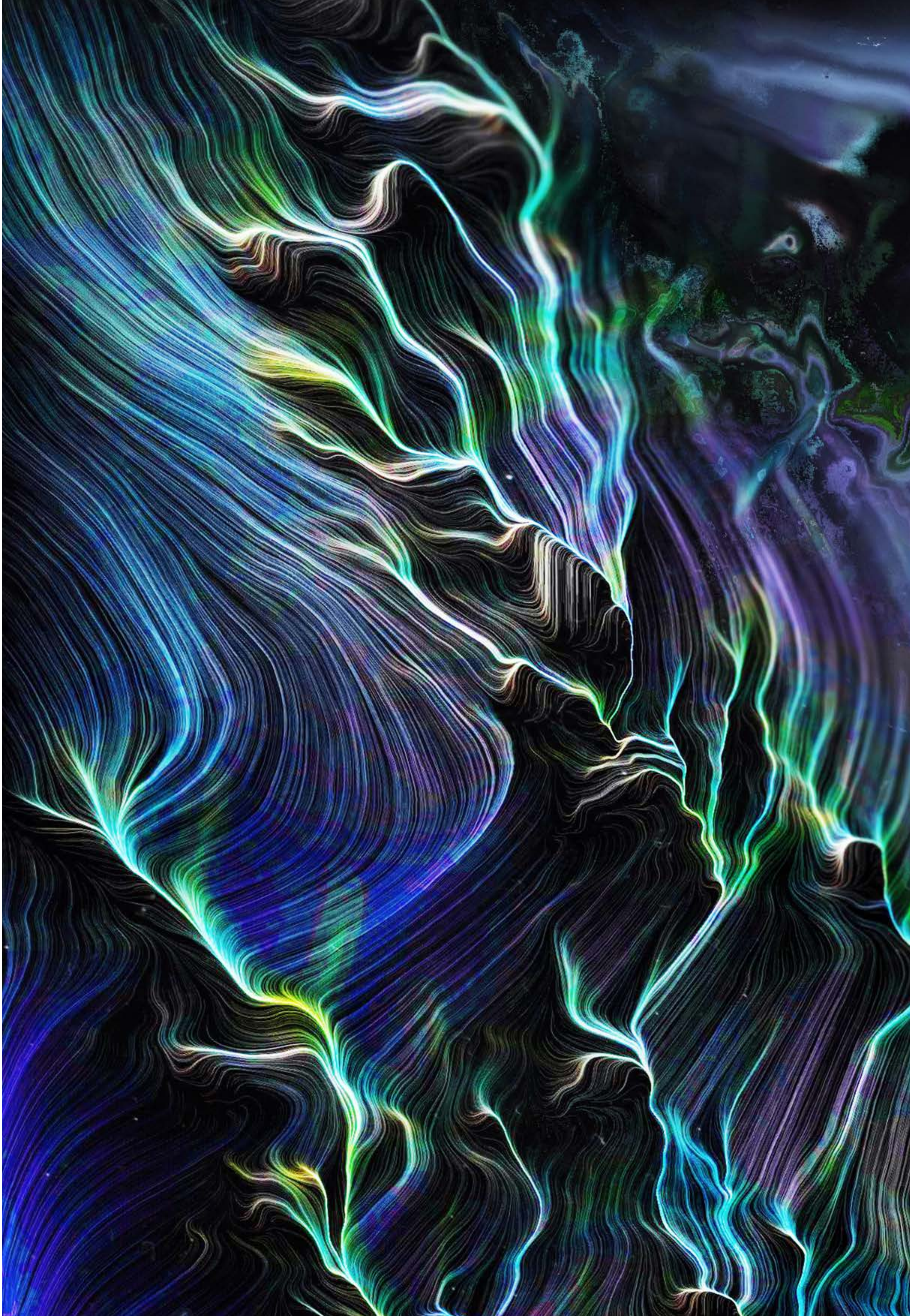


Annual Report 2017

J&T BANKA | 20 LET



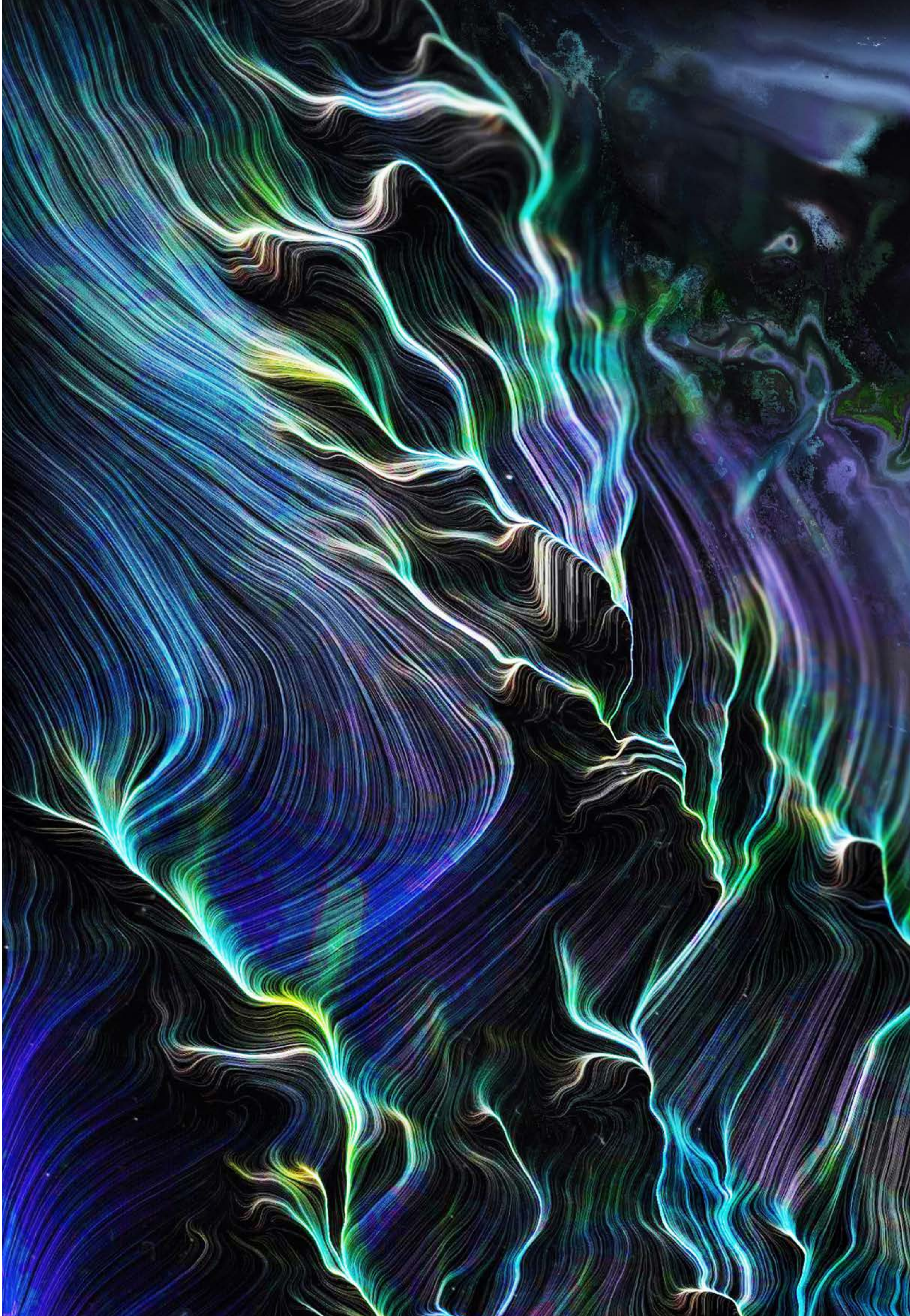
Selected financial indicators

Selected financial indicators – individual

in MCZK	2017	2016	2015	2014	2013
ANNUAL FIGURES					
Profit before tax	1,855	1,854	1,963	1,575	748
Tax	(359)	(302)	(230)	(332)	(117)
Profit for the year	1,496	1,552	1,733	1,243	631
BALANCE AT YEAR-END					
Equity	18,998	18,943	16,799	14,376	12,917
Deposits and loans from banks	22,009	3,338	4,343	4,537	4,736
Deposits from customers	84,484	93,833	117,058	100,356	82,018
Due from financial institutions	46,670	21,105	33,661	6,295	2,940
Loans and advances to customers	63,785	69,714	70,042	66,311	56,383
Total assets	134,940	123,554	146,990	126,041	104,768
FINANCIAL RATIOS					
Return on Equity	7.89%	8.68%	11.12%	9.11%	6.26%
Return on Assets	1.16%	1.15%	1.27%	1.08%	0.66%
Capital adequacy	18.45%	17.75%	15.83%	14.54%	17.09%
Operating expenses/operating income	43.26%	39.75%	39.08%	46.14%	53.54%
Average number of employees	468	454	443	434	378
Assets per employee	288	272	332	290	277
Administrative expenses per employee	(3,7)	(3,6)	(3,7)	(3,7)	(3,7)
Profit after tax per employee	3,2	3,4	3,9	2,9	1,7

Selected financial indicators – consolidated

in MCZK	2017	2016	2015	2014	2013
ANNUAL FIGURES					
Profit before tax	2,617	1,360	2,186	1,383	685
Tax	(421)	(407)	(310)	(381)	(151)
Share of profit of equity-accounted investees	(17)	(50)	167	340	321
Profit from continuing operations	2,196	953	1,876	1,342	855
Profit from discontinued operations	–	–	–	–	214
Profit for the year	2,196	953	1,876	1,342	1,069
BALANCE AT YEAR-END					
Equity	19,476	19,128	16,945	15,343	14,046
Deposits and loans from banks	21,923	3,174	4,259	4,616	5,083
Deposits from customers	91,704	103,053	121,812	106,946	85,823
Due from financial institutions	47,757	23,423	34,379	7,164	3,556
Loans and advances to customers	69,109	76,139	74,668	71,170	60,004
Total assets	142,996	133,114	154,851	133,801	110,237
FINANCIAL RATIOS					
Return on Equity	11.38%	5.28%	11.62%	9.13%	9.96%
Return on Assets	1.59%	0.66%	1.30%	1.10%	1.08%
Capital adequacy	15.98%	15.88%	13.91%	13.44%	15.85%
Operating expenses/operating income	40.84%	47.83%	44.65%	57.58%	59.26%
Average number of employees	728	717	689	688	487
Assets per employee	196	186	225	194	226
Administrative expenses per employee	(3,0)	(3,0)	(3,1)	(2,8)	(3,4)
Profit after tax per employee	3,0	1,3	2,7	2,0	2,2



Foreword

Dear clients, business partners and friends,

It remains our ambition to be a partner of the successful in protecting and increasing the value of their assets, to help them finance their business visions and to interconnect the business opportunities that arise in connection with the Bank and the Group. Once again, we were successful in fulfilling this ambition.

The fact that 2017 was indeed a successful year for us is confirmed not only by the achieved profit, which reached the amount of CZK 1.50 billion after tax, but also by numerous awards received by our services and products. In addition to the Investment of the Year award, we are also are pleased about having been able to maintain our leadership and title of the best Private Bank of the Year.

The amount invested by our clients in 2017 was the highest in the history. The volume of assets in mutual funds for small investors and funds for qualified investors managed by J&T INVESTIČNÍ SPOLEČNOST, a.s. and ATLANTIK finanční trhy, a.s. grew by CZK 6.63 billion year-on-year, which represented a 43.0% increase. This success builds on the trust in our funds, which are used by a growing number of clients instead of direct investments in securities.

Our star product of the year was the fund J&T BOND CZK smíšený otevřený podílový fond, which triumphed in the aforementioned Investment of the Year competition, leaving 630 other Czech and foreign funds behind. According to the jury, the fund was selected as the winner especially thanks to its low volatility and acceptable three-year yield.

We continue to be the largest arranger of corporate bond issues in the Czech Republic. We launched a total of seven bond issues with a total volume of CZK 15.95 billion on the market. For the first time ever, we placed an issue totalling EUR 280 million among institutional clients and private investors; this issue included five-year bonds of SAZKA Group and five-year bonds of Emma Gamma, one of Sazka's shareholders.

We also managed to establish a newly-built team for credit transactions on the market, which has now completed its first full year with the Bank.

We are aware that our success also brings along a commitment to social responsibility; therefore we, just like in the years before, donated a part of our profits to support arts, sports and people in need. The J&T Banka Prague Open tennis tournament and the J&T Banka CSI Olomouc horse show-jumping competition are popular sporting events of the year for all fans. We are happy that we can help bring big names in sport to the Czech Republic.

Our long-standing partnership with the Czech Philharmonic Orchestra contributes to the fact that the ensemble, with Semyon Bychkov as its Chief Conductor, is on its way to becoming one of the world's top ten orchestras. The name of J&T BANKA is no longer connected with classical music only; thanks to our support of Bohemia JazzFest 2017, one of the biggest summer jazz music festivals in Europe, it is now also associated with jazz music.

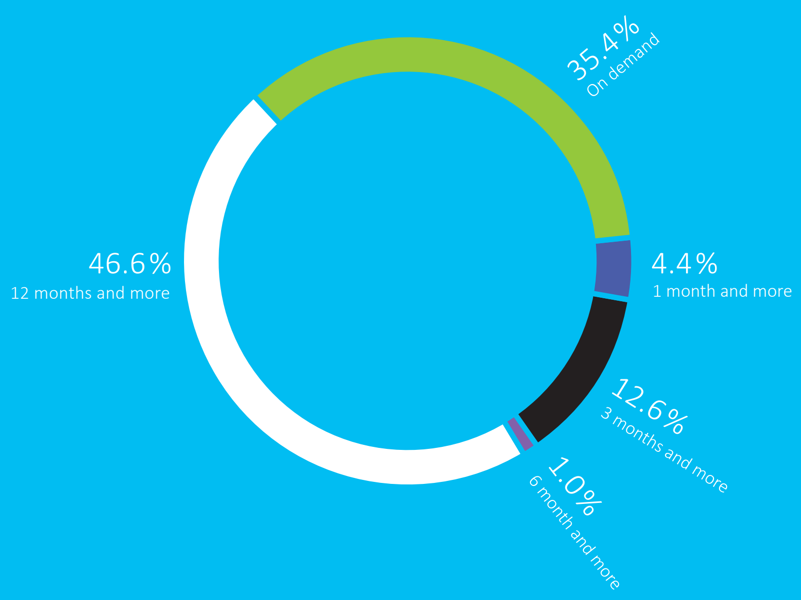
We also encourage talent and originality, and therefore we maintain our partnership with the Jindřich Chalupecký Award, the most prominent award for contemporary young Czech artists. We also provided our clients with the opportunity to enjoy art through our partnership with Galerie Rudolfinum (Rudolfinum Gallery) and Moravská Galerie (Moravian Gallery).

We realise that we need to keep improving our services in order to maintain our clients' trust. In the year in which the Bank will celebrate 20 years of its existence, I think that it will be crucial to further strengthen our consulting services so that we can continue helping our clients understand the increasingly varied world of investments. It will be no less important to build our relationship with clients in the digital world, whose role in our lives is constantly gaining in importance.

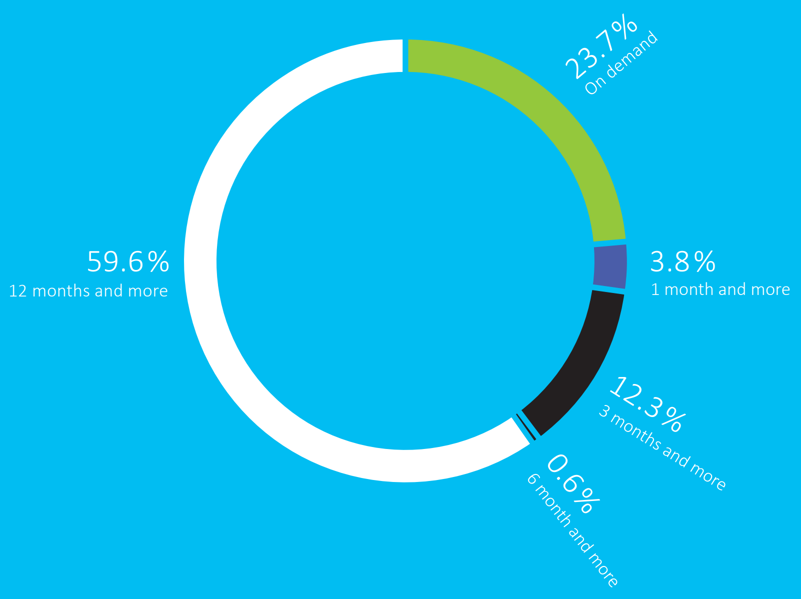
I would like to thank all of our employees for their excellent work and our clients for their trust, which we greatly appreciate.

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

Structure of deposits
2017



Structure of deposits
2016



Report of the Board of Directors

Financial results – the Bank

The Bank closed 2017 with total assets amounting to CZK 134.94 billion. At the same time, with a profit after tax of CZK 1.50 billion, the Bank continued in its extraordinary achievements of the previous years and fulfilled its long-term strategic objective, namely to achieve profit after tax of at least CZK 1 billion.

The 3.6% year-on-year decrease in net profit was influenced by an increase in the net interest income and the net fee and commission income (a total year-on-year increase by CZK 0.55 billion). As opposed to that, the Bank recorded a decrease in the net trading income and the loss from impairment of financial assets available for sale (a year-on-year decrease by CZK 0.53 billion).

The net interest income increased by 17.5% to CZK 3.27 billion (2016: CZK 2.78 billion). The 6.3% drop in the interest income was compensated by a year-on-year drop in interest expense by over 40%. In response to the development of the interest income and to the overall situation in the market, the Bank adopted a decision in 2017 to gradually decrease interest rates on deposits. The Bank's strategic objective in the long run is to maintain an optimum level of the volume of deposits and effectively manage liquid cash.

In 2017, the net fee and commission income rose thanks to an increase in client investments and, at the same time, thanks to successful placements of new issues. Compared to 2016, there was an increase of over 7.5% to CZK 0.90 billion in 2017 (2016: CZK 0.84 billion). Fees for new bond issues and fees from promissory note programmes represented a major portion of the fee income. In 2017, the Bank launched seven new bond issues in the total volume of CZK 15.95 billion to the market. The Bank offered to clients its custody, administration and deposit services for securities and obtained new funds amounting to CZK 6.74 billion for the mutual funds managed by J&T INVESTIČNÍ SPOLEČNOST, a. s. One of the reasons for the increase in the volume of client investments was the planned decrease in interest rates on deposits.

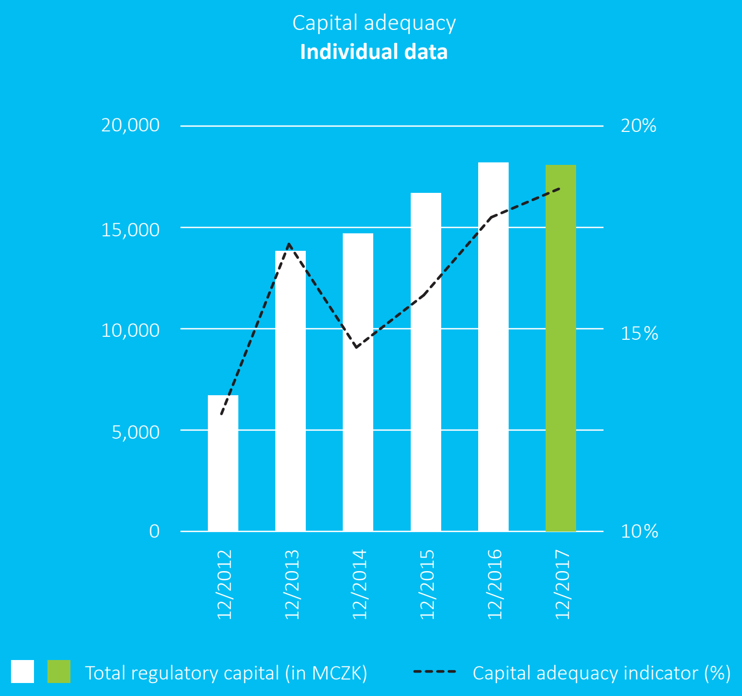
The decrease in the net trading income compared to the previous year (a drop by CZK 0.37 billion) was due to a decrease in profits from securities (a drop by CZK 0.27 billion) and as a result of derivative transactions (a drop by CZK 0.1 billion). The year-on-year decrease was influenced by the development of interest rates on the market. Up until 2016, the Bank participated in the drop in interest rates, and therefore a growth of the prices of bonds in the portfolio, whose proportion was dropping gradually. Interest rates grew in 2017, which resulted in a price drop in the rest of the debt securities portfolio. The losses from the drop in the prices of debt securities were compensated by profit from active trading in the rest of the portfolio and higher profit in the share portfolio.

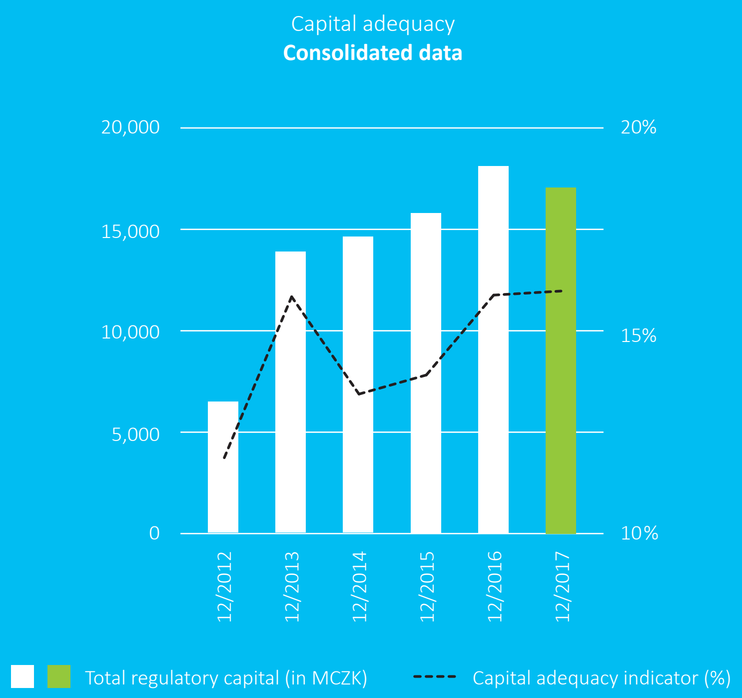
The losses from impairment of financial assets available for sale reached CZK 0.12 billion in 2017 due to a permanent decrease in the market price of the financial asset available for sale (in 2016 a profit of CZK 0.03 billion due to release an impairment of financial assets available for sale identified in 2015).

The Bank's operating expenses amounted to CZK 1.78 billion in 2017, which represents a year-on-year increase by 5.3% (2016: CZK 1.69 billion). The indicator of administrative expenses per employee rose slightly to CZK 3.7 million in 2017 (2016: CZK 3.6 million). The Bank keeps the ratio of operating expenses to total assets under the level of 1.5% in the long term, which places it among the best banks on the market. The net change in allowances for impairment of loans decreased by CZK 0.29 billion to CZK 0.38 billion in 2017 (2016: CZK 0.67 billion).

At the end of 2017, the Bank's equity totalled almost CZK 19 billion. In 2017, the Bank paid a dividend in the amount of CZK 1.31 billion to its parent company J&T FINANCE GROUP SE, which represents approximately 85% of the net profit for 2016. The Bank is sufficiently equipped with capital in the long term and prepared for further growth and development. As at 31 December 2017, the Bank's capital adequacy amounted to 18.45% (2016: 17.75%).

The year-on-year increase in the Bank's total assets by 9.2% is primarily due to an increase in deposits and loans from banks. The drop in client deposits (by CZK 9.35 billion) was in compliance with the Bank's strategic objectives for 2017. Client deposits were managed with respect to their volume and their optimum time structure. Despite that, client deposits remain the main source of the Bank's financing.


Capital adequacy
Individual data
20,000
15,000
10,000
5,000
0
20%
15%
10%
12/2012
12/2013
12/2014
12/2015
12/2016
12/2017
Total regulatory capital (in MCZK)
Capital adequacy indicator (%)


Capital adequacy
Consolidated data
20,000
15,000
10,000
5,000
0
20%
15%
10%
12/2012
12/2013
12/2014
12/2015
12/2016
12/2017
Total regulatory capital (in MCZK)
Capital adequacy indicator (%)

As at 31 December 2017, the volume of these deposits reached CZK 84.48 billion, which represents a year-on-year decrease by 10.0%. The decrease in client deposits is apparent primarily in fixed-term deposits (a decrease by CZK 14.70 billion in 2017) which were, however, largely transferred to investments.

In 2017, the total number of the Bank's clients dropped to 47,961. Compared to 2016, the number of clients decreased by 5,500. Natural persons continue to be the key segment for the Bank.

The volume of the loan portfolio dropped by 8.5% to CZK 63.79 billion in 2017. Both the volume of loans granted to clients and the volume of receivables under reverse repurchase agreements performed against clients decreased. From the perspective of concentration of loans to customers by economic sector, the biggest drop was in the financial sector; on the contrary.

The volume of financial assets in the categories available for sale, at fair value through profit or loss and held to maturity grew by approximately 2.0% to the total CZK 12.05 billion during 2017 (as at 31 December 2016: CZK 11.81 billion).

Financial results – the Group

The Group closed 2017 with total assets amounting to CZK 143.00 billion (2016: CZK 133.11 billion), which represents an increase by 7.4%. Profit after tax amounted to CZK 2,20 billion in 2017, which is more than a two fold increase compared 2016 (2016: CZK 0.95 billion).

The significant year-on-year increase in the Group's net profit was mainly due to an increase in the net trading income. In 2017, the net trading income on the Group level amounted to CZK 0.43 billion (2016: CZK 0.05 billion). The year-on-year increase was thus CZK 0.38 billion.

Following stagnation in 2016, the growth in the net trading income was supported by growth in the net interest income in 2017. The Group's net interest income increased by CZK 0.51 billion to CZK 3.73 billion (2016: CZK 3.22 billion). The trend in the development of the interest income and expense in the Group copies the development in the Bank; the interest income in the Group dropped by 7.0% but the interest expense dropped by 40.1%.

The Group's net fee and commission rose by 9.6% to CZK 1.14 billion (2016: CZK 1.04 billion), primarily as a result of an increase in the fee income (a year-on-year increase by 12.4%).

The Group's other operating income rose by CZK 0.21 billion to CZK 0.35 billion in comparison with previous year mainly due to the sale of joint venture PGJT B.V.

Operating expenses increased slightly (by 3.5%) to CZK 2.31 billion in 2017. The net change in allowances for impairment of loans decreased by 26.85% to CZK 0.76 billion (2016: CZK 1.04 billion).

The volume of client deposits within the Group decreased by 11% to CZK 91.7 billion in 2017 (2016: CZK 103.05 billion). The volume of the portfolio of receivables from clients decreased by 9.2% to CZK 69.11 billion (2016: CZK 76.14 billion).

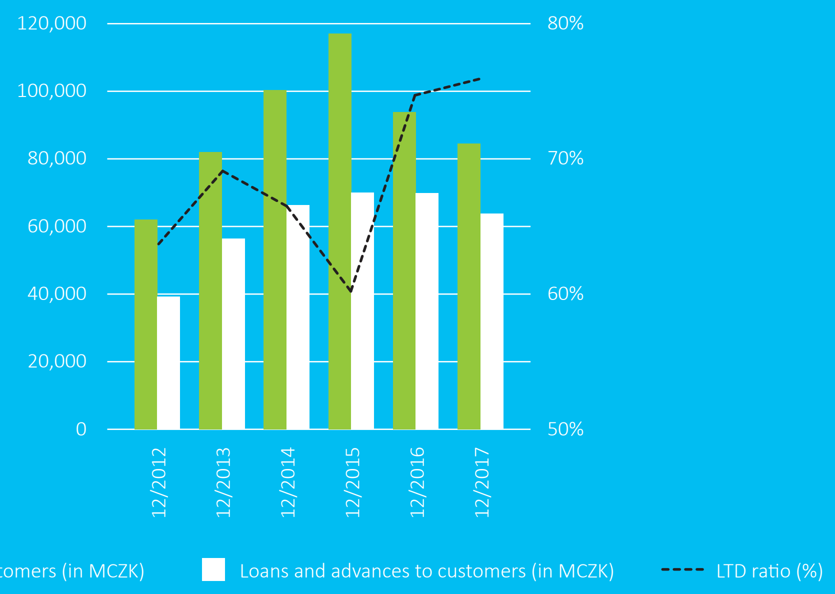
At the end of 2017, the Group's equity amounted to CZK 19.48 billion, thus remaining on the level of 2016 (CZK 19.13 billion). The sufficient capital amount will enable the Group to grow and develop also in the coming years. The capital adequacy on a consolidated basis was 15.98% at the end of the year.

At the end of 2017, the Group had 53,203 clients in total, which is a year-on-year decrease by 6,730.

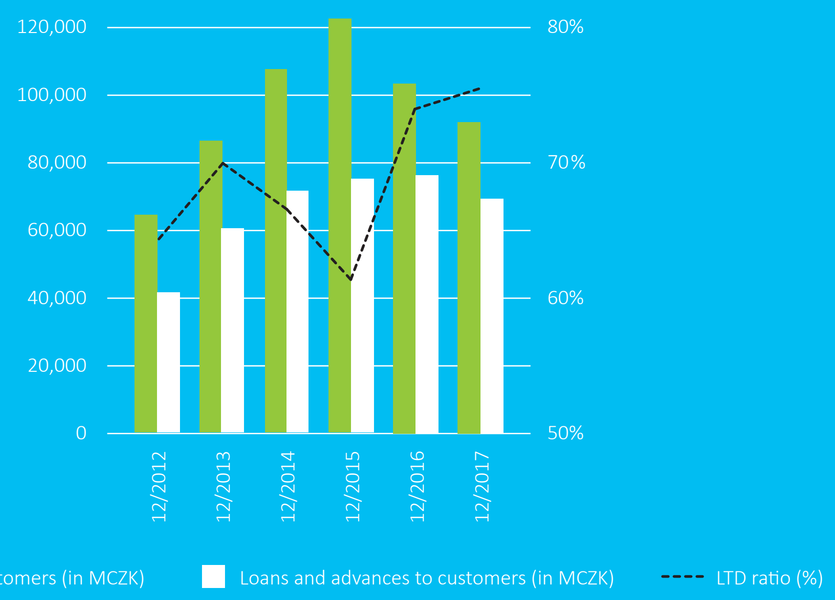
Financial markets

The fee and commission income at the Bank's level exceeded the CZK 1 billion mark for the first time in 2017. The largest share of this

Client deposits and loans
Individual data



Cient deposits and loans
Consolidated data



amount, more than one third, is attributable to fees connected with the placements of bond issues. About one quarter of the total income from financial markets is attributable to income from portfolio management, both through mutual funds and individually.

J&T BOND CZK smíšený otevřený podílový fond named fund of the year 2017

The fund J&T BOND CZK smíšený otevřený podílový fond, which is also available to small investors, became the star product of the year 2017. In the tough competition of 630 other Czech and foreign funds, it was named not only the best mixed fund but also the Investment of the Year. According to the organisers of the competition for the best investment of the year, Fincentrum and Forbes, the fund won especially thanks to its low volatility and three-year gross yield of 5.5% p.a.

With an increase by CZK 2.12 billion, the volume of assets managed by the fund J&T BOND CZK smíšený otevřený podílový fond more than doubled in 2017.

Assets in J&T funds grew by 43%

The volume of assets in more than twenty mutual funds for small investors and funds for qualified investors managed by J&T INVESTIČNÍ SPOLEČNOST, a.s. a ATLANTIK finanční trhy, a.s. grew by CZK 6.63 billion to CZK 22.1 billion in 2017 (+43.0%). The flagship fund of J&T INVESTIČNÍ SPOLEČNOST, a.s., J&T MONEY CZK, was the most popular among clients. The fund, which was repeatedly elected the best fund in the category of mixed funds in the competition organised by Fincentrum & Forbes in 2013, 2015 and 2016 and which attracted in 2017 CZK 2.54 billion of new investments. Investors newly entrusted CZK 1.65 billion to the investor fund, J&T High Yield CZK, which earned its existing clients 5.03% in 2017.

The volume of assets in the individual portfolios managed by the team of Bank portfolio managers grew by 14.6% to CZK 7.2 billion. Four fifths of the clients that prefer tailor-made portfolios chose conservative mandates and strategies offering regular yield. New funds were entrusted to the management of J&T Banka both by individuals and several prominent municipalities and non-profit organisations.

The first issue for EUR 200 million

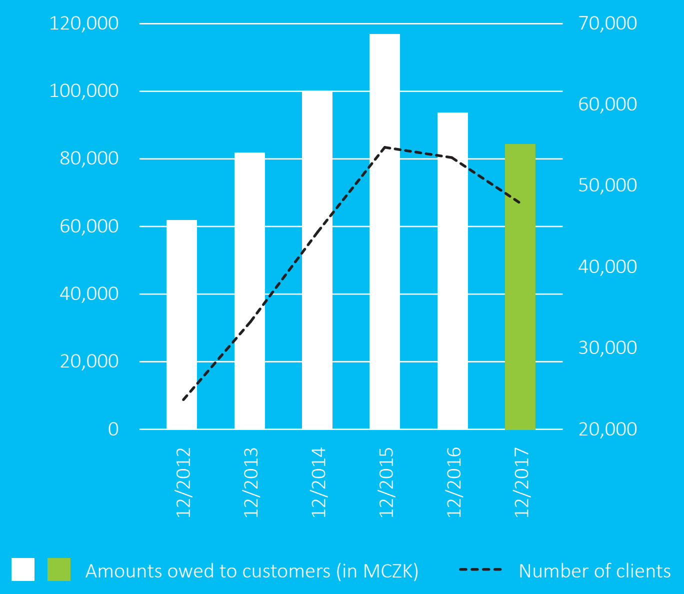
In 2017, we launched a total of seven bond issues in the total volume of CZK 15.95 billion on the stock exchange. The total volume of placed bond issues reached in CZK 18.3 billion with placement from bond issues taken place in 2016. We co-operated with UniCredit Bank Czech Republic and Slovakia, a.s. in the successful issue of the real estate holding Passerinvest Group in the volume of CZK 2 billion.

For the first time in our history, we placed an issue with a total volume of EUR 200 million among institutional clients and private investors. The five-year bonds of SAZKA Group and the five-year bonds of Emma Gamma, one of Sazka’s shareholders, with a total volume of EUR 280 million, are not only formally listed but also actually traded via the Bratislava Stock Exchange. We also introduced a new, three-year issue of the EPH energy holding bonds to the Slovak capital market. Our additions to the bonds section of the Prague stock exchange included bonds of the Alpha Quest fund, bonds of the above-mentioned Passerinvest Group and new issues of EPH and JTFG bonds.

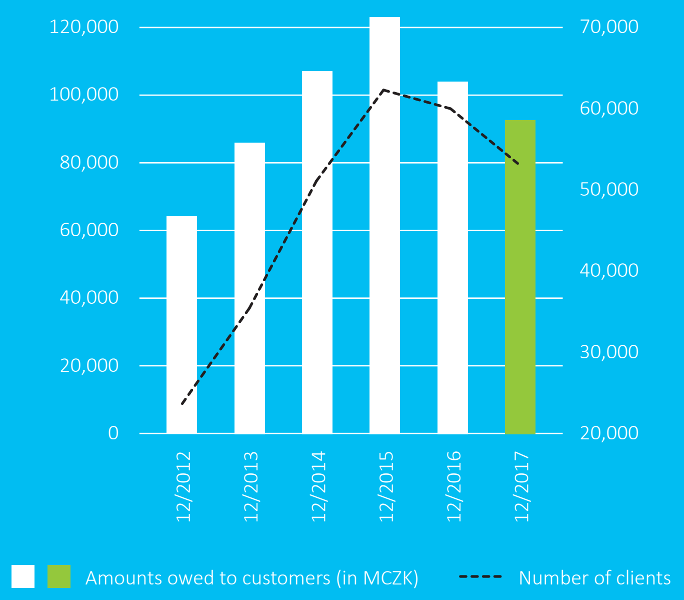
In addition to bonds launched in the regime of a public offering, we prepared for our clients the opportunity to invest in new private bond issues, financing, for example, a luxury recreation resort in the Maldives and the PPF financial holding.

In 2017, we continued to administer five promissory note programmes for issuers in the Czech Republic and two programmes in Slovakia. The total volume of unpaid promissory notes held by clients at the end of the year was equivalent to CZK 34.48 billion.

Client deposits and number of clients
Individual data



Client deposits and number of clients
Consolidated data



Active bond trader

As regards securities trading, we are facing a general pressure on margins in arranging transactions especially by adding, in particular, bond issues to the range of the instruments traded. The Bank has not only been a long-standing creator of the share market on the Prague Stock Exchange but it has also been, for seven years now, an active market creator for currently more than thirty bond issues on both the Prague Stock Exchange and Bratislava Stock Exchange. The Bank is also significant bond trader on the Prague Stock Exchange and the largest share trader on the Bratislava Stock Exchange[1].

The Rustonka certificates and the Passerinvest Group coupon bond were added to the traditionally very well traded bond issues of the Prague Stock Exchange, namely JTFG, EPH and CPI, in 2017. The most active corporate bond issues in Slovakia at the end of 2017 were those prepared by the Bank, i.e. SAZKA Group, EPH and Emma Gamma.

As for share investments, we especially traded for clients, in addition to the popular index shares and “must-have” shares such as Apple or Facebook, attractive dividend titles such as ČEZ, a. s. and MONETA MONEY BANK, a.s. Investors enjoyed an extraordinary increase in the value of the UNIPETROL, a.s. (+104.6%), ERSTE GROUP BANK AG (+22.6%) and OPAP SA (+44% including the dividend) shares.

Treasury for further development

The releasing of the exchange rate of the Czech crown and a recovery of trading on the spot foreign exchange market and on the currency derivatives market considerably contributed to the net fee income in 2017. Income from multi-currency cash pooling – a popular and convenient form of hedging the foreign exchange risk when investing on foreign markets – also had a positive impact.

Treasury products and services are areas that we plan to further strengthen so that they, along with a range of credit options, suitably supplement our offer for the growing corporate customer base requiring better and better services.

Products

During 2017, a basic payment account was added to the Bank’s product line within the meaning of the Payment Systems Act. With the aim of providing clients with greater flexibility in disposing of their funds, the Bank launched a deposit account with a one-day termination period at the end of the year.

At the turn of 2017 and 2018, we were among the first banks in the Czech Republic and Slovakia to offer our clients Google Pay, a service enabling fast, easy and secure contactless payments using the mobile phone.

Information technologies

Significant improvements were made in the field of information systems to ensure the provision of better-quality client services.
In the audited period, the Bank focused on the preparation and implementation of the regulatory requirements related to the new EU Directives PSD2 and MIFID II that bring, on the one hand, a democratisation of financial services and, on the other hand, a higher level of client protection in connection with their investments.

In this context, significant modifications of the architecture of the key banking systems were made, particularly the launch of new, specialised applications for processing of the settlement of financial transactions connected with the SEPA payment formats in the Czech Republic, a system for the receipt and validation of client investment instructions and for the implementation of a separate authentication module supporting services arising from the PSD2 regulation on the provision of a system interface by the client to authorised external entities.

For all of the above implementations, the Bank consistently used the updated integration methodologies and newly used tools, such as API Gateway and the Developer Portal. Thanks to this project, the Bank acquired not only a set of integration services for third parties but also a number of new services on the integration platform for internal use.

[1]http://www.bsse.sk/Portals/0/Resources/statistiky/rocenky/Rocenka-BCPB-2017.pdf

Internet banking also underwent further changes in 2017. Apart from new ergonomics of the entire application, a self-service zone was introduced, the log-in process was improved and new options for electronic activation of additional services for payment cards were introduced. With the development of ePortal, the Bank applied an agile method of IT solution development, enabling faster implementation of new versions and improvements.

There was a number of activities and projects focused on failure-free operation, process automation and risk reduction. This category includes strengthening the data center infrastructure, development of the Bank's own tool for liquidity management, security enhancement in the area of sending SWIFT messages and introduction of a central product catalogue.

Intensive implementation of some long-term projects also took place in 2017, particularly the implementation of a data warehouse and preparation of a new ERP. Both activities, whose first stages will be brought into operation in 2018, are focused on the area of operational purity and effectiveness of internal processes.

Human resources

The Bank had a total of 484 employees (working at its Prague headquarters and in the Slovak branch) at the end of the year. The Bank realises that every employee is a key corporate asset and that development in the field of human resources is necessary to maintain the high standard of services to clients. Therefore, the Bank continues to support learning and keep employees motivated. The present management, including human resources management, focuses not only on work performance but also on an appropriate work-life balance. The Bank invests in the development of an internal learning system focused in particular on financial thinking and soft skills. For internal learning, the Bank uses the expertise of its internal staff to the maximum extent possible and focuses on a mutual exchange of experience and knowledge across the Bank's departments.

The Bank is also open to young talents; it supports university students, is involved in Career Days projects and the Bank's experts take part in university lectures. For the fifth consecutive year, it organised a trainee programme for university students and graduates, which enjoys an ever-growing interest from among the graduates and other applicants.

When electing members of the Supervisory Board and the Board of Directors and when filling management positions and positions in the Committees of the Bank, the Bank does not apply a diversity policy in terms of age, gender or education. The aspects that are taken into account for all positions are, in particular, professional experience and qualification of the prospective members and employees. The Bank does not have any diversity policy set forth by an internal standard, it does not have any policy objectives or prescribed quotas in place. However, it ensures equal treatment and equal opportunities for all of its employees in connection with the selection of employees, evaluation of work performance, remuneration and learning opportunities. The Bank naturally acknowledges cultural and individual differences among employees and respects different qualities and characteristics of each employee.

Support of the arts and sports

Our long-term co-operation with the Czech Philharmonic Orchestra provides the members of the ensemble with an opportunity not only to play the top-quality violoncello which the Bank purchased and immediately lent to the Czech Philharmonic Orchestra but also with a partnership with the concertmaster Josef Špaček; thanks to this partnership, hundreds of clients and employees of the Bank could listen to the violin recitals of one of the world's best violinists. Thanks to this partnership, among other factors, the Czech Philharmonic Orchestra, with Semyon Bychkov as its Chief Conductor, is on its way to becoming one of the world's top ten orchestras. However, the ensemble needs sufficient funds to develop its potential, and the Bank played a crucial part in this respect in 2017.

In the field of jazz music, the Bank provided significant support to, and thus made possible, the organisation of Bohemia JazzFest 2017, one of the biggest summer jazz music festivals in Europe. The festival took place in six Czech towns and cities with participation of global jazz stars, such as John Scofield, Soul Rebels from New Orleans and Nat Osborn Band from Brooklyn. As part of the festival, Miroslav Vitouš was the first Czech musician to receive the Bohemia JazzFest Award, an award for lifelong contribution to jazz music. The Bank thus supported a cultural event that helps raising the profile of the Czech Republic worldwide and brings the best of the world's jazz to the country.

Thanks to the general partnership with Galerie Rudolfinum (Rudolfinum Gallery), one of the leading fine arts institutions in the Czech Republic, visitors could attend the following exhibitions: Juergen Teller: Enjoy Your Life!, Eberhard Havekost. Logik and Krištof Kintera: Nervous Trees. The last of the above was one hundredth exhibition organised by Galerie Rudolfinum since its establishment in 1994 and, with its number of visitors exceeding 160,000 people, it became the most visited exhibition in the history of the Czech Republic. We are proud that we could be part of this success.

The Bank also continued to be a partner of the Jindřich Chalupecký Award, the most prominent award for contemporary young Czech artist; in addition to supporting this award, the Bank also supports the "Do You Have a Knack for Art?" project ("Máš umělecké střevo?") and the Moravská galerie (Moravian Gallery) in Brno. In 2017, the Magnus Art Collection was extended by the work of a laureate of the Jindřich Chalupecký Award, Matyáš Chochola. We believe that it is important to recognise an investment in talent, and not only talent, in time, and this is the reason why the Bank has partnered with this prestigious award.

In cooperation with the ART+ internet portal, which follows the development of the market with arts in the Czech Republic, we again issued the J&T Banka Art Index, a chart of the most frequently visited contemporary Czech artists. The goal of the J&T Banka Art Index is to serve as a guide to the contemporary Czech arts scene and raise awareness of successful artists both in the Czech Republic and abroad.

The eight J&T Banka Prague Open, an international women's tennis tournament, took place in a pleasant weather. The tournament was held under the administration of the WTA, was part of the ITF women's tour 2017 and brought the best of women's tennis that can be seen in the Czech Republic to the courts of the Sparta Prague Tennis Club. The main stars of the tournament included former No. 1 player Caroline Wozniacki, Barbora Strýcová, Lucie Šafářová, Kateřina Siniaková and, of course, the present world No. 1 player Karolína Plíšková. Viewing stands packed with visitors every day of the tournament, lots of attention from Czech and foreign media and an excellent atmosphere make this tournament the flagship sporting event supported by the Bank.

Horse lovers could once again attend the prestigious international horse show-jumping race, J&T Banka CSI Olomouc 2017, last June. Meticulous organisation, professional services and facilities for both the jockeys and horses, crowds of visitors and, above all, a unique atmosphere, all this makes this race a fixed part of the calendars of Europe's and world's elite jockeys and we are proud to have had the opportunity to be at its beginning and to be part of its further growth.

Outlook for 2018

Private banking is the Bank's key service. That is why it is our priority to keep improving both the quality and the range of the services we offer to our clients. The Bank's primary task is to understand its clients and their needs, and to present them with only such opportunities that are relevant for their individual situations. We only present our clients with opportunities in which we as the Bank invest ourselves. Once we know our clients, our bankers present them with suitable opportunities based on their needs. Our goal for this year is to create a model that will allow for tracking the clients' needs, using a uniform method. Once we gained the required knowledge, the Bank will be able to search for and structure investment opportunities that will meet the clients' needs even better. At the same time, building the knowledge of our clients provides space for the development of automated consulting services in segments where the Bank is not effectively capable of providing the services of private banking.

There is a great demand for investments on the market. There are new bond issues and investment funds, and the number of players in the area of investments and investment consulting is increasing. The market is therefore getting more and more complicated and hard to understand for the investors. As an investment expert, we want to dedicate part of the Bank's analytical team efforts to evaluate the new products, funds and offers on the market, and to make our findings available to our clients. The Bank will then introduce the best of the monitored products into its offer and therefore extend the portfolio of third-party products offered.

Private banking is not only about administration of property, but also about a comprehensive approach to it. In the long term, we help our clients to increase the value of their property, and also to protect and enjoy it. Therefore, in 2018, we will offer our clients consulting services and continuous support in the area of property and life insurance as part of our additional services. Another feature of our private banking is the Concierge service, which we introduced to our clients as the first bank on the market some years ago. We aim to improve the variety of services in this area as well, and to increase the number of clients who actively use the Concierge service.

In this digital age, even private banking, based primarily on maximum individualization and personal approach, requires a high-quality electronic administration, which gradually gains the same importance as the quality of the personal service. In the short term, it means that the Bank will need to invest in the improvement of the user interface of the e-portal, and to supplement the services with a mobile application. We would like to introduce both of these improvements to our clients in 2018. In the long term, the digitalisation is a much more complex issue. The Bank must be prepared for more significant changes in the operating model, and deeper integration of the digital world and personal service.

In provision of loans, the Bank builds its services on individual approach to each contract, flexibility, and fast decision making. The increasing number of new loan clients confirms that these aspects are attractive. However, we would like to keep improving our services, which is why we plan to invest in automation of the loan management. That should bring a better overview of the progress of the open business cases, more accurate measurement of the length of the individual phases of the approval process, and identification of weaknesses. We should thus be able to make better assessment of the effectiveness of using our internal capacity and evaluate our business success rate.

For our clients, introducing automation will mean further shortening of the whole process of getting a loan and, in time, less paperwork in the whole course of the loan.

From the perspective of macroeconomic risks, the outlook in terms of growth is predominantly positive. The Czech economy shows robust growth; the pace is expected to slow down this year but is still to remain high. The growth outlook is good not only for the neighbouring countries but the entire global economy. The system risks and risks related to financial stability in the banking sector have decreased in Europe. On the other hand, the recovering inflation development and the constantly growing prices of assets can constitute risk factors. Due to this development, a number of central banks, including the Czech National Bank, have begun to apply stricter monetary policies. The termination of monetary stimuli and growth in interest rates brings risks for asset prices and, subsequently, risks of a volatility increase. Brexit negotiations have only progressed slightly and therefore the insecurities around this process are still considerable. In addition to Brexit, increase in protectionism on the part of the USA also poses a risk to free trade. The Bank and the Group did not and do not have any significant exposures towards the United Kingdom of Great Britain and Northern Ireland or the clients residing in these countries. The ratio of loans granted to clients residing in the above countries to the total volume of loans of the Group and the Bank was equal to zero as at 31 December 2017. Concentration was insignificant also in 2016; it amounted to 0.7% for the Group and to 0.8% for the Bank. Neither the Bank nor the Group have their business model and profitability linked to the foreign market to an extent that would significantly affect (positively or negatively) the Bank's or the Group's economic management after Brexit.

We perceive and regularly analyse the risks that may influence the undisturbed development at any time and believe that we are well prepared for any possible uncertainties and that, despite new challenges, 2018 will be just 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 economic results the Bank and the Group in 2017 and of the outlook of the future development of their financial position, business activities and economic results.

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

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 2017, 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. Patrik Tkáč is responsible for the Financial Markets Unit.

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, Prague 7, Komunardů 1584/42, postcode 170 00, Supervisory Board – chairman
J&T banka d.d., 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

Previous engagement:
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 the Trade Unit, Operations Unit, Administration Unit and Slovak Republic (SR) Unit.

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
J&T Leasingová společnost, a.s., ID: 28427980, Prague 8, Pobřežní 297/14, postcode 186 00, Supervisory Board – chairman

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 Unit.

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
J&T banka d.d., ID: 675539, Aleja kralja Zvonimira 1, 42000 Varaždin, Croatia, Supervisory Board – chairman
J&T Bank, a.o., ID: 1027739121651, Moscow, Kadshevskaya, Russian Federation, Supervisory Board – chairman
J&T Leasingová společnost, a.s., ID: 28427980, Prague 8, Pobřežní 297/14, postcode 186 00, Supervisory Board – member

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 Unit.

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

Current engagements:
J&T Leasingová společnost, a.s., ID: 28427980, Prague 8, Pobřežní 297/14, postcode 186 00, Supervisory Board – member

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 2017, 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
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
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

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
První zpravodajská, a.s., v likvidaci, ID: 27204090, Prague 8, Pobřežní 297/14, postcode 186 00, Supervisory Board – chairman
PBI, a.s., ID: 3633527, Praha 8, Pobřežní 297/14, postcode 186 00, Board of Directors – chairman
J&T Sport Team ČR, s.r.o., ID: 24215163, Prague 8, Pobřežní 297/14, postcode 186 00, Statutory representative
I. Český Lawn- Tennis Klub Praha, ID: 45243077, Prague 7 Holešovice, Ostrov Štvanice č.ev. 38, postcode 170 00, Managing Board – member
Skytoll CZ, s.r.o, ID: 03344584, Prague 8, Pobřežní 297/14, postcode 186 00, Statutory representative

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

Jozef Šepetka
Supervisory Board- member

Appointed to the Supervisory Board on: 9 September 2008
Term of office to: 15 October 2018

He graduated from Faculty of Law of Charles University in Prague. From 1990 he worked in state administration – e.g. from 1922 he worked at the Ministry of Foreign Affairs of the Czech Republic. In 1998 he joined J & T BANKA, a.s. as adviser.

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

Jozef Spišiak
Supervisory Board- member (elected by employees)

Appointed to the Supervisory Board on: 9 December 2013
Term of office to: 9 December 2018

He graduated from Economic Faculty of Military academy and Faculty of Law of Comenius University in Bratislava. Since the beginning of his professional career, he has been in the financial sphere; until 1998 he worked for the CNB. Until 2012 he was a member of the Board of Directors of J & T BANKA, a.s.

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

Declaration
The members of the board of directors and supervisory board have neither been convicted of a fraudulent offence nor dis-qualified by a court from acting as members of the administrative, management or supervisory bodies of another issuer or from acting in the management or conduct of the affairs of another issuer. The Bank's management members are not, and have not been the subject of any official public incrimination or sanction by statutory or regulatory authorities. In the past five years, the Bank's management members have not been involved in any bankruptcy, receivership or liquidation of another company.

Committees of the bank

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 2017, 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
– Klimíček Tomáš, member of ALCO, Board member
– Jakabovič Ivan, member of ALCO, Supervisory Board vice-chairman
– Macaláková Anna, member of ALCO, director of Slovak Republic (SR) Unit

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 2017, the IC had following members:

– Drahotský Daniel, chairman of the IC, director of the Financial Markets Unit
– Vodička Petr, member of the IC, manager of the Financial Markets Department – own account
– Kováč Igor, member of the IC, Board member
– Klimíček Tomáš, member of ALCO, Board member
– Míšek Radoslav, member of the IC, manager of the Risk Management Department

Project Committee

Project Committee (the “PC”) has been established by the Bank’s Board of Directors. The PC’s main objective and purpose is to manage Bank´s internal projects. The PC discusses and approves new projects in the context of Bank’s strategic development, regulatory requirements and business plans and discusses and approves changes in the project with the impact to content, schedule or budget of the project and approves projects’ final reports. The PC discusses and approves list of potential external suppliers within selection procedures within scope of the project and approves selection procedures’ results. The PC has at least 3 members appointed and removed by the Bank’s Board of Directors.

As at 31 December 2017, the PC had the following members:

– Nešetřil Vlastimil, chairman of the PC, director of the Operations unit

– Macaláková Anna, member of the PC, director of Slovak Republic (SR) Unit
– Martinek Miloslav, member of the PC, director of the Information Systems Division
– Kešnerová Mária, member of the PC, director of the Finance Division
– Drahotský Daniel, member of the PC, director of the Financial Markets Unit
– Tkáčová Alena, member of the PC, director of the Trade CR Division
– Dvořák Michal, member of the PC, Board member of J&T Services ČR, a.s.

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 (the "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 2017, the ISC had the following members:
– Martinek Miloslav, chairman of the ISC, director of the Information Systems Division
– Nešetřil Vlastimil, member of the ISC, director of the Operations unit
– Macaláková Anna, member of the ISC, director of Slovak Republic (SR) Unit
– Drahotský Daniel, member of the ISC, director of the Financial Markets Unit
– Kešnerová Mária, member of the ISC, director of the Finance Division
– Dvořák Michal, member of the ISC, Board member of J&T Services ČR, a.s.

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 2017, 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, director of the Operations unit
– 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 of Slovak Republic (SR) Unit
– 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, Business Development Manager

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 2017, the SC had the following members:
– Nešetřil Vlastimil, chairman of the SC, director of the Operations unit

– 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

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 2017, the ORDC had the following members:
– Mastný Miloslav, chairman of the ORDC, director of the Administration Unit
– 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 Banky SR)

Valuation Committee

Valuation Committee (the "VC") has been established by the Bank's Board of Directors. The VC's main objective and purpose is regular assessment of the suitability of the applied valuation methodology for investment instruments, or its revision in relation to the development of legislation. The VC mainly evaluates the up-to-date status of the valuation methodology, procedures and other facts that may influence the valuation, assesses the current classification of investment instruments. The VC assesses current valuation models and valuation sources and assesses whether there has been any significant change in the criteria used for the determination of fair values. The VC approves recalibration of the model pro valuation of financial instruments within Level 3. The VC has at least 3 members appointed and removed by the Bank's Board of Directors.

As at 31 December 2017, the VC had the following members:
– Míšek Radoslav, chairman of the VC, manager of the Risk Management Department
– Drahotský Daniel, member of the VC, director of the Financial Markets Unit
– Kešnerová Mária, member of the VC, director of the Finance Division
– Kubeš Michal, member of the VC, adviser to the Bank's Board of Directors
– Zábojník Miloslav, member of the VC, chairman of the Board of Directors of J&T Investiční společnost, a.s.
– Bušek Lubomír, member of the VC, external cooperating person, member of the Board of Directors of PRVNÍ KLUBOVÁ pojišťovna, a.s.

Remuneration Committee

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 at least 3 members appointed and removed by the Bank's Supervisory Board.

As at 31 December 2017, the RC had the following members:
- Jakabovič Ivan, chairman of the RC, Supervisory Board vice-chairman
- Závitkovský Pavel, member of the RC, external cooperating person, member of the Supervisory board of Nadace Charty 77, vice-chairman of the Supervisory board of Českomoravská záruční a rozvojová banka, a.s.
- Vinšová Eva, member of the RC, HR director

Audit Committee
Based on the decision of the sole shareholder as members of the Bank's Audit Committee were appointed:
- Závitkovský Pavel, chairman of the AC, external cooperating person, member of the Supervisory board of Nadace Charty 77, vice-chairman of the Supervisory board of Českomoravská záruční a rozvojová banka, a.s.
- Kovář Jakub, member of the AC, external cooperating person, vice-chairman of Board of Directors of NEXIA AP, a.s.
- Palcr Dušan, member of the AC, member of the Supervisory Board of the J&T BANKA, a.s. and vice-chairman of the Board of Directors of the J&T Finance Group SE

Activities of the Audit Committee are governed by valid legal regulations and the Bank's Articles of Association.

Report of the Supervisory Board

In 2017, 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 2017, the Supervisory Board held a total of four ordinary sessions. 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 Supervisory Board has reviewed financial statements as of 31 December 2017 audited by the Bank's external auditor, KPMG Česká republika Audit, s.r.o. According to the auditor's report issued on 29 March 2018, 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 2017 and expenses, income and the results of its operations and cash flows for the year 2017 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 2017 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 2017 and with the settlement of the profit/loss, i.e. the distribution of profit of J&T BANKA, a.s. for 2017 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, 29 March 2018

Correspondent banks

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, CNY

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

J&T 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

Ping An Bank Co. Ltd., Shenzhen, China
SWIFT: SZDBCNBS
Currency: CNY

Organisational chart

BOARD OF DIRECTORS OF THE BANK

- Office of the Chairman of the Board of Directions
- Top Management
- Bank Management Department
- Internal Audit and Inspection Department

UNIT SALES

- **China Desk Department**
- **Advisors Department**
- Advisors Section 1.
- Advisors Section 2.
- Advisors Section 3.
- **Marketing Department CR**

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

UNIT FINANCIAL MARKETS

DIVISION FINANANCIAL MARKETS

- Investment Center Section
- **Financial Markets Department CR – Other Person´s Account**
- **Financial Markets Department CR – Own Person´s Account**
- **Financial Markets Department SR**
- **Client Portfolio Management Department**
- **Research Department**

UNIT OPERATIONS

- **Process and Project Management Department**
- **Safety Department**

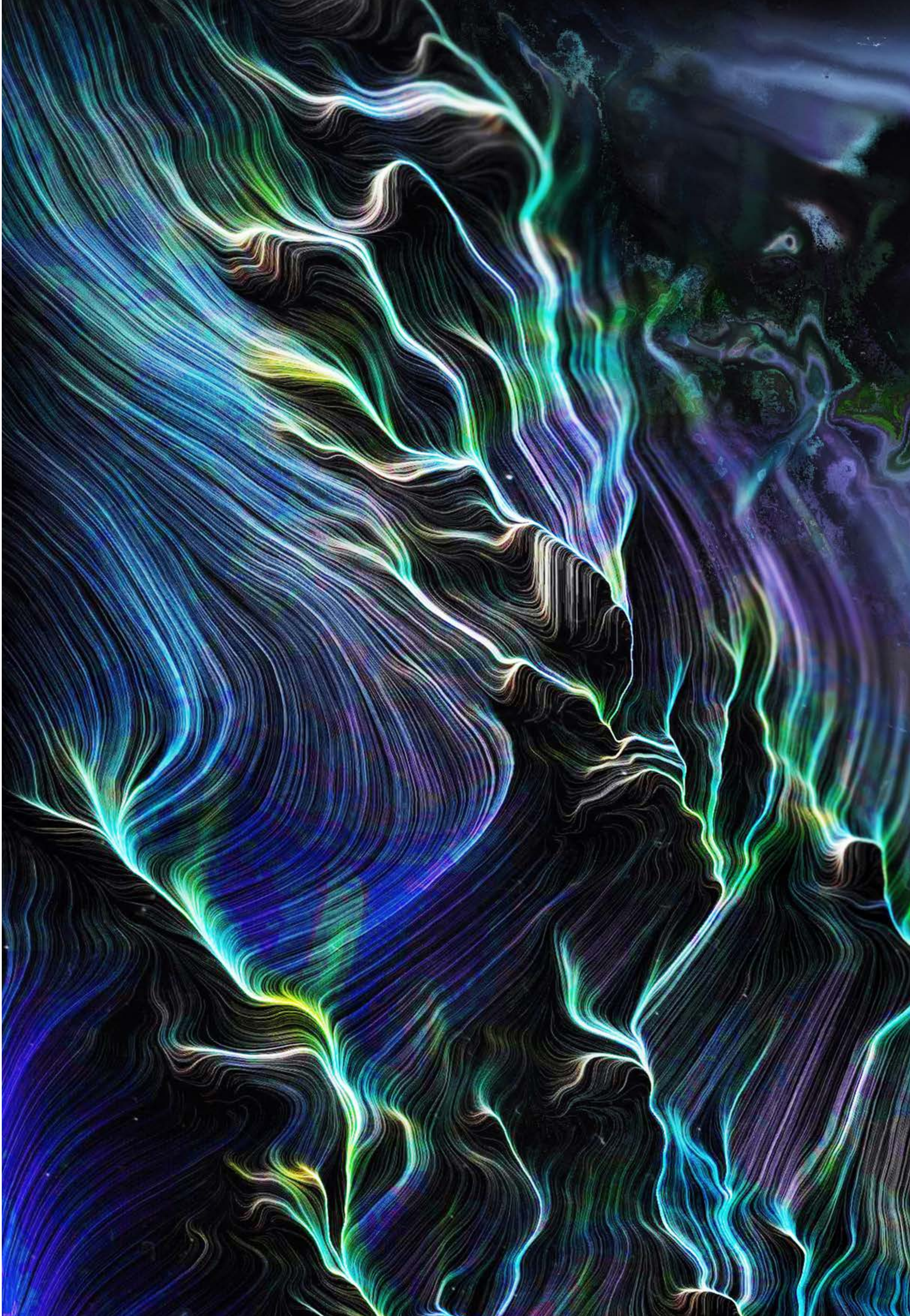
DIVISION OPERATION CR

- Family Office Support Section
- **Banking Operations and International Banking Department CR**
- Banking Operations Section
- International Banking Section
- Payment Cards, Internet Banking and Back Office Clear Deal Section
- **Financial Markets Back Office Department CR**
- **New Issues Department**

DIVISION INFORMATION SYSTEMS

- **Infrastructure and Support Systems Department**
- Database Section
- Supporting Applications Section
- **Customers and Internal Interfaces Department**
- ePortal Section
- **Reporting Support Department**
- Financial Reporting Section
- Operation Reporting Section
- **Banking Applications Department**
- Bank and Information System Section
- Financial and Securities Systems Section
- **IS/IT Governance Department**

UNIT FINANCE	UNIT RISK MANAGEMENT	UNIT ADMINISTRATION	UNIT SLOVAK REPUBLIC (SR)		
DIVISION FINANCE	DIVISION RISK MANAGEMENT AND CREDIT AND LOANS ADMINISTRATION	DIVISION ADMINISTRATION		DIVISION SALES SR	DIVISION OPERATION SR
Treasury Department	**Risk Management Department**	**Legal Department CR**	**Unit Management Department SR**	**Private Banking Department SR**	The High Tatras Exposition
Liquidity Management Section	**Credit Risk Management Department**	**Legal Department SR**	**Magnus Department**	**Comfort Department SR**	The Košice Exposition
Financial Analysis Department	**Credit and Loans Administration Department CR**	**Compliance and AML Department**		Premium Banking Section	Process and Product Management Section SR
Economy Department CR	**Credit and Loans Administration Department SR**			**Marketing and Communication Department SR**	**Front Office Department SR**
Accounting Section				**Business Call Centrum Department SR**	**Back Office Department SR**
Reporting Section				**Lending Business Department SR**	Back Office Comfort Section
Economy Department SR					Back Office PrB and PB Section
Accounting Section					Payment Cards and Internet Banking Section
Reporting Section					Comfort Line Section
					Financial Markets Back Office Department SR



Consolidated statement of financial position as at 31 December 2017

in MCZK	Note	2017	2016
ASSETS			
Cash and balances with central banks	6	6,911	15,513
Due from financial institutions	7	47,757	23,423
Positive fair value of derivatives	8	609	239
Loans and advances to customers	11	69,109	76,139
Financial assets at fair value through profit or loss	9a	5,227	3,381
Financial assets available for sale	9b	11,009	11,457
Financial assets held to maturity	9c	13	666
Disposal groups held for sale	18	416	219
Investment in equity accounted investees	49	7	29
Current tax asset		8	78
Deferred tax asset	26	90	105
Investment property	13	407	469
Property, plant and equipment	14	204	216
Intangible assets	15	129	139
Goodwill	15	33	30
Prepayments, accrued income and other assets	17	1,067	1,011
Total Assets		**142,996**	**133,114**
LIABILITIES			
Deposits and loans from banks	19	21,923	3,174
Deposits from customers	20	91,704	103,053
Negative fair value of derivatives	8	241	185
Subordinated debt	21	1,567	1,443
Current tax liability		68	20
Deferred tax liability	26	98	128
Other liabilities and provisions	22	7,919	5,983
Total Liabilities		**123,520**	**113,986**
EQUITY			
Share capital	23	10,638	10,638
Retained earnings and other reserves	23	5,647	5,230
Other capital instruments	23	2,597	2,597
Equity attributable to equity holders of the parent		**18,882**	**18,465**
Non-controlling interest	24	594	663
Total Equity		**19,476**	**19,128**
Total Equity and Liabilities		**142,996**	**133,114**

The accompanying notes, set out on pages 46 to 128, are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended 31 December 2017

in MCZK	Note	2017	2016
Interest income	27	5,041	5,418
Interest expense	28	(1,316)	(2,198)
Net interest income		**3,725**	**3,220**
Fee and commission income	29	1,436	1,278
Fee and commission expense	30	(299)	(241)
Net fee and commission income		**1,137**	**1,037**
Dividends from financial assets available for sale		54	187
Impairment of assets available for sale	9b	(123)	32
Net trading income	31	429	46
Gain on a bargain purchase	1	85	–
Other operating income	32	345	142
Operating income		**5,652**	**4,664**
Personnel expenses	33	(1,084)	(946)
Other operating expenses	34	(1,128)	(1,184)
Depreciation and amortisation	14, 15	(96)	(101)
Operating expenses		**(2,308)**	**(2,231)**
Profit before provisions, allowances and income tax expenses		**3,344**	**2,433**
Net change in provisions from financial activities		41	12
Net change in allowances for impairment of loans	12	(763)	(1,043)
Revenues from cession in portfolio of loans and other receivables		12	8
Profit before tax, excluding profit from equity accounted investees		**2,634**	**1,410**
Loss from equity accounted investees, net of tax	49	(17)	(50)
Profit before tax		**2,617**	**1,360**
Income tax expenses	25	(421)	(407)
Profit for the period		**2,196**	**953**

in MCZK	Note	2017	2016
Attributable to:			
Equity holders of the parent		2,260	1,042
Non-controlling interest		(64)	(89)
Profit for the period		**2,196**	**953**
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		162	143
Net amount reclassified to profit or loss		(41)	(160)
Related tax		(23)	3
Foreign exchange translation differences		(439)	637
Other comprehensive income for the period, net of tax		(341)	623
Total comprehensive income for the period		**1,855**	**1,576**
Attributable to:			
Equity holders of the parent		1,924	1,659
Non-controlling interest		(69)	(83)
Total comprehensive income for the period		**1,855**	**1,576**

The accompanying notes, set out on pages 46 to 128, are an integral part of these consolidated financial statements. The Board of Directors approved these consolidated financial statements on 29 March 2018.

Signed on behalf of the Board:

Štěpán Ašer, MBA
Member of the Board of Directors

Ing. Igor Kováč
Member of the Board of Directors

Consolidated statement of changes in equity for the year ended 31 December 2017

in MCZK	Share capital	Capital funds
Balance at 1 January 2017	**10,638**	**40**
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, after tax	–	–
Net amount reclassified to profit or loss, after tax	–	–
Total comprehensive income for the period	**–**	**–**
TOTAL TRANSACTIONS WITH OWNERS OF THE GROUP, RECOGNIZED DIRECTLY IN EQUITY		
Dividends	–	–
Distribution from capital instruments	–	–
Set up of Perpetuity fund	–	–
Own shares of subsidiary	–	–
Effect of disposals of subsidiaries	–	–
Transfer of legal reserve fund	–	3
Balance at 31 December 2017	**10,638**	**43**

Information about equity instruments is disclosed in note 23.

Translation and revaluation reserve	Retained earnings	Perpetuity fund	Other capital instruments	Total	Noncontrolling interest	Total equity
(808)	**5,843**	**155**	**2,597**	**18,465**	**663**	**19,128**
–	2,260	–	–	2,260	(64)	2,196
(435)	–	–	–	(435)	(4)	(439)
195	–	–	–	195	1	196
(96)	–	–	–	(96)	(2)	(98)
(336)	**2,260**	**–**	**–**	**1,924**	**(69)**	**1,855**
–	(1,310)	–	–	(1,310)	–	(1,310)
–	–	(216)	–	(216)	–	(216)
–	(242)	242	–	–	–	–
–	(1)	–	–	(1)	–	(1)
22	(2)	–	–	20	–	20
–	(3)	–	–	–	–	–
(1,122)	**6,545**	**181**	**2,597**	**18,882**	**594**	**19,476**

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, after tax	–	–
Net amount reclassified to profit or loss, after tax	–	–
Total comprehensive income for the period	**–**	**–**
TOTAL TRANSACTIONS WITH OWNERS OF THE GROUP, RECOGNIZED DIRECTLY IN EQUITY		
Issue of capital	–	–
Dividends	–	–
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**

The accompanying notes, set out on pages 46 to 128, are an integral part of these consolidated financial statements.

	Translation and revaluation reserve	Retained earnings	Perpetuity fund	Other capital instruments	Total	Noncontrolling 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 cash flows for the year ended 31 December 2017

in MCZK	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax from continuing operations		2,617	1,360
Adjustments for:			
Depreciation and amortisation	14, 15	96	101
Gain on a bargain purchase	1	(85)	–
Allowances for impairment of loans	12	763	1,043
Foreign currency difference from allowances for impairment of loans	12	(86)	32
Gain on sale of intangible and tangible fixed assets		21	115
Change in other provisions and other assets		13	(39)
Profit/(loss) from equity accounted investees		17	50
Unrealised foreign exchange gains/(loss), net		150	(169)
Impairment of assets available for sale		123	(32)
Fair value adjustment to P&L from FVTPL assets		15	(56)
Profit from sale associate		(189)	–
Cash generated from (used in) operations:			
Compulsory minimum reserves in central banks		(51)	425
Due from financial institutions		134	(72)
Originated loans and receivables		6,353	(2,546)
Financial assets held to maturity, AFS and FVTPL		(883)	3,613
Prepayments, accrued income and other assets		(56)	73
Disposal groups held for sale		(197)	1,782
Deposits and loans from banks		18,749	(1,085)
Deposits from customers		(11,349)	(18,759)
Other liabilities and provisions		1,923	(650)
Net increase / (decrease) in fair values of derivatives			
Fair value of derivative instruments		(314)	21
Tax effect			
Income tax expenses paid		(313)	(361)
Net cash flows from operating activities		**17,451**	**(15,154)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of and proceeds from sale of intangible and tangible fixed assets, net		(93)	(86)
Disposal of subsidiary, net of cash acquired		–	11
Acquisition of associate and joint ventures		–	(39)
Disposal of associate		210	–
Net cash flows used in investing activities		**117**	**(114)**

in MCZK	Note	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of other capital instruments		–	855
Distribution from capital instruments		(216)	(229)
Dividends paid		(1,310)	–
Proceeds from subordinated debt		123	5
Repayment of subordinated debt		(2)	(613)
Foreign currency difference from subordinated debt		3	2
Net cash flows from financing activities		**(1,402)**	**20**
Net increase in cash and cash equivalents		**16,166**	**(15,248)**
Cash and cash equivalents at beginning of period	5, 35	36,853	51,667
Effects of exchange rate fluctuations on cash held		(351)	434
Cash and cash equivalents at end of period	5, 35	52,668	36,853
Cash flows from operating activities include:			
Interest received		3,775	4,667
Interest paid		1,407	2,312
Dividends received		66	214

The Group does not held any cash and cash equivalent that are not available for use by the Group. 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 46 to 128, are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2017

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 730 employees in 2017 (2016: 717). 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.

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 2017 are as follows:

Company	Country of incorporation	Share capital in mil. CZK	% shareholding	Consolidation method	Principal activities
J & T BANKA, a.s. (parent company)	Czech Republic	10,638	parent company	parent company	Banking acitivites
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	2,351	99.95	Full	Banking activities
– Interznanie OAO	Russia	74	50	Full	Real estate
– AKB "Khovanskiy" a.o.	Russia	372	100	Full	Banking activities
TERCES MANAGEMENT LIMITED	Cyprus	0.06	99	Full	Investment activities
– Interznanie OAO	Russia	74	50	Full	Real estate
J&T REALITY, o.p.f.	Czech Republic	–	53.08	Full	Collective investment fund
J&T banka d.d.	Croatia	1,056	82.76	Full	Banking activities
J&T Leasingová společnost, a.s.	Czech Republic	32	100	Full	Financing 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.

The subsidiary Vaba d.d. bank Varaždin changed it's name to J&T banka d.d. on January 1, 2017.

On February 22, 2017, the Group subscribed for 100 % share in J&T Leasingová společnost, a.s. of 4 600 000 units of ordinary shares in total nominal value of CZK 30 million aiming to expand its activities to provide leasing services.

On July 3, 2017, the Group sold its share in the company PGJT B.V.

On October 4, 2017, J&T Bank, a.o. purchased AKB „Khovanskiy" a.o. at a discount from the its original shareholders with the aim to optimize and expand its business activities. The transaction costs were CZK 335 million resulted into recognition of gain on a bargain purchase CZK 85 million in the financial statements of the Group.

During 2017, there were no restriction on the ownership rights held over subsidiaries.

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

Company	Country of incorporation	Share capital in mil. CZK	% share-holding	Consolidation method	Principal activities
J & T BANKA, a.s. (parent company)	Czech Republic	10,638	parent company	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	2,686	99.95	Full	Banking activities
– XT-card a.s.	Russia	84	50	Full	Real estate
TERCES MANAGEMENT LIMITED	Cyprus	0,06	99	Full	Investment activities
– Interznanie OAO	Russia	84	50	Full	Real estate
PGJT B.V.	Netherlands	216	50	Equity	Financial activities
– PROFIREAL OOO	Russia	42	100	Equity	Financial activities
J&T REALITY, o.p.f.	Czech Republic	-	53.08	Full	Collective investment fund
J&T banka d.d.	Croatia	1,098	82.55	Full	Banking activities

On June 30, 2016, the ownership J&T Cafe, s.r.o. was liquidated.

On February 24, 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.

During 2016, there were no restrictions on the ownership rights held over subsidiaries.

Acquisitions and disposals of subsidiaries made in 2017 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 2017 – 31 December 2017 ("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 2017, and have not been applied in preparing these financial statements:

IFRS 9 Financial Instruments

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.

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. The vast majority of the loan portfolio meets conditions of the above SPPI test and will thus be classified as AC, i.e. it will be recognized practically unchanged from the current reporting under IAS 39.

Financial assets acquired for trading purposes and measured at FVTPL remain classified as business model "Trading" and measured at FVTPL.

Financial assets available for sale under IAS 39 were analysed in detail. Debt instruments that were analysed within the SPPI test, and shares were classified as FVOCI under IFRS 9. Allotment certificates were mandatorily reclassified from AFS to FVTPL, as under IFRS 9 they do not comply with the conditions to be measured at FVOCI. As part of this reclassification, accumulated revaluation reserves for the time of holding an allotment certificate were transferred to the opening balance of retained earnings as at 1 January 2018, net of the effect of deferred tax.

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.

For the purposes of preparing the ECL model, the portfolio of financial assets is divided into segments. Within each segment, financial assets are classified into three stages (Stage I- III) or into a group of financial assets that are impaired as at the date of initial recognition – purchased or originated credit impaired assets (POCI). As at the date of initial recognition, financial assets are classified either into Stage I or POCI. Subsequent reclassification into further stages is carried out according to the definition of an increase in credit risk (Stage II) or impairment of the relevant asset (Stage III) since its initial recognition as at the reporting date.

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.

A significant increase in credit risk (SICR) represents a significant increase in the risk of default in respect of a financial assets as at the reporting date compared with the risk as at the date of initial recognition.

When determining SICR, the Group adheres to the requirements of IFRS 9. These requirements are based on an assumption that the credit risk usually increases significantly before a financial asset becomes past due or other lagging factors (e.g. restructuring) are observed. At each reporting date of a financial asset, the Group will assess whether the credit risk of a financial assets has increased significantly since its initial recognition or not.

The Group may assume that the credit risk associated with the financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date.

When determining SICR on a financial assets since its initial recognition, the Group uses reasonable and supportable information that is relevant and available without undue cost or effort.

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 2017.

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

Based on the expected loss calculation models, the Group quantified the impact of the change from IAS 39 to IFRS 9 to total amount of CZK 597 million. The impact is presented by impact of ECL for loans at AC in the amount of CZK 426 million, off-balance sheet positions of CZK 101 million and debt instruments at FVOCI of CZK 70 million.

The difference in classification of business model affected classification of allotment certificates and several loans that were reclassified from amortised costs model to fair value. Allotment certificates classified as available for sale under IAS 39 were reclassified to the model FVTPL in the amount of CZK 5 024 million. The cumulative revaluation difference of CZK 338 million decreased by the impact of deferred tax of CZK 64 million was transferred to retained earnings as at 1 January 2018.

Impact of accounting standard IFRS 9 on regulatory capital

At the end of 2017, the European Parliament and the European Council issued EU Regulation 2017/2395, which specifies the calculation of the impact of IFRS 9 on regulatory capital, risk-weighted assets and other related items and complements current Article 473 of the EU

Regulation no. 575/2013 (CRR). As a result of applying IFRS 9 from 1 January 2018, banks may experience a significant increase in provisions for expected credit losses, resulting in a sudden fall in the CET 1 component of regulatory capital. The newly added Article of the above Regulation allows banks to redeploy a portion of this expected loss between 2018 and 2022 on 1 January 2018 to CET 1 capital. The Group will proceed from 1 January 2018 to 31 December 2022, in accordance with Art. 473a para. 2 of the aforementioned Regulation. During this period, part of the loss arising from the IFRS 9 first impact will be recovered in the CET 1 capital of the Bank and multiplied by the relevant factor for that year (0.95- 2018, 0.85- 2019, 0.7- 2020, 0, 5- year 2021; 0.25- year 2022). At the same time, the Group will, for a transitional period of five years, modify specific credit risk adjustments by calculating the scaling factor under Article 473a 7b., leading to the increase of risk-weighted exposure amounts.

IFRS 15 Revenue from contracts with customers and Clarifications to IFRS 15
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. Entities 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) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:
– over time, in a manner that depicts the entity'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 an entity 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 Clarifications to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard.

The amendments clarify how to:
– identify a performance obligation- the promise to transfer a good or a service to a customer- in a contract;
– determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
– determine whether the revenue from granting a license should be recognised at a point in time or over time.

The amendments also provide entities with two additional practical expedients:
– An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities that using the full retrospective method only);
– For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application).

The Standard is not applied to financial instruments. Considering the nature of the Group's operations, the structure of the financial instruments and revenues, the Group expects that changes in IFRS 15 will not have a significant effect on the consolidated financial statements of the Group.

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 Standard, 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

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.

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

– a full gain or loss is recognized when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while a
– partial gain or loss is recognized when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

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 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 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. Earlier application is permitted.

The Amendments provide clarification on transfers to, or from, investment properties:
– a transfer into, or out of investment property should be made only when there has been a change in use of the property; and
– such a change in use would involve an assessment of whether the property qualifies as an investment property.

The Group expects that the amendments, when initially applied, will not have 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. Earlier application is permitted.

The Interpretation provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance and clarifies that the transaction date is the date on which the company initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

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

IFRIC 23 Uncertainty over Income Tax Treatments
Effective for annual periods beginning on or after 1 January 2019. Early application is permitted.

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the Group's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. The Group must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

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

Annual improvements to IFRS 2014-2016 Cycle
Improvements contain amendments to 3 standards with subsequent amendments to other standards and interpretations that result in changes in accounting, recognition or measurement. These amendments are applied to annual periods beginning on or after 1 January 2018, except for IFRS 12 applied for accounting periods beginning on or after 1 January 2017.

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation
Effective for annual periods beginning on or after 1 January 2019.

These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss.

The amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.

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 IAS 28 Long-term Interests in Associates and Joint Ventures
Effective for annual periods beginning on or after 1 January 2019.

The amendment clarifies that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture.

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

Annual improvements to IFRS 2015-2017 Cycle
Improvements contain amendments to 4 standards with subsequent amendments to other standards and interpretations that result in changes in accounting, recognition or measurement. These amendments are applied to annual periods beginning on or after 1 January 2019.

The Group expects that the improvements, when initially applied, will not have 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.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. 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 amortised costs, 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.:

- non-defaulted receivables (without obligor's default) divided into standard and watched receivables
- defaulted receivables (with obligor's 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 Group monitors quality of loan receivables to customers according to categories performing and non-performing exposures forborne and non-forborne. 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 (nonstandard, doubtful, lossmaking based on the Czech National Bank classification).

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 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 based on the nature of the fee and the type of service provided divided into three groups:

– fees and commissions that are an integral part of the effective interest rate of a financial instrument and reported in the Net interest income;
– fees and commissions for services provided that are recognized as the services are provided and reported in the Net fee and commission income;
– fees and commissions for the execution of the transaction are recognized when the transaction is provided and also reported in the Net fee and commission income.

(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 taxable 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.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

– represents a separate major line of business or geographic area of operations;
– is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
– is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

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.

(t) Other capital funds

Other capital funds are issued, subordinated, unsecured and yield certificates with a fixed interest income dependent on the fulfilment of particular conditions (hereinafter "Certificates"). These Certificates have no maturity date.

The Certificates have the character of hybrid financial instruments combining the economic features of capital and debt securities.

The Group classified Certificates in accordance with IAS 32 and assessed all the conditions for the definition as equity instrument. Certificates meet both of the required conditions:

a. the Certificates include no contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or liabilities with another entity under conditions that are potentially unfavourable to the issuer;
b. if the Certificates will or may be settled in the entity's own equity instruments, the Certificates are non-derivative that includes no contractual obligation for the issuer to deliver a variable number of it's own equity instruments.

The Group may repay the Certificates with approval of the Czech National Bank. Holders of Certificates have no right to ask for repayment, except in the case of liquidation.

The Group commits to paying interest income generated from Certificates to the holders, but may also decide not to pay the interests accrued by the Certificates and are exempt from paying compensation. The Group will pay interests, if there are funds available and approved to be used by the General Meeting of the Group. When there are not sufficient resources available, the payment is reduced. Interest income can be drawn from:

- the Group's net income,
- retained earnings from previous periods,
- other funds that might be divided among its shareholders.

As the Group has no obligation to deliver interest income to the holders of Certificates or to settle the contractual obligation by sourcing other financial assets and as the Certificates have no maturity date, they are included in Tier 1 subsidiary regulatory capital (AT1). This inclusion is subjected to approval by the Czech National Bank.

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 individually on an on-going basis as a difference between the book value of the receivable and the amount recoverable.

Collective impairment is immaterial on the Group level.

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 determines the fair value hierarchy according to IFRS 13 and establishes fair value using the following hierarchical system that reflects the significance of the inputs used in the valuation:

– Level 1: Level 1 entries are (unadjusted) quoted prices in active markets for identical assets or liabilities to which the Group has access at value date;
– Level 2: level 2 inputs are inputs other than quoted prices included in level 1 that are directly or indirectly observable for an asset or liability:
  – quoted prices of similar assets or liabilities in active markets,
  – quoted prices of identical assets on markets that are not active,
  – input quantities other than quoted prices that are observable,
  – market-supported inputs;
– Level 3: Level 3 inputs are unobservable inputs for an asset or liability.

An active market is the market where transactions for assets or liabilities are carried out frequently and in sufficient volume to ensure regular price information:

a. the items traded on the market are homogeneous;
b. it is possible to find willing buyers and sellers at any time and
c. prices are publicly available.

If there is no active market for the financial asset, the fair value is estimated using valuation techniques. When using valuation techniques, management uses estimates and assumptions based on available information about the estimates and assumptions that market participants would use to determine the price of 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 365 million higher or lower than as disclosed as at 31 December 2017 (2016: CZK 234 million).

Financial assets
In the vast majority of cases, the fair value of Level 3 investments, debt instruments, provided loans, 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 2017, 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 average growth rate used for this period was 11.69% (2016: 2.70%). Expected cash flows were discounted using a weighted average cost of capital 10.99% (2016: 9.18%). There was no impairment loss identified as a result of this impairment test in 2017 and 2016.

5. CASH AND CASH EQUIVALENTS

in MCZK	2017	2016
Cash on hand (note 6)	265	270
Current accounts with central banks (note 6)	1,168	1,343
Term deposits in central banks up to 3 months (note 6)	3,753	12,226
Current accounts with banks (note 7)	1,316	2,026
Loans to central banks- repurchase agreements (note 7)	45,006	20,000
Term deposits due from fin. institutions up to 3 months (note 7)	227	–
Loans due from banks- repurchase agreements (note 7)	933	988
Total	**52,668**	**36,853**

6. CASH AND BALANCES WITH CENTRAL BANKS

in MCZK	2017	2016
Balances with central banks (including obligatory minimum reserves)	1,725	1,674
Current accounts with central banks	1,168	1,343
Term deposits in central banks up to 3 months	3,753	12,226
Total balance with central banks	6,646	15,243
Cash on hand	265	270
Total	**6,911**	**15,513**

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	2017	2016
Current accounts with banks	1,316	2,026
Term deposits and loans up to 3 months	227	–
Term restricted deposits and loans over 3 months	2	108
Subordinated loans to banks	205	217
Loans due from banks- repurchase agreements (note 10)	933	988
Loans to central banks- repurchase agreements (note 10)	45,006	20,000
Other receivables	68	84
Total	**47,757**	**23,423**

There were no overdue current account with banks as of 31 December 2017 and 31 December 2016.

The contractual weighted average interest rate on deposits and loans with other banks was 0.63% p.a. (2016: 0.46% p.a.).

8. DERIVATIVES

(a) Derivatives held for trading:

in MCZK	2017 Notional amount buy	2017 Notional amount sell	2017 Fair value Positive	2017 Fair value Negative
Forward currency contracts	79,538	(79,103)	521	(238)
Option contracts for share purchase	953	(874)	79	–
Option contracts for commodity purchase	5	(5)	–	(3)
Total as at 31 December 2017	**80,496**	**(79,982)**	**600**	**(241)**

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)**

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:

Long position	**CZK**	**EUR**	**USD**	**RUB**	**other**
31 December 2017	57%	39%	1%	1%	2%
31 December 2016	62%	29%	7%	1%	1%

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

Short position	**CZK**	**EUR**	**USD**	**RUB**	**Other**
31 December 2017	36%	59%	2%	1%	2%
31 December 2016	27%	62%	8%	0%	3%

(b) Derivatives held for risk management:

Fair value hedging

in MCZK	2017 Notional amount buy	2017 Notional amount sell	2017 Fair value Positive	2017 Fair value Negative
Forward currency contracts	265	(255)	9	–
Total as at 31 December 2017	**265**	**(255)**	**9**	–

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)**

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	2017 Fair value	2016 Fair value
SHARES		
– domestic	467	198
– foreign	10	379
BONDS		
– domestic	1,715	1,574
– foreign	3,035	1,230
Total	**5,227**	**3,381**

in MCZK	2017 Fair value	2016 Fair value
SHARES		
– listed	477	577
BONDS		
– listed	4,750	2,804
Total	**5,227**	**3,381**

in MCZK	2017 Fair value	2016 Fair value
SHARES		
– corporate	371	466
– financial institutions	106	111
BONDS		
– government	2,228	2,073
– financial institutions	1,099	293
– corporate	1,423	438
Total	**5,227**	**3,381**

in MCZK	2017 Fair value	2016 Fair value
SHARES		
– Level 1 – quoted market price	458	564
– Level 2 – derived from quoted prices	17	–
– Level 3 – calculated using valuation techniques	2	13
BONDS		
– Level 1 – quoted market price	3,450	2,757
– Level 2 – derived from quoted prices	1,266	–
– Level 3 – calculated using valuation techniques	34	47
Total	**5,227**	**3,381**

Foreign bonds include mainly company bonds of CZK 2 289 million (2016: CZK 594 million) in the structure of Slovakian bonds of CZK 1 191 million (2016: CZK 227 million), Russian bonds of CZK 568 million (2016: CZK 163 million), Luxembourgian bonds of CZK 223 million (2016: CZK 99 million) and Dutch bonds of CZK 165 million (2016: CZK 56 million) and Irish bonds of CZK 84 million (2016: CZK 6 million).

Foreign government bonds totalling to CZK 746 million (2016: CZK 636 million) represent Russian bonds of CZK 579 million (2016: CZK 399 million), Poland government bonds of CZK 64 million (2016: CZK 155 million), Romanian government bonds of CZK 62 million (2016: CZK 28 million) and Turkish government bonds of CZK 41 million (2016: CZK 54 million).

The contractual weighted average interest rate on bonds was 4.13% p.a. (2016: 3.10% 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 2017	**13**	**47**	**60**
Total gains/(losses) recognised in profit or loss	(6)	–	(6)
Addition	–	33	33
Transfer to Level 2	(5)	(46)	(51)
Balance as at 31 December 2017	**2**	**34**	**36**

The Group regularly monitors the classification of securities into the fair value hierarchy. The Group always assesses the individual ISIN codes of securities according to the frequency and volume of trades, so there may be a situation that in the case of one issuer, one security may be classified into level 1 and the other one into level 2 or 3, based on the criteria stated in an internal decision-making tree.

(b) Financial assets available for sale:

in MCZK	2017 Fair value	2016 Fair value
SHARES		
– domestic	164	143
– foreign	272	264
ALLOTMENT CERTIFICATES		
– domestic	2,525	3,170
– foreign	2,596	2,181
BONDS		
– domestic	815	375
– foreign	4,637	5,324
Total	**11,009**	**11,457**

in MCZK	2017 Fair value	2016 Fair value
SHARES		
– listed	347	309
– not listed	89	98
ALLOTMENT CERTIFICATES		
– listed	88	134
– not listed	5,033	5,217
BONDS		
– listed	4,592	4,821
– not listed	860	878
Total	**11,009**	**11,457**

in MCZK	2017 Fair value	2016 Fair value
SHARES		
– financial institutions	89	98
– corporate	347	309
ALLOTMENT CERTIFICATES		
– financial institutions	5,115	5,346
– corporate	6	5
BONDS		
– government	468	741
– financial institutions	1,163	1,138
– corporate	3,821	3,820
Total	**11,009**	**11,457**

in MCZK	2017 Fair value	2016 Fair value
SHARES		
– Level 1 – quoted market price	215	182
– Level 2 – derived from quoted prices	220	98
– Level 3 – calculated using valuation techniques	1	127
ALLOTMENT CERTIFICATES		
– Level 2 – derived from quoted prices	4,102	5,351
– Level 3 – calculated using valuation techniques	1,019	–
BONDS		
– Level 1 – quoted market price	2,253	2,999
– Level 2 – derived from quoted prices	599	549
– Level 3 – calculated using valuation techniques	2,600	2,151
Total	**11,009**	**11,457**

Foreign shares in portfolio as at 31 December 2017 comprise mainly Slovakian company shares of CZK 131 million (2016: CZK 127 million), Russian company shares of CZK 89 million (2016: CZK 97 million) and Swiss company shares of CZK 52 million (2016: CZK 40 million).

Foreign allotment certificates comprise of Malta certificates of CZK 2 376 million (2016: CZK 1 923 million), Slovakian certificates of CZK 132 million (2016: CZK 124 million) and Croatian certificates of CZK 88 million (2016: CZK 134 million).

Foreign bonds in portfolio as at 31 December 2017 comprise mainly of Slovakian company bonds of CZK 2 510 million (2016: CZK 2 444 million), Luxembourgian company bonds of CZK 824 million (2016: CZK 1 145 million), Croatian company bonds of CZK 413 million (2016: CZK 674 million), Irish company bonds of CZK 364 million (2016: CZK 658 million), Dutch company bonds of CZK 204 million (2016: CZK 56 million) and Russian company bonds of CZK 170 million (2016: CZK 0 million).

The contractual weighted average interest rate on bonds was 5.21% p.a. (2016: 5.20% p.a.).

No promissory notes in portfolio in 2017.

In 2017, the Group has identified an impairment of financial assets available for sale amounting to CZK 123 million.

In 2016, as the result of sale of a financial asset, the Group released an impairment of financial assets available for sale amounting to CZK 32 million identified in 2015.

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	Allotment certificates	Total
Balance as at 1 January 2017	**127**	**2,151**	–	**2,278**
Total gains and losses recognised in other comprehensive income	–	(38)	(16)	(54)
Gains / (losses) recognised in profit for the period	–	(100)	(123)	(223)
Transfer to Level 2	(127)	–	–	(127)
Transfer from Level 2	–	–	1,105	1,105
Addition	1	573	62	636
Disposal	–	–	(9)	(9)
Effect of movements in foreign exchange	–	(2)	–	(2)
Interest income	–	16	–	16
Balance as at 31 December 2017	**1**	**2,600**	**1,019**	**3,620**

The Group regularly monitors the classification of securities into the fair value hierarchy. The Group always assesses the individual ISIN codes of securities according to the frequency and volume of trades, so there may be a situation that in the case of one issuer, one security may be classified into level 1 and the other one into level 2 or 3, based on the criteria stated in an internal decision-making tree.

The following table set out information about significant unobservable inputs used at December 31, 2017 in measuring financial assets categorised as Level 3 in the fair value hierarchy:

Type of financial assets	Valuation technique	Significant unobservable input	Range of estimates	Fair value measurement sensitivity to unobservable inputs
bonds	discounted cash flow	Credit spread	-0,5 %- 2 %	A significant increase would result in a lower fair value.
bonds	discounted cash flow	Free-risk rate	0,0 %- 9,0 %	A significant increase would result in a lower fair value.
allotment certificate	discounted cash flow	Expected cash flow from fund	Investment based	A significant increase in expected net cash flows would result in a higher fair value.

(c) Financial assets held to maturity:

in MCZK	2017 Amortised cost	2016 Amortised cost
BONDS		
– foreign	13	666
Total	**13**	**666**

in MCZK	2017 Amortised cost	2016 Amortised cost
BONDS		
– listed	13	666
Total	**13**	**666**

in MCZK	2017 Amortised cost	2016 Amortised cost
BONDS		
– financial institutions	–	49
– corporate	13	617
Total	**13**	**666**

Foreign bonds comprise of Luxembourgian corporate bonds of CZK 13 million (2016: CZK 617 million).

The contractual weighted average interest rate on bonds was 2.93% p.a. (2016: 5.86% 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 2017 and 31 December 2016, 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)	45,274	45,939	To 1 month	45,068
Loans and advances to customers (note 11)	1,996	1,279	To 1 month	1,204
Loans and advances to customers (note 11)	595	365	To 3 months	366
Total as at 31 December 2017	**47,865**	**47,583**		**46,638**

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**

(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 from banks (note 19)	20,541	20,540	To 5 Years	20,518
Loans and advances from customers (note 20)	38	38	To 1 month	38
Loans and advances from customers (note 20)	17	17	To 1 Year	18
Total as at 31 December 2017	**20,596**	**20,595**		**20,574**

in MCZK	Fair value of assets given as collateral	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**

As at 31 December 2017, the Group recognize securities sold under repurchase agreements in the statement of financial position of CZK 20 540 million (2016: CZK 91 million) and securities under repurchase agreements of CZK 55 million (2016: CZK 41 million) which were purchased under reverse repurchase operations before.

11. LOANS AND ADVANCES TO CUSTOMERS

in MCZK	2017	2016
Loans and advances to customers	62,068	65,984
Loans and advances to customers – repurchase agreements	1,644	4,073
Bank overdraft	8,247	7,758
Debt securities – promissory notes	–	167
Other receivables	173	857
Less allowances for impairment of loans (note 12)	(3,023)	(2,700)
Total net loans and advances to customers	**69,109**	**76,139**

Loans and advances to customers as at 31 December 2017 include loans amounting to CZK 17 668 million (2016: CZK 21 357 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 2017 totalled to CZK 106 million (2016: CZK 254 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 6.10% p.a. (2016: 6.17% p.a.).

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

12. ALLOWANCES FOR IMPAIRMENT OF LOANS

in MCZK	2017	2016
1 January	**2,700**	**1,539**
Charge / (reversal) in the reporting period	763	1,043
Use / write-offs	(354)	(34)
Transfer to/from IFRS 5	–	120
Currency difference	(86)	32
Total as at 31 December	**3,023**	**2,700**

13. INVESTMENT PROPERTY

Investment property include building in the property of Interznanie, OAO amounting to CZK 407 million (2016: CZK 469 million). Entire investment property is classified as Level 3 according to fair value hierarchy. 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 was fully insured as at 31 December 2017 and as at 31 December 2016.

The following table set out information about significant unobservable inputs used at December 31, 2017 in measuring assets categorised as Level 3 in the fair value hierarchy:

Type of assets	Valuation technique	Significant unobservable input	Range of estimates	Fair value measurement sensitivity to unobservable inputs
investment property	The sales comparison approach	Price per sq. m	Investment property value	A significant increase would result in a higher fair value.

in MCZK	2017	2016
1 January	**469**	**363**
Change	(4)	13
Effect of movement in foreign exchange	(58)	93
Total as at 31 December	**407**	**469**

In 2017 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 19 million (2016: CZK 29 million) has been recognized in other operating income. Operating expenses directly attributable to investment property of CZK 6 million (2016: CZK 4 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 2016	**305**	**117**	**422**
Additions	20	3	23
Transfer to 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 to IFRS 5	–	3	3
Disposal	(4)	(12)	(16)
Effect of movement in foreign exchange	3	4	7
31 December 2016	**33**	**70**	**103**
COST			
1 January 2017	**200**	**119**	**319**
Additions	9	13	22
Additions from acquisition	–	2	2
Disposals	–	(7)	(7)
Effect of movement in foreign exchange	(18)	(5)	(23)
31 December 2017	**191**	**122**	**313**
DEPRECIATION AND IMPAIRMENT LOSSES			
1 January 2017	**31**	**72**	**103**
Depreciation	8	10	18
Depreciation from acquisition	–	2	2
Disposals	–	(7)	(7)
Effect of movement in foreign exchange	(3)	(4)	(7)
31 December 2017	**36**	**73**	**109**
NET BOOK VALUE			
31 December 2016	**167**	**49**	**216**
31 December 2017	**155**	**49**	**204**

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 2016	**433**	**134**	**342**	**(19)**	**890**
Additions	62	1	–	–	63
Transfer to 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 to IFRS 5	3	–	65	–	68
Effect of movement in foreign exchange	2	–	53	–	55
31 December 2016	**352**	**123**	**430**	**–**	**905**
COST					
1 January 2017	**501**	**135**	**460**	**(22)**	**1,074**
Additions	71	–	–	–	71
Additions from acquisition	1	–	3	1	5
Disposals	–	–	–	(3)	(3)
Effect of movement in foreign exchange	(5)	–	(33)	1	(37)
31 December 2017	**568**	**135**	**430**	**(23)**	**1,110**
AMORTIZATION AND IMPAIRMENT LOSSES					
1 January 2017	**352**	**123**	**430**	**–**	**905**
Amortisation	70	8	–	–	78
Effect of movement in foreign exchange	(2)	–	(33)	–	(35)
31 December 2017	**420**	**131**	**397**	**–**	**948**
NET BOOK VALUE					
31 December 2016	**149**	**12**	**30**	**(22)**	**169**
31 December 2017	**148**	**4**	**33**	**(23)**	**162**

There was no increase in goodwill in 2017 and 2016 (see the note 48).

Based on the impairment testing, there was not recorded impairment of goodwill in 2017 and in 2016 (see the note 4).

16. OPERATING LEASES

(a) Leases entered into as lessee

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

in MCZK	2017	2016
Less than one year	113	119
Between one and five years	356	431
More than five years	–	3
Total	**469**	**553**

(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	2017	2016
Less than one year	29	41
Between one and five years	19	43
Total	**48**	**84**

17. PREPAYMENTS, ACCRUED INCOME AND OTHER ASSETS

in MCZK	2017	2016
Other trading receivables	376	390
Receivables from customers from securities trading	402	288
Other receivables	94	171
Prepayments and accrued income	108	92
Receivables from fees for portfolio management	65	50
Advance payments – other	23	23
Other tax assets	9	3
Allowances for impairment of other assets	(10)	(6)
Total	**1,067**	**1,011**

Other trading receivables as at 31 December 2017 include fees for the issue of bonds and promissory notes of CZK 13 million (2016: CZK 17 million) and large number of sundry items that are not significant on an individual basis.

Allowances for impairment of other assets:

in MCZK	2017	2016
1 January	**6**	**4**
Charged / (reversed) in the period	8	2
Use / write-offs	(4)	–
Total	**10**	**6**

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	2017 J&T Ostravice Active Life UPF	2017 Other	2017 Total
Assets associated with assets held for sale	107	309	416
Net amount of disposal group held for sale	**107**	**309**	**416**

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. In mid-2017, roads and networks started to be built; they will be completed by approximately mid-2018. In 2017, activities enabling us to launch sales started; currently, contracts for future contracts are being signed.

The detailed structure of the assets and liabilities of the disposal group as at 31 December 2016 was as follows:

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

19. DEPOSITS AND LOANS FROM BANKS

Deposits and loans from banks comprise:

in MCZK	2017	2016
Deposits from banks	1,383	3,083
Loans from banks – repurchase agreements (note 10)	20,540	91
Total	**21,923**	**3,174**

The contractual weighted average interest rate on deposits and loans from banks was -1.78% p.a. as at 31 December 2017 (2016: -0.14% p.a.).

20. DEPOSITS FROM CUSTOMERS

Deposits from customers comprise:

in MCZK	2017	2016
Current accounts	41,241	37,772
Term deposits	50,343	65,120
Depository notes	–	5
Loans from customers – repurchase agreements (note 10)	55	41
Other	65	115
Total	**91,704**	**103,053**

The contractual weighted average interest rate on deposits from customers was 1.01% p.a. as at 31 December 2017 (2016: 1.73% p.a.).

21. SUBORDINATED DEBT

Subordinated debt at amortised cost:

in MCZK	2017	2016
Issued subordinated bonds	640	676
Subordinated debt – term deposit from customers	927	767
Total	**1,567**	**1,443**

On 28 February 2007, the Group issued subordinated bonds with a notional amount of EUR 25 million maturing in 2022. The interest rate was 5.42% p.a. as at 31 December 2017 (2016: 4.43% p.a.).

The subordinated debt – term deposit from customers with a maturity up to 2025 bear an interest rate between 5.1% 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	**2017**	**2016**
Payables from securities of clients at trader´s disposal	6,035	4,533
Estimated payables, accruals and deferred income	164	153
Trade payables	133	147
Payables to employees	46	31
Payables related to social costs	14	13
Other tax liabilities	41	53
Other liabilities	754	334
Other liabilities	**7,187**	**5,264**
Provision for employee bonuses	649	593
Other current provisions	32	27
Provision for loyalty programmes- customers	29	31
Provision for off-balance sheet items	19	63
Provision for loyalty programmes- employees	3	5
Provisions	732	719
Total	**7,919**	**5,983**

Other liabilities primarily include payables from unsettled short-sales of financial instruments of CZK 132 million (2016: CZK 117 million), payables from clearing of CZK 70 million (2016: CZK 36 million) and incoming and outgoing payments from nostro accounts of CZK 332 million (2016: CZK 40 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 29 million (2016: CZK 31 million) and to employees of CZK 3 million (2016: CZK 5 million).

A provision for off-balance sheet items comprises in particular the provision for the loan promises and guarantees of CZK 19 million (2016: CZK 63 million).

As at 31 December 2017, other provisions amounted to CZK 32 million (2016: CZK 27 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 2017	Additions / Creations	Use / Release	Foreign exchange difference	Balance as at 31 December 2017
Employee bonuses	593	824	(756)	(12)	649
Off-balance sheet items	63	14	(56)	(2)	19
Loyalty programmes – customers	31	–	(2)	–	29
Loyalty programmes- employees	5	4	(6)	–	3
Other current provisions	27	8	(3)	–	32
Total	**719**	**850**	**(823)**	**(14)**	**732**

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

Share capital is fully paid and consists of:

in MCZK	**2017**
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 2017, retained earnings amounted to CZK 6 545 million (2016: CZK 5 843 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.

The other non-distributable capital funds amounted to CZK 43 million as at 31 December 2017 (2016: CZK 40 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 2017 amounting to CZK 1 122 million (2016: CZK 808 million).

Other capital instruments

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 2017, the volume of outstanding certificated reached CZK 2 597 million (2016: CZK 2 597 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. The payment of revenue from certificates is governed by the conditions defined in the prospectus. In 2017, revenue of CZK 216 million (2016: CZK 229 million) was paid out from the fund. As at 31 December 2017, the purpose-built capital fund for the payment of revenue from certificates was in amount of CZK 181 million (2016: CZK 155 million).

24. NON-CONTROLLING INTEREST

in MCZK	**2017**	**2016**
J&T Bank, a.o.	2	1
Interznanie, OAO	(3)	(3)
TERCES MANAGEMENT LIMITED	5	6
J&T REALITY, o.p.f.	537	586
J&T banka d.d.	53	73
Total	**594**	**663**

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

31.12.2017

in MCZK	J&T REALITY, o.p.f.	J&T banka d.d.
Non-controlling interest	46.92%	17.24%
Assets	1,202	4,389
Liabilities	56	3,914
Net assets	**1,146**	**475**
Carrying amount of non-controlling interest	537	53
Income	89	307
Profit for the period	(99)	(103)
Total profit for the period	**(99)**	**(103)**
Profit for the period attributable to non-controlling interest	(46)	(18)
Cash flows from operating activities	27	(203)
Cash flows from financing activities	–	43
Cash flows from investing activities	49	(1)
Net increase in cash and cash equivalents	76	(161)

31.12.2016

in MCZK	J&T REALITY, o.p.f.	J&T banka d.d.
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)

25. INCOME TAX

Income tax was calculated in accordance with Czech tax regulations at the rate of 19% in 2017 (2016: 19%). The income tax rate for 2018 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 2017 is 21% (2016: 22%). As from 1 January 2018 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 2017 is 20% (2016: 20%). The income tax rate in Croatia for 2017 is 18% (2016: 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	**2017**	**2 016**
Profit before tax	**2,617**	**1,360**
Tax using applicable tax rate (19%)	497	258
Reconciliation:		
Effect of tax rates in foreign jurisdictions	24	11
Non-taxable income	(234)	(202)
Non/deductible expenses	152	269
Changes in estimates related to prior years	(13)	(4)
Other	(5)	75
Income taxes total	**421**	**407**
Effective tax rate	16.1%	29.9%
of which:		
Deferred tax (expense) / revenue	10	(16)
Current tax (expense)	(431)	(391)

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 2017, constitute a significant item in the J&T banka d.d. tax loss in the amount CZK 0 million (2016: CZK 329 million).

26. DEFERRED TAX

The Group has the following deferred tax assets and liabilities:

in MCZK	**2017 Deferred tax asset / (liability)**	**2016 Deferred tax asset / (liability)**
Property, plant and equipment	–	(8)
Financial assets available for sale	(15)	2
Investment property	(80)	(81)
Tax losses	14	6
Other temporary differences	73	58
Net deferred tax asset / (liability)	**(8)**	**(23)**

The deferred tax asset and liability is calculated using the 2017 income tax rate of 19%, for J&T Bank, a.o. 20%, J&T banka d.d. 18% and for J&T Banka Slovak Branch 21% (2016: 19%, 20%, 20% and 21%).

The following table shows the reconciliation between the deferred tax charge and the change in deferred tax liabilities in 2017.

in MCZK	2017	2016
Deferred tax liability, net as at 1 January	(23)	33
Deferred tax expense in the period (see note 25)	10	(16)
Deferred tax recognized in equity	(8)	4
Currency difference	13	(24)
Transfer to IFRS 5	–	(20)
Net deferred tax asset / (liability)	**(8)**	**(23)**

The following table shows the net deferred tax by company as at 31 December 2017:

in MCZK	Deferred tax Asset	Deferred tax Liability	Net
J & T BANKA, a.s. (parent company)	83	–	83
J&T INVESTIČNÍ SPOLEČNOST, a.s.	3	–	3
ATLANTIK finanční trhy, a.s.	–	(2)	(2)
Interznanie, OAO	–	(70)	(70)
J&T Bank, a.o.	–	(28)	(28)
J&T banka d.d.	4	–	4
Net deferred tax asset / (liability)	**90**	**(98)**	**(8)**

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

in MCZK	Deferred tax Asset	Deferred tax Liability	Net
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)
J&T banka d.d.	5	–	5
Net deferred tax asset / (liability)	**105**	**(128)**	**(23)**

27. INTEREST INCOME

in MCZK	2017	2016
Interest income from:		
Due from financial institutions	89	30
Loans and advances to customers	4,288	4,590
Repo transactions	261	237
Bonds and other fixed income securities	403	561
Total	**5,041**	**5,418**

Item “Loans and advances to customers” includes commissions for origination of loans of CZK 86 million (2016: CZK 82 million), which are part of effective interest rate.

Interest income according to classes of assets:

in MCZK	2017	2016
Interest income from:		
Financial assets at fair value through profit or loss:		
– those held for trading	100	141
– those designated at initial recognition	35	41
Financial assets available for sale	246	309
Financial assets held to maturity	23	71
Loans and other receivables	4,637	4,856
– of which: Impaired loans and receivables	292	285
– of which: Forbearance	114	123
Total	**5,041**	**5,418**

28. INTEREST EXPENSE

in MCZK	2017	2016
Interest expense on:		
Deposits and loans from banks	(12)	(17)
Deposits from customers	(1,251)	(2,147)
Repo transactions	(20)	(1)
Subordinated bonds and promissory notes	(33)	(33)
Total	**(1,316)**	**(2,198)**

Interest expense according to classes of liabilities:

in MCZK	2017	2016
Interest expense on:		
Financial liabilities at amortised cost	(1,316)	(2,198)
Total	**(1,316)**	**(2,198)**

29. FEE AND COMMISSION INCOME

in MCZK	2017	2016
Fee and commission income from:		
Securities and derivatives for customers	1,211	1,048
Loan activities	81	93
Payment transactions	121	119
Other	23	18
Total	**1,436**	**1,278**

30. FEE AND COMMISSION EXPENSE

in MCZK	2017	2016
Fee and commission expense on:		
Transactions with securities	(231)	(184)
Payment transactions	(33)	(30)
Other	(35)	(27)
Total	**(299)**	**(241)**

31. NET TRADING INCOME

in MCZK	2017	2016
Realised and unrealised losses on financial instruments at fair value	165	431
Net gains / (losses) on derivative operations	139	259
Net profit / (loss) from foreign currency translation	86	(657)
Net gains / (losses) on hedging derivative operations	3	(1)
Dividend income	36	14
Total net trading income	**429**	**46**

Net trading income comprises of:

in MCZK	2017	2016
Financial assets and liabilities at fair value through profit or loss:		
– those held for trading	236	447
Financial assets available for sale	107	256
Exchange rate differences	86	(657)
Total	**429**	**46**

32. OTHER OPERATING INCOME

in MCZK	2017	2016
Revenues from services and consulting	67	63
Rental income from investment property	19	29
Income from rendered operating leases	19	20
Rental income	6	5
Profit from disposal of fixed assets	–	2
Profit from transfer of FI with control and significant influence	189	–
Other income	45	23
Total	**345**	**142**

Other income of CZK 45 million at 31 December 2017 (2016: CZK 23 million) includes a large number of sundry items that are not significant on an individual basis.

33. PERSONNEL EXPENSES

in MCZK	2017	2016
Wages and salaries	(821)	(732)
Directors' and Supervisory Board members' remuneration and wages	(45)	(25)
Compulsory soc. security contributions	(199)	(167)
Other social costs	(19)	(22)
Total personnel expenses	**(1,084)**	**(946)**
Average number of employees during the reporting period	730	717

There were 20 members of the Group's Board of Directors at 31 December 2017 (2016: 20).

34. OTHER OPERATING EXPENSES

in MCZK	2017	2016
Rent expense	(143)	(146)
Contributions to Deposit Insurance Fund	(64)	(74)
Contributions to Crisis Resolution Fund	(84)	(71)
Taxes and fees	(67)	(74)
Operating costs:		
Outsourcing	(203)	(191)
Advertising expenses and representation	(163)	(164)
Repairs and maintenance- IS, IT	(32)	(43)
Audit, legal and tax consulting	(50)	(45)
– statutory audit of the annual accounts	(19)	(17)
– other assurance services	(4)	(9)
– tax consultancy	(4)	(1)
– other non-audit services	(23)	(18)
Services related to rent	(44)	(40)
Consulting expenses	(32)	(32)
Sponsoring and gifts	(30)	(32)
Communication expenses	(21)	(24)
Materials	(16)	(15)
Transport and accommodation, travel expenses	(17)	(16)
Expenses related to investment property	(6)	(4)
Other operating costs	(156)	(213)
Total	**(1,128)**	**(1,184)**

Other operating costs of CZK 156 million at 31 December 2017 (2016: CZK 213 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 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**
Change in 2017	(180)	(8,473)	25,006	(55)	(483)	15,815
31 December 2017	**1,433**	**3,753**	**45,006**	**933**	**1,543**	**52,668**

"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	2017	2016
Granted guarantees	2,070	2,246
Unused credit lines	8,348	10,346
Values taken into custody, administration and deposit	71,674	58,322
Total	**82,092**	**70,914**

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 2017:

in MCZK	Financial markets	Corporat-banking	Private banking	Retail banking	ALCO	Unallocated	Total
Cash and balances with central banks	–	–	–	–	6,911	–	6,911
Due from financial institutions	20,541	–	–	–	27,216	–	47,757
Securities and the positive fair value of derivatives	5,828	–	–	–	11,030	–	16,858
Investment in equity accounted investees	–	–	–	–	7	–	7
Investment property	–	–	–	–	–	407	407
Loans and advances to customers	8,893	55,486	4,149	581	–	–	69,109
Current tax assets	–	–	–	–	–	8	8
Deferred tax assets	–	–	–	–	–	90	90
Property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	–	–	–	–	–	1,433	1,433
Disposal groups held for sale	–	–	–	–	416	–	416
Total Assets	**35,262**	**55,486**	**4,149**	**581**	**45,580**	**1,938**	**142,996**
Negative fair value of derivatives	241	–	–	–	–	–	241
Deposits and loans from banks	20,541	–	–	–	1,382	–	21,923
Deposits from customers	44	32,856	18,909	39,895	–	–	91,704
Subordinated debt	–	924	241	402	–	–	1,567
Current tax liability	–	–	–	–	–	68	68
Deferred tax liability	–	–	–	–	–	98	98
Other liabilities and provisions	–	–	–	–	–	7,919	7,919
Total Liabilities	**20,826**	**33,780**	**19,150**	**40,297**	**1,382**	**8,085**	**123,520**

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
Securities and the positive fair value of derivatives	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	1,396
Disposal groups held for sale	–	–	–	–	219	–	219
Total Assets	**12,472**	**60,558**	**5,748**	**980**	**51,308**	**2,048**	**133,114**
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 comprehensive income for the period ended 31 December 2017:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Net interest income	**361**	**1,746**	**349**	**368**	**876**	**25**	**3,725**
Fee and commission income	1,266	150	5	11	4	–	1,436
Fee and commission expense	(236)	(59)	–	(4)	–	–	(299)
Dividends from financial assets available for sale	–	–	–	–	54	–	54
Impairment of assets available for sale	–	–	–	–	(123)	–	(123)
Net trading income / (expense)	412	17	–	–	–	–	429
Gain on a bargain purchase	–	–	–	–	85	–	85
Other operating income	66	41	–	–	–	238	345
Operating income	**1,869**	**1,895**	**354**	**375**	**896**	**263**	**5,652**
Personnel expenses	(162)	(66)	(166)	(43)	–	(647)	(1,084)
Other operating expenses	(87)	(46)	(59)	(59)	–	(877)	(1,128)
Depreciation and amortisation	(3)	(4)	(1)	(4)	–	(84)	(96)
Profit before provisions, allowances and income taxes	**1,617**	**1,779**	**128**	**269**	**896**	**(1,345)**	**3,344**
Net change in provisions from financial activities	–	44	(2)	–	(1)	–	41
Net change in allowances for impairment of loans	(1)	(659)	(98)	(5)	12	–	(751)
Profit before tax, excluding profit from equity accounted investees	**1,616**	**1,164**	**28**	**264**	**907**	**(1,345)**	**2,634**
Profit/(loss) from equity accounted investees	–	–	–	–	–	(17)	(17)
Profit before tax	**1,616**	**1,164**	**28**	**264**	**907**	**(1,362)**	**2,617**
Income tax expenses	(213)	(177)	(22)	(52)	(95)	138	(421)
Continuing operations	**1,403**	**987**	**6**	**212**	**812**	**(1,224)**	**2,196**
Profit for the period	**1,403**	**987**	**6**	**212**	**812**	**(1,224)**	**2,196**

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 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)	–	(942)	(1,184)
Depreciation and amortisation	(6)	(3)	–	(5)	–	(87)	(101)
Profit before provisions, allowances and income tax expenses	**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**
Profit for the period	**1,212**	**630**	**155**	**130**	**154**	**(1,328)**	**953**

Basic ratios of entities within the Group are as follows:

Company	**Average no of employees in 2017**	**Total assets at 31.12.2017 in CZK million**	**Turnover at 31.12.2017 in CZK million**	**Profit/(Loss) before tax at 31.12.2017 in CZK million**	**Tax at 31.12.2017 in CZK million**
J & T BANKA, a.s. (branch)	121	23,552	1,119	180	(35)
J&T INVESTIČNÍ SPOLEČNOST,a.s.	13	248	258	138	(26)
ATLANTIK finanční trhy, a.s.	3	811	162	18	(4)
J&T IB and Capital Markets, a.s.	8	233	68	4	(5)
J&T Bank, a.o.	122	7,656	4,832	234	(22)
Interznanie OAO	20	518	75	21	(5)
J&T banka d.d.	90	4,388	311	(103)	–
J&T Leasingová společnost, a.s.	5	64	1	(5)	–
J&T REALITY o.p.f.	–	1,202	194	(99)	–
TERCES MANAGEMENT LIMITED	–	504	–	(1)	–

Company	Average no of employees in 2016	Total assets at 31.12.2016 in CZK million	Turnover at 31.12.2016 in CZK million	Profit/(Loss) before tax at 31.12.2016 in CZK million	Tax at 31.12.2016 in CZK million
J & T BANKA, a.s. (branch)	129	27,832	1,269	105	(22)
J&T INVESTIČNÍ SPOLEČNOST,a.s.	13	196	209	119	(23)
ATLANTIK finanční trhy, a.s.	3	813	135	1	–
J&T IB and Capital Markets, a.s.	5	232	69	36	(6)
J&T Bank, a.o.	97	8,631	6,136	305	(65)
Interznanie OAO	13	601	89	46	(10)
J&T banka d.d.	132	5,484	442	(292)	(4)
J&T Leasingová společnost, a.s.	–	–	–	–	–
J&T REALITY o.p.f.	–	1 251	75	(56)	–
TERCES MANAGEMENT LIMITED	–	606	–	(1)	–

None of the entities within the Group was granted any public aid.

Stated accounting balances are before consolidation adjustments.

(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 40d.

Consolidated statement of financial position as at 31 December 2017:

in MCZK	Czech Republic	Slovakia	Other European Union	Other countries	Total
Cash and balances with central banks	5,074	841	765	231	6,911
Due from financial institutions	45,511	321	614	1,311	47,757
Securities and the positive fair value of derivatives	5,853	4,020	5,366	1,619	16,858
Investment in equity accounted investees	7	–	–	–	7
Loans and advances to customers	20,544	14,397	28,665	5,503	69,109
Current tax assets	4	–	–	4	8
Deferred tax assets	38	48	4	–	90
Investment property	–	–	5	402	407
Property, plant and equipment, intangible assets, goodwill, prepayments, accrued income and other assets	906	118	251	158	1,433
Disposal groups held for sale	108	–	67	241	416
Total Assets	**78,045**	**19,745**	**35,737**	**9,469**	**142,996**
Negative fair value of derivatives	54	14	172	1	241
Deposits and Loans from banks	75	565	20,697	586	21,923
Deposits from customers	51,035	21,980	13,061	5,628	91,704
Subordinated debt	857	1	684	25	1,567
Current tax liability	78	(10)	–	–	68
Deferred tax liability	1	–	–	97	98
Other liabilities and provisions	3,964	630	2,120	1,205	7,919
Total Liabilities	**56,064**	**23,180**	**36,734**	**7,542**	**123,520**

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
Securities and the positive fair value of derivatives	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**
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
Total Liabilities	**66,504**	**23,856**	**13,320**	**10,306**	**113,986**

Consolidated statement of comprehensive income for the year ended 31 December 2017:

in MCZK	Czech Republic	Slovakia	Other European Union	Other countries	Total
Interest income	1,413	1,097	1,915	616	5,041
Interest expense	(726)	(214)	(162)	(214)	(1,316)
Net interest income	**687**	**883**	**1,753**	**402**	**3,725**
Fee and commission income	859	170	334	73	1,436
Fee and commission expense	(246)	(14)	(26)	(13)	(299)
Dividends from financial assets available for sale	9	–	44	1	54
Impairment of assets available for sale	(123)	–	–	–	(123)
Net trading income / (expense)	(50)	461	(103)	121	429
Gain on a bargain purchase	–	–	–	85	85
Other operating income	156	43	102	44	345
Operating income	**1,292**	**1,543**	**2,104**	**713**	**5,652**
Personnel expenses	(579)	(263)	(67)	(175)	(1,084)
Other operating expenses	(682)	(278)	(72)	(96)	(1,128)
Depreciation and amortisation	(75)	(2)	(13)	(6)	(96)
Profit before provisions, allowances and income taxes	**(44)**	**1,000**	**1,952**	**436**	**3,344**
Net change in provisions from financial activities	36	(6)	12	(1)	41
Net change in allowances for impairment of loans	(71)	(350)	(254)	(88)	(763)
Revenues from cession in portfolio of loans and other receivables	–	–	–	12	12
Profit before tax, excluding profit from equity accounted investees	**(79)**	**644**	**1,710**	**359**	**2,634**
Profit/(loss) from equity accounted investees	–	–	–	(17)	(17)
Profit before tax	**(79)**	**644**	**1,710**	**342**	**2,617**
Income tax expenses	(359)	(35)	–	(27)	(421)
Continuing operations	**(438)**	**609**	**1,710**	**315**	**2,196**
Profit for the period	**(438)**	**609**	**1,710**	**315**	**2,196**

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 s 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**

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.

II) Majority owners of J&T FINANCE GROUP SE 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.

III) 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.

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

V) 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.	V.	Total
BALANCE SHEET ITEMS AS AT 31 DECEMBER 2017						
Receivables	2	–	1,025	–	4,050	5,077
Payables	778	79	1,018	–	567	2,373
Granted guarantees	–	–	7	–	4	11
Received guarantees	880	–	89	–	–	969
Provided loan commitments	511	–	107	–	39	657
Received loan commitments	–	–	1,532	–	–	1,532
Received collateral	–	–	462	–	661	1,123
PROFIT / LOSS ITEMS FOR PERIOD ENDED 31 DECEMBER 2017						
Expenses	(409)	–	(231)	–	(161)	(801)
Income	306	–	597	–	277	1,180

in MCZK	I.	II.	III.	IV.	V.	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

Receivables from related parties consist primarily of loans and overdrafts. Payables to related parties include especially term deposits, deposits payable on demand, savings and tied deposits.

Revenues and costs consist mainly of gains / losses on currency derivatives, interest income, borrowing costs and income from commissions and brokering fees.

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

in MCZK	2017	2016
Provided loans	7	21

The members of the Board of Directors and the Supervisory Board represent the key executives of the Group.

The Group's key management received no other remuneration in the form of short-term benefits, post-employment benefits, other long-term employee benefits, early termination benefits, or share-based payments

Loans to employees of the Group as at 31 December 2017 amounted to CZK 58 million (2016: CZK 93 million). The loans provided to the Board of Directors and Supervisory Board were provided under arm’s length basis.

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, operational 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	2017	2016
Performing exposition	61,419	68,234
– performing exposition forborne	2,935	2,971
Non-performing exposition	7,690	7,905
– non-performing exposition forborne	2,498	2,896
Total	**69,109**	**76,139**

The share of loan exposition forborne on total loans and advances to customers is 7.86% (2016: 7.70%).

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

Not forborne

in MCZK	2017	2016
Non-financial organisations	41,723	47,293
Financial organisations	19,892	20,260
Households	1,924	2,692
Other	137	28
Total	**63,676**	**70,273**

Forborne

in MCZK	2017	2016
Non-financial organisations	5,257	5,560
Financial organisations	117	140
Households	59	116
Other	–	50
Total	**5,433**	**5,866**

(c) Concentration of loans to customers by industry:

in MCZK	2017	2016
Financial activities	18,216	25,341
Real estate activities	12,382	9,020
Manufacturing	8,605	8,809
Construction	6,747	6,436
Information and communication	6,078	7,457
Production and distribution of electricity, gas and heat	4,100	5,054
Wholesale and retail trade	2,978	1,518
Accommodation and food service activities	2,563	2,389
Professional, scientific and technical activities	2,009	2,486
Private households and employed persons	1,172	1,228
Transporting and storage	1,133	1,259
Sports, entertainment and recreation activities	713	788
Mining and quarrying, agriculture	337	1,845
Waste collection, modification and disposal	57	16
Other	2,019	2,493
Total	**69,109**	**76,139**

(d) Concentration of loans to customers by location:

in MCZK	2017	2016
Czech Republic	20,544	15,961
Cyprus	17,130	22,100
Slovakia	14,397	16,625
Luxembourg	3,944	4,558
Croatia	2,857	3,382
Switzerland	2,648	2,756
Netherlands	2,347	3,566
Russia	2,049	2,287
Malta	1,234	644
Poland	572	1,639
Maldives	380	605
Ireland	291	449
British Virgin Islands	260	642
Jersey, C.I.	–	487
Great Britain	–	111
Others	456	327
Total	**69,109**	**76,139**

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

in MCZK	2017	2016
Czech Republic	37,114	36,212
Slovakia	13,430	19,293
Croatia	2,857	3,377
China	2,463	2,868
Russia	2,299	2,899
Germany	1,848	4
Poland	1,840	3,040
Austria	1,589	2,337
Slovenia	1,565	1,608
Malta	822	177
Greece	698	944
Cyprus	592	921
Ukraine	462	663
USA	455	185
France	448	323
Maldives	380	605
Netherlands	44	42
Great Britain	17	574
Other	186	67
Total	**69,109**	**76,139**

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 provided loans and repurchase agreements

As at 31 December 2017

in MCZK	Loans to banks	Repurchase agreements – financial institutions	Loans and advances to customers	Repurchase agreements – customers
Provided loans and repurchase agreements impaired:	**–**	**–**	**–**	**–**
Impaired provided loans and repurchase agreements at amortised cost individually assessed not forborne:				
Gross amount	–	–	5,530	–
Impairment	–	–	(1,292)	–
Carrying amount	**–**	**–**	**4,238**	**–**
Impaired provided loans and repurchase agreements at amortised cost individually assessed forborne:				
Gross amount	–	–	3,606	–
Impairment	–	–	(1,728)	–
Carrying amount	**–**	**–**	**1,878**	**–**
Impaired provided loans and repurchase agreements at amortised cost collectively assessed not forborne:				
Gross amount	–	–	74	–
Impairment	–	–	(3)	–
Carrying amount	**–**	**–**	**71**	**–**
Impaired provided loans and repurchase agreements at amortised cost collectively assessed forborne:				
Gross amount	–	–	–	–
Impairment	–	–	–	–
Carrying amount	**–**	**–**	**–**	**–**
Total provided loans and repurchase agreements impaired	**–**	**–**	**6,187**	**–**

As at 31 December 2017

in MCZK	Loans to banks	Repurchase agreements – financial institutions	Loans and advances to customers	Repurchase agreements – customers
Provided loans and repurchase agreements not impaired:	**1,819**	**45,939**	**61,278**	**1,644**
Neither past due nor impaired:	**1,819**	**45,939**	**56,628**	**1,644**
– not forborne	1,819	45,939	53,270	1,644
– forborne	–	–	3,358	–
Past due not impaired:	**–**	**–**	**4,650**	**–**
– not forborne	–	–	4,453	–
– forborne	–	–	197	–
to maturity date	–	–	4,421	–
up to 1 month	–	–	140	–
1 month to 6 months	–	–	45	–
6 months to 12 months	–	–	–	–
more than 12 months	–	–	44	–
Total provided loans and repurchase agreements not forborne	**1,819**	**45,939**	**62,032**	**1,644**
Total provided loans and repurchase agreements forborne	**–**	**–**	**5,433**	**–**
Total	**1,819**	**45,939**	**67,465**	**1,644**
of which: Provided loans and repurchase agreements neither past due nor impaired with a sign of impairment:	–	–	5,873	–
Gross amount not forborne	–	–	2,318	–
Gross amount forborne	–	–	3,555	–

As at 31 December 2016

in MCZK	Loans to banks	Repurchase agreements – financial institutions	Loans and advances to customers	Repurchase agreements – customers
Provided loans and repurchase agreements impaired:	**–**	**–**	**–**	**–**
Impaired provided loans and repurchase agreements at amortised cost individually assessed not forborne:				
Gross amount	–	–	3,938	–
Impairment	–	–	(890)	–
Carrying amount	**–**	**–**	**3,048**	**–**
Impaired provided loans and repurchase agreements at amortised cost individually assessed forborne:				
Gross amount	–	–	3,968	–
Impairment	–	–	(1,804)	–
Carrying amount	**–**	**–**	**2,164**	**–**
Impaired provided loans and repurchase agreements at amortised cost collectively assessed not forborne:				
Gross amount	–	–	42	–
Impairment	–	–	(6)	–
Carrying amount	**–**	**–**	**36**	**–**
Impaired provided loans and repurchase agreements at amortised cost collectively assessed forborne:				
Gross amount	–	–	–	–
Impairment	–	–	–	–
Carrying amount	**–**	**–**	**–**	**–**
Total provided loans and repurchase agreements impaired	**–**	**–**	**5,248**	**–**

As at 31 December 2016

in MCZK	Loans to banks	Repurchase agreements – financial institutions	Loans and advances to customers	Repurchase agreements – customers
Provided loans and repurchase agreements 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 provided loans and repurchase agreements not forborne	**2,435**	**20,988**	**66,200**	**4,073**
Total provided loans and repurchase agreements forborne	**–**	**–**	**5,866**	**–**
Total	**2,435**	**20,988**	**72,066**	**4,073**
of which: Provided loans and repurchase agreements neither past due nor impaired with a sign of impairment:	–	–	10,322	–
Gross amount not forborne	–	–	6,620	–
Gross amount forborne	–	–	3,702	–

Assets classified as “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 provided loans and repurchase agreements

in MCZK	2017 Carrying value	2017 Fair value decreased to carrying value	2017 Fair value	2016 Carrying value	2016 Fair value decreased to carrying value	2016 Fair value
Neither past due nor impaired:	**75,339**	**75,339**	**84,715**	**53,457**	**53,457**	**60,681**
Guarantees	1,836	1,836	1,882	1,756	1,756	1,813
Acceptances of promissory note	1,330	1,330	1,877	1,336	1,336	1,978
Real estate	7,403	7,403	10,682	4,817	4,817	6,081
Cash deposits	2,107	2,107	2,107	2,377	2,377	2,377
Securities	8,912	8,912	9,418	7,950	7,950	8,469
Other	5,886	5,886	10,884	8,062	8,062	12,804
Securities received under reverse repurchase agreements	47,865	47,865	47,865	27,159	27,159	27,159
Past due but not impaired:	**830**	**830**	**1,797**	**129**	**129**	**372**
Guarantees	–	–	–	16	16	16
Real estate	342	342	695	113	113	356
Cash deposits	63	63	63	–	–	–
Other	425	425	1,039	–	–	–
Impaired:	**3,941**	**3,941**	**5,712**	**6,762**	**6,762**	**10,379**
Guarantees	–	–	–	314	314	332
Real estate	1,994	1,994	3,029	3,706	3,706	5,934
Cash deposits	8	8	8	60	60	59
Pledges – securities	1,939	1,939	2,675	2,496	2,496	3,808
Other	–	–	–	186	186	246

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.

Collateral value is monitored and revised on regular basis.

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.

As at 31 December 2017 there are not unconsolidated structured entities identified (2016: loans provided of CZK 3 078 million, total assets value of CZK 9 509 million). There was no loss incurred in 2017 and 2016 in respect of loans provided.

(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 or if the counterparty fails to comply with contractual conditions.

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

Credit risk of trading book is monitored on daily basis, while credit risk of banking book is monitored on regular basis, minimum once a month.

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 or members of investment committee.

(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, as well as proposed conditions for effecting the transaction.

The Group evaluates financial and non-financial indicators, that may not be monitored within scoring system.

(k) Credit risk measurement

The Group regularly analyses and monitors credit risk of the trading book. At portfolio level, credit risk of the trading book 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	2017	2016
Decrease of the trading portfolio value due to a rating migration by one credit class	91	54

(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. 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 2017, the Group record customer trades that would not be recognized in the Group financial statements in the form of repo transaction of CZK 1 155 million and reverse repo transactions of CZK 1 155 million (2016: clients repo transactions of CZK 683 million and reverse repo transactions of CZK 683 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 banks within the Group are 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 banks within the Group perform an everyday monitoring of their liquidity position to indicate potential liquidity problems. The analysis takes into account all sources of funding that the corresponding bank of the Group is using and interconnected obligations the bank has to pay. For the purpose of sufficient liquidity reserve the banks within the Group hold sufficient amount of liquid instruments (such as government bonds), maintain balances with central banks on a reasonable level and collect short-term receivables.

The banks within the Group assort all cash flows into timeframes according to maturities of the instruments to which the cash flows relate, and subsequently observe 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 of the Group:

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 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 2017:
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	6,911	6,912	6,415	–	–	–	497
Due from financial institutions	47,757	47,804	47,562	8	234	–	–
Securities (without derivatives)	16,250	18,207	886	3,799	5,070	4,682	3,770
Investment in equity accounted investees	7	7	–	–	–	–	7
Loans and advances to customers	69,109	81,173	15,650	13,015	39,656	12,839	13
Total	**140,034**	**154,103**	**70,513**	**16,822**	**44,960**	**17,521**	**4,287**
OFF BALANCE							
Unused credit lines	8,348	9,122	8,332	220	532	1	37
Granted guarantees	2,070	2,092	2,066	22	4	–	–

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	21,923	(21,904)	(21,822)	(38)	(13)	(31)	–
Deposits from customers	91,704	(92,471)	(58,367)	(21,379)	(12,360)	(365)	–
Subordinated debt	1,567	(1,976)	(23)	(75)	(1,547)	(331)	–
Total	**115,194**	**(116,351)**	**(80,212)**	**(21,492)**	**(13,920)**	**(727)**	**–**
Net Liquidity position	**24,840**	**37,752**	**(9,699)**	**(4,670)**	**31,040**	**16,794**	**4,287**
Cumulative liquidity position	**–**	**–**	**(9,699)**	**(14,369)**	**16,671**	**33,465**	**37,752**

Expected liquidity

In general, contractual cash flows represent expected contractual future cash flows of financial instruments. Occasionally, the expected maturity differs from contractual one as historical experience shows that short-term loans and deposits are prolonged. In addition, as outstanding balances on current accounts or short-term deposits are usually not withdrawn on a daily basis and accounts are not cancelled at maturity date, the Group regularly monitors period and percentage of deposits that remain available to the Group or are prolonged. Those ratios are used for managing the liquidity risk on the Group level.

Relating to loans, 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	69,109	81,172	15,977	13,090	39,089	12,951	65

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 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	–	–
Securities (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**

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	76,139	84,862	10,282	19,775	36,782	18,018	5

b) Liquidity risk of derivatives as of 31 December 2017:

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	-	(1,152)	(1,152)	–	–
– inflow	529	1,681	1,482	89	110
Other derivatives					
– inflow	80	80	–	–	80
Total	**609**	**609**	**330**	**89**	**190**
DERIVATIVE FINANCIAL LIABILITIES					
Forward currency contracts					
– outflow	(238)	(435)	(316)	(107)	(12)
– inflow	–	197	197	–	–
Other derivatives					
– outflow	(3)	(3)	(3)	–	–
Total	**(241)**	**(241)**	**(122)**	**(107)**	**(12)**

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					
– outflow	(181)	147	147	–	–
Other derivatives					
– inflow	(4)	(4)	(4)	–	–
Total	**(185)**	**143**	**143**	**–**	**–**

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 2017 and 31 December 2016 are as follows:

in MCZK	**2017**	**2016**
VaR market risk overall	110	165
VaR interest rate risk (general risk)	73	33
VaR FX risk	76	199
VaR stock risk	18	44
VaR commodity risk	1	4

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	**2017**	**2016**
Change in the fair value of the trading portfolio due to historic shock scenario		
– short-term scenario	56	143
– medium-term scenario	58	312
– long-term scenario	334	890

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:

in MCZK	**2017**	**2016**
% OF TIER 1 + TIER 2		
Decrease in the present value of the investment portfolio due to a sudden change in interest rates by 200 bp	5.67	8.13

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 2017 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	5,105	–	–	1,806	6,911
Due from financial institutions	46,910	205	–	642	47,757
Securities and the positive fair value of derivatives	4,255	4,142	2,426	6,035	16,858
Investment in equity accounted investees	–	–	–	7	7
Loans and advances to customers	36,448	16,362	2,130	14,169	69,109
Investment property, property, plant and equipment, intangible assets, goodwill	–	–	–	773	773
Current tax asset	–	–	–	8	8
Deferred tax asset	–	–	–	90	90
Prepayments, accrued income and other assets	37	17	–	1,013	1,067
Disposal groups held for sale	–	–	–	416	416
Total assets	**92,755**	**20,726**	**4,556**	**24,959**	**142,996**

in MCZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
LIABILITIES					
Negative fair value of derivatives	229	12	–	–	241
Deposits and loans from banks	21,126	13	27	757	21,923
Deposits from customers	68,358	11,814	331	11,201	91,704
Subordinated debt	710	676	185	(4)	1,567
Current tax liability	–	–	–	68	68
Deferred tax liability	–	–	–	98	98
Other liabilities and provisions	17	–	–	7,902	7,919
Share capital	–	–	–	10,638	10,638
Retained earnings and other reserves (incl. NCI)	–	–	–	8,838	8,838
Total liabilities and equity	**90,440**	**12,515**	**543**	**39,498**	**142,996**
Net interest rate risk position	**2,315**	**8,211**	**4,013**	**(14,539)**	**–**
Cumulative interest rate risk position	**2,315**	**10,526**	**14,539**	**–**	**–**

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
Securities and the positive fair value of derivatives	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**	**–**	**–**

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 2017:

in MCZK	CZK	USD	EUR	RUB	Other	Total
ASSETS						
Cash and balances with central banks	5,061	23	1,029	189	609	6,911
Due from financial institutions	45,449	212	827	1,169	100	47,757
Securities and the positive fair value of derivatives	6,470	1,822	6,460	1,472	634	16,858
Investment in equity accounted investees	7	–	–	–	–	7
Loans and advances to customers	23,797	2,098	39,663	1,713	1,838	69,109
Current tax asset	4	–	–	4	–	8
Deferred tax asset	38	–	48	–	4	90
Investment property, property, plant and equipment, intangible assets, goodwill, pre-payments, accrued income and other assets	805	133	262	536	104	1,840
Disposal groups held for sale	108	–	–	241	67	416
Total	**81,739**	**4,288**	**48,289**	**5,324**	**3,356**	**142,996**

in MCZK	CZK	USD	EUR	RUB	Other	Total
LIABILITIES						
Deposits and loans from banks	20,005	73	1,733	–	112	21,923
Deposits from customers	51,120	2,775	33,295	3,511	1,244	91,945
Subordinated debt	691	164	712	–	–	1,567
Current tax liability	78	–	(10)	–	–	68
Deferred tax liability	1	–	–	97	–	98
Disposal groups held for sale	–	–	–	–	–	–
Other liabilities and equity	26,331	780	1,468	(914)	(270)	27,395
Total	**98,226**	**3,792**	**37,198**	**2,694**	**1,086**	**142,996**
Long position off-balance sheet:						
items from derivative transactions	45,965	1,154	31,176	930	1,535	80,760
items from spot transactions with share instruments	39	40	–	–	–	79
Short position off-balance sheet:						
items from derivative transactions	28,595	1,684	47,421	1,200	1,338	80,238
items from spot transactions with share instruments	39	40	–	–	–	79
Open position asset/(liability)	**883**	**(34)**	**(5,154)**	**2,360**	**2,467**	**522**

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
Securities and the positive fair value of derivatives	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, pre-payments, 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 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 spot transactions with share instruments	14	41	1	–	–	56
Open position asset/(liability)	**(2,234)**	**(1,002)**	**(756)**	**2,043**	**2,038**	**80**

45. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. 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 of managing the operational risk is to minimize the risk and securing the Group's activities at the required level.

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:

- 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 952 million (31 December 2016: CZK 1 192 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% and countercyclical buffer on all the levels of regulatory capital.

The specific countercyclical capital buffer rate is calculated in accordance with §63 ČNB decree No. 163/2014 Sb. and is calculated as a weighted average of the countercyclical buffer rates in effect in the jurisdictions to which the Group has relevant risk exposures. It started to be relevant in 2017 when the Czech Republic and the Slovak Republic firstly set their countercyclical buffer rates.

Minimum requirements for capital ratios for 31 December 2017 are as follows:

in MCZK	Minimum requirement	Capital conservation buffer	Countercyclical buffer	Total requirement
Common Equity Tier 1 capital (CET1)	4.5%	2.5%	0.29%	7.29%
Tier 1 capital	6%	2.5%	0.29%	8.79%
Total regulatory capital	**8.0%**	**2.5%**	**0.29%**	**10.79%**

Regulatory capital and equity reconciliation

The tables below summarize the composition of own funds (regulatory capital) and equity and capital ratios for 31 December 2017 and 31 December 2016, providing a complete reconciliation of individual items of regulatory capital to equity items.

in MCZK	Regulatory capital	Equity
31 December 2017		
Paid-up capital registered in the Commercial Register	10,638	10,638
Retained earnings	4,073	4,285
Profit for the period	–	2,260
Accumulated other comprehensive income	(1,101)	(1,122)
Reserve funds	42	224
Non-controlling interest	39	594
(-) Additional value adjustments (AVA)	(18)	–
(-) Intangible assets other than goodwill	(129)	–
Deferred tax liabilities associated with intangible assets other than goodwill	4	–
(-) Goodwill	(33)	–
Paid-in AT1 instruments, share premium	2,597	2,597
Total Tier 1 capital	**16,112**	**n/a**
Total Tier 2 capital	952	–
Total regulatory capital/equity	**17,064**	**19,476**

in MCZK	Regulatory capital	Equity
31 December 2016		
Paid-in capital registered in the Commercial Register	10,638	10,638
Retained earnings	4,564	4,801
Profit for the period	–	1,042
Accumulated other comprehensive income	(782)	(808)
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	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**

Risk weighted assets (RWA) and capital ratios

in MCZK	31 December 2017	31 December 2016
Central governments or central banks	67	219
Regional governments or local authorities	7	11
Institutions	1,216	615
Corporates	54,558	60,341
Retail	192	434
Secured by mortgages on immovable property	2,304	251
Exposures in default	7,302	7,944
Items associated with particular high risk	17,160	23,510
Covered bonds	52	55
Collective investments undertakings (CIU)	3,469	3,624
Equity	736	786
Other items	1,038	1,200
Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	**88,101**	**98,990**
Traded debt instruments	4,648	2,700
Equity	1,135	1,241
Position risk in collective investment undertakings (CIUs)	1	1
Foreign Exchange	4,637	4,074
Total risk exposure amount for position, foreign exchange and commodities risks	**10,421**	**8,016**
Operational risk	7,968	6,987
Total risk exposure amount for credit valuation adjustment	315	66
Total risk exposure amount	**106,805**	**114,060**

Capital adequacy ratios

in MCZK	31 December 2017	31 December 2016
Common Equity Tier 1 capital (CET1)	12.65%	12.56%
Tier 1 capital	15.09%	14.83%
Total regulatory capital	**15.98%**	**15.88%**

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 2017

in MCZK	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
FINANCIAL ASSETS					
Cash and balances with central banks	–	6,911	–	6,911	6,911
Due from financial institutions	–	47,762	–	47,762	47,757
Loans and advances to customers	–	–	71,233	71,233	69,109
FINANCIAL LIABILITIES					
Deposits and loans from banks	–	21,872	–	21,872	21,923
Deposits from customers	–	91,583	–	91,583	91,704
Subordinated debt	–	1,528	–	1,528	1,567

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

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

a) Acquisitions of subsidiaries, associates and joint ventures

in MCZK	Date of acquisition	Cost	Contribution to capital	Total cash outflow
New subsidiaries in 2017				
J&T Leasingová společnost, a.s.	22.2.2017	–	30	–
AKB "Khovanskiy" a.o.	4.10.2017	335	–	335
Total		**335**	**30**	**335**

The Group did not increased the capital of subsidiaries in 2017.

The Group did not acquire any new subsidiaries in 2016.

The Group increased the capital of subsidiaries in 2016 (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				
J&T banka d.d.	8.7.2016	–	275	–
Total		**–**	**275**	**–**

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

The Group did not acquire any new associates in 2017 and 2016.

b) Formation/establishment of subsidiaries and joint ventures

The Group did not form/establish any new subsidiaries and joint ventures in 2017 and 2016.

The Group did not increased the capital of joint ventures in 2017.

The Group increased the capital of the PGJT B.V. (see note 1) in 2016.

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**

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 acquisitions of new subsidiaries (only consolidated “full method”) had the following effect on the Group´s assets and liabilities:

in MCZK	J&T Leasingová společnost, a.s.	AKB "Khovanskiy" a.o.
1.1.-31.12.2017:		
Cash and balances with central banks	–	1 013
Loans and advances to customers	–	222
Tangible and Intangible assets	1	1
Deferred tax assets	–	19
Prepayments, accrued income and other assets	3	47
Amounts owed to customers	1	622
Amounts owed to financial institutions	5	–
Debt securities issued	–	18
Subordinated debt	–	177
Accruals, provisions and other liabilities	1	52
Net identifiable assets and liabilities	**(3)**	**433**
Non-controlling interest	-	–
Goodwill on acquisition of new subsidiaries	**3**	**–**
Gain on a bargain purchase		**(85)**
Consideration transferred, paid in cash	–	(335)
Cash acquired	–	999
Net cash inflow (outflow)	–	664
Profit or loss since acquisition date	(5)	5
Profit or loss of the acquired entities for the year 2017	–	25
Revenues of the acquired entity for the year 2017	–	80

In 2016, there was no business combination.

d) Disposals of subsidiaries

The Group did not dispose of any subsidiary in 2017.

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

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

e) Disposals of associates and joint ventures

The Group sold of the PGJT in 2017 (see note 1).

in MCZK	Date of disposal	Cost	Total cash inflow
Disposal of associates and joint ventures in 2017			
PGJT B.V.	3.7.2017	210	210
Total		**210**	**210**

The Group did not dispose any associates and joint ventures in 2016.

f) Effect of disposals of subsidiaries

The Group did not dispose of any subsidiary in 2017.

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

in MCZK	2016
1.1.-31.12.2016:	
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 2017

in MCZK	XT-Card a.s.
Group's share in the consolidated fair value of equity at the date of acquisition	6
Group's share in the post-acquisition profit / (loss) year 2015	–
Group's share in the post-acquisition profit / (loss) year 2016	1
Group's share in the post-acquisition profit / (loss) year 2017	–
Total	**7**

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**

Summary financial information for equity accounted investees as at 31 December 2017:

in MCZK	PGJT B.V.	XT-Card a.s.	Total
Type	**Joint venture**	**Associate**	
Assets	–	19	19
Liabilities	–	7	7
Net Assets	–	**12**	**12**
Income	99	38	137
Expenses	(157)	(38)	(195)
Profit / (loss)	**(58)**	**0**	**(58)**
Group's share	50%	32%	x
Negative value of the investment	12	–	12
Group's share in profit / (loss) of equity accounted investees	**(17)**	**–**	**(17)**

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)**

50. SUBSEQUENT EVENTS

On February 27, 2018, the subsidiary AKB "Khovanskiy" a.o. merged with J&T Bank, a.o. and since that day ceased to exist as a legal entity.

KPMG Česká republika Audit, s.r.o.
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+420 222 123 111, www.kpmg.cz

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

Independent auditor's report to the shareholders of J & T BANKA, a.s.

Opinion

We have audited the accompanying consolidated financial statements of J & T BANKA, a.s. and its subsidiaries (together referred as "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 2017, 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 2017, 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, Regulation (EU) No. 537/2014 of the European Parliament and of the Council, 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.

Allowances for impairment of loans

Key audit matter

We identified this area as a key audit matter because of material and complex judgements and assumptions made by the Group's management in estimating the size of allowances for impairment of loans.

Allowances for impairment of loans from customers of CZK 3 023 million as at 31 December 2017 represent the management's estimate as at the balance sheet date of future losses from these receivables, in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

To assess the impairment of individual credit exposures, the Group has set criteria to identify any objective evidence that the respective receivable is impaired. This evidence includes selected observable information, in particular about a debtor's financial difficulties, delinquency in payments of principal or interest, insolvency or other loan restructuring, or a deterioration of financial results. Based on these criteria, the Group classifies receivables from customers into a portfolio of unimpaired or impaired receivables.

Allowances for individual impaired receivables from customers are then calculated based on discounted future cash flows. The key assumption and judgment made by the Group in determining allowances for impairment of loans from customers is the estimation of the amount and timing of future cash inflows (including those recovered from any underlying loan security/collateral).

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

How the audit matter was addressed

To address this key audit matter, we performed, among other things, the procedures outlined below:

Applying our knowledge, experience and market standards in the industry, we critically assessed and challenged the Group's rules for the classification of receivables and the creation of loss allowances.

We tested the design, implementation and operating effectiveness of controls over the identification and calculation of impairment of receivables from customers, in particular controls over the matching of incoming payments, setting of effective interest rate and calculating days past due. We performed the testing by inquiry in combination with the observation, inspection and review of underlying documentation, and selected recalculations.

For a sample of loans, we assessed the facts concerning the debtor's development and the existence of objective evidence of impairment.

For a sample of impaired loans, we also assessed the key assumptions and judgements concerning both the amount and timing of expected future cash flows.

We engaged our real estate valuation specialist to challenge the valuation methods applied by the Group. The specialist tested the assumptions used in the valuation reports by comparing them to our own expectations based on our knowledge and experience.

We carried out analytical procedures by comparing key ratios, in particular loss allowances to total receivables from customers, year-on-year and against other banks in the market.

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 separate and consolidated financial statements and our auditor's reports. The statutory body 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 separate and 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 separate and consolidated financial statements is, in all material respects, consistent with the separate and 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 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 skepticism 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.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor´s report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of J & T BANKA, a.s. by the General Meeting of Shareholders on 29 June 2017 and our uninterrupted engagement has lasted for 17 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of J & T BANKA, a.s., which we issued on 26 March 2018 in accordance with Article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit we did not provide J & T BANKA, a.s. and its controlled undertakings with any other services that have not been disclosed in notes to the consolidated financial statements or annual report.

Statutory Auditor Responsible for the Engagement

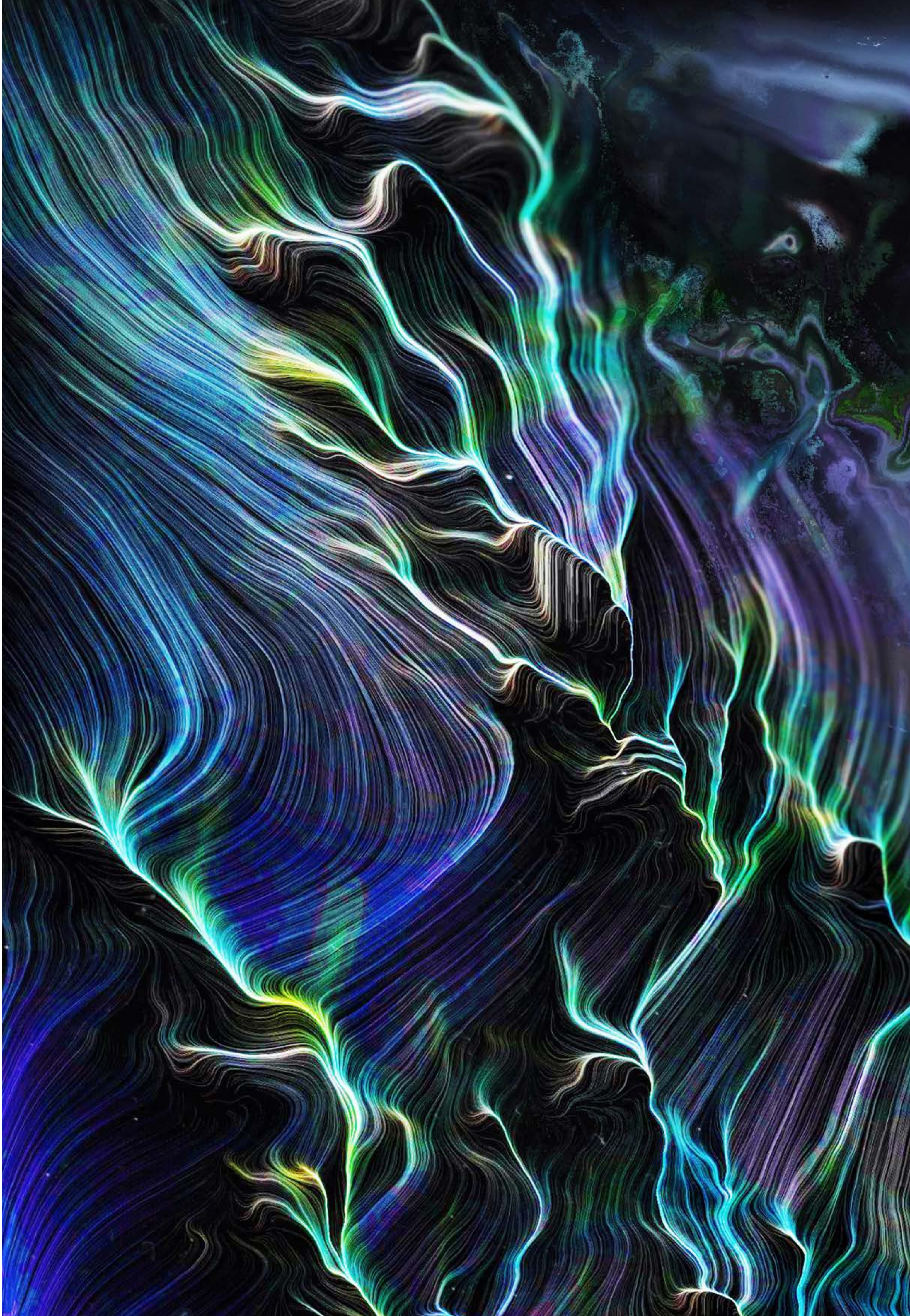
Vladimír Dvořáček is the statutory auditor responsible for the audit of the consolidated financial statements of J & T BANKA, a.s. as at 31 December 2017, based on which this independent auditor’s report has been prepared.

Prague
29 March 2018

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 2017

in MCZK	Note	31.12.2017	31.12.2016
ASSETS			
Cash and balances with central banks	6	5,915	14,170
Due from financial institutions	7	46,670	21,105
Positive fair value of derivatives	8	593	202
Loans and advances to customers	11	63,785	69,714
Financial assets at fair value through profit or loss	9a	3,601	2,665
Financial assets available for sale	9b	8,445	8,526
Financial assets held to maturity	9c	–	617
Disposal groups held for sale	1	107	107
Ownership interests	1	4,617	5,311
Current tax asset		–	69
Deferred tax asset	23	83	99
Property, plant and equipment	13	38	42
Intangible assets	14	101	104
Prepayments, accrued income and other assets	16	985	823
Total Assets		**134,940**	**123,554**
LIABILITIES			
Deposits and loans from banks	17	22,009	3,338
Deposits from customers	18	84,484	93,833
Negative fair value of derivatives	8	241	188
Subordinated debt	19	1,388	1,427
Other liabilities and provisions	20	7,760	5,825
Current tax liability		60	–
Total Liabilities		**115,942**	**104,611**
Share capital	21	10,638	10,638
Retained earnings and other reserves	21	5,763	5,708
Other capital instruments	21	2,597	2,597
Total Equity		**18,998**	**18,943**
Total Equity and Liabilities		**134,940**	**123,554**

The accompanying notes, set out on pages 142 to 212, are an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2017

in MCZK	Note	2017	2016
Interest income	24	4,294	4,584
Interest expense	25	(1,026)	(1,802)
Net interest income		**3,268**	**2,782**
Fee and commission income	26	1,153	996
Fee and commission expense	27	(252)	(159)
Net fee and commission income		**901**	**837**
Dividends from financial assets available for sale		54	187
Dividends from ownership interests		128	207
Net trading income	28	(195)	175
Impairment of assets available for sale	9b	(123)	32
Other operating income	29	79	32
Operating income		**4,112**	**4,252**
Personnel expenses	30	(775)	(702)
Other operating expenses	31	(935)	(925)
Depreciation and amortisation	13,14	(69)	(63)
Operating expenses		**(1,779)**	**(1,690)**
Profit before provisions, allowances and income tax expenses		**2,333**	**2,562**
Net change in provisions from financial activities	20	41	22
Net change in allowances for impairment of loans	12	(384)	(673)
Allowances for ownership interests	1	(135)	(57)
Profit before tax		**1,855**	**1,854**
Income tax expenses	22	(359)	(302)
Profit for the period		**1,496**	**1,552**
Profit for the period attributable to:			
Shareholders of the Bank		1,496	1,552
Profit for the period		**1,496**	**1,552**

in MCZK	Note	2017	2016
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		145	117
Net amount reclassified to profit or loss		(35)	(163)
Related tax		(21)	9
Foreign exchange translation differences		(4)	3
Other comprehensive income for the period, net of tax		**85**	**(34)**
Total comprehensive income for the period		**1,581**	**1,518**

The accompanying notes, set out on pages 142 to 212, are an integral part of these financial statements. The Board of Directors approved these financial statements on 29 March 2018.

Signed on behalf of the Board:

Štěpán Ašer, MBA
Member of the Board of Directors

Ing. Igor Kováč
Member of the Board of Directors

Statement of changes in equity for the year ended 31 December 2017

in MCZK	Share capital
Balance at 1 January 2016	**10,638**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	
Issue of capital	–
Profit for the period	–
Issue of capital instruments	–
Contribution to Perpetuity fund	–
OTHER COMPREHENSIVE INCOME	
Fair value reserve (available-for-sale financial assets):	
Net change in fair value, after tax	–
Net amount reclassified to profit or loss, after tax	–
Foreign exchange translation differences	–
Balance at 1 January 2017	**10,638**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	
Profit for the period	–
Dividends	–
Issue of capital instruments	–
Contribution to Perpetuity fund	–
Other comprehensive income	
Fair value reserve (available-for-sale financial assets):	
Net change in fair value, after tax	–
Net amount reclassified to profit or loss, after tax	–
Foreign exchange translation differences	–
Balance at 31 December 2017	**10,638**

Additional information about capital instruments is disclosed in note 21. The accompanying notes, set out on pages 142 to 212, are an integral part of these financial statements.

Retained earnings	Perpetuity fund	Other capital instruments	Revaluation reserve	Total
4,260	**72**	**1,742**	**87**	**16,799**
–	–	–	–	–
1,552	–	–	–	1,552
–	(229)	855	–	626
(312)	312	–	–	–
–	–	–	95	95
–	–	–	(132)	(132)
–	–	–	3	3
5,500	**155**	**2,597**	**53**	**18,943**
1,496	-	–	–	1,496
(1,310)	-	–	–	(1,310)
–	(216)	–	–	(216)
(242)	242	–	–	–
			–	–
			–	–
–	–	–	117	117
–	–	–	(28)	(28)
–	–	–	(4)	(4)
5,444	**181**	**2,597**	**138**	**18,998**

Statement of cash flows for the year ended 31 December 2017

in MCZK	Note	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,855	1,854
Adjustments for:			
Depreciation and amortisation	13, 14	69	63
Allowances for impairment of loans	12	384	673
FX difference from allowances for impairment of loans	12	(48)	–
Amortized costs of sold intangible and tangible fixed assets		1	–
Change in other provisions		(13)	(63)
Change in revaluation of financial assets at fair value through profit or loss		87	31
Ownership interests – unrealised FX difference / FV hedge		433	(491)
Creation of allowances for ownership interests	1	135	57
Profit from sale of associate		(55)	–
Financial assets available for sale – unrealised FX difference / FV hedge		272	1
Impairment of financial assets available for sale	9b	123	–
Net unrealized foreign exchange gains/losses		162	(49)
(Increase) / decrease of operating assets:			
Compulsory minimum reserves in central banks		(108)	408
Due from financial institutions		(109)	(317)
Originated loans and receivables		5,593	(345)
Financial assets held to maturity		617	(8)
Financial assets at fair value through profit or loss		(1,023)	35
Financial assets available for sale		(314)	6,325
Prepayments, accrued income and other assets		(162)	170
Increase / (decrease) of operating liabilities:			
Deposits and loans from banks		18,671	(1,005)
Deposits from customers		(9,349)	(23,225)
Other assets/liabilities		1,948	(728)
Income tax expenses paid		(237)	(312)
Net increase / (decrease) in fair values of derivatives			
Fair value of derivative instruments		(338)	(37)
Net cash flows from operating activities		**18,594**	**(16,963)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in share capital – subscription of new shares		–	–
Dividends paid		(1,310)	–
Issue of other capital instruments		–	855
Distribution from capital instruments		(216)	(229)
Repayment of subordinated debt		(42)	(624)
Foreign currency difference from subordinated debt		3	2
Net cash flows from financing activities		**(1,565)**	**4**

in MCZK	Note	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of and proceeds from sale of intangible and tangible fixed assets, net		(63)	(56)
Participations – contribution to capital		(30)	(314)
Disposal of associate		211	7
Net cash flows used in investing activities		**118**	**(363)**
Net increase in cash and cash equivalents		**17,147**	**(17 322)**
Cash and cash equivalents at beginning of period	5, 32	33,141	50,459
Effects of exchange rate fluctuations on cash held		(54)	4
Cash and cash equivalents at end of period	5, 32	50,234	33,141
Cash flows from operating activities include:			
Interest received		3,449	4,372
Interest paid		1,186	2,059
Dividends received		194	408

The accompanying notes, set out on pages 142 to 212, are an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2017

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 468 employees in 2017 (2016: 454). 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.

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 companies 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	Net balance at 31.12.2017 in mil. CZK	Ownership interest impairment at 31.12.2017 in mil. CZK	Share capital in mil. CZK	% shareholding	Principal activities	Country of incorporation
J&T Bank, a.o.	2,703	–	2,351	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	324	168	0.06	99	Investment activities	Cyprus
J&T REALITY, o.p.f.	616	22	–	53.08	Investment activities	Czech Republic
J&T banka d.d.	711	168	1,056	82.76	Banking activities	Croatia
J&T Leasingová společnost, a.s.	30	–	32	100	Financial activities	Czech Republic
Total	**4,617**	**550**				

The subsidiary Vaba d.d. bank Varaždin changed it's name to J&T banka d.d. on January 1, 2017.

On February 22, 2017, the Bank subscribed for 100% share in J&T Leasingová společnost, a.s. of 4 600 000 units of ordinary shares in total nominal value of CZK 30 mil.

On July 10, 2017, the Bank sold its share in the company PGJT B.V.

The Bank created allowances for ownership interests totaling CZK 135 million in 2017.

The year-on-year change in the total allowance for ownership interests of CZK 101 million was influenced by a positive FX difference of CZK 34 million arising from the translation of allowances for ownership interests in currencies other than the Czech crown.

During 2017, there were no restriction on the ownership rights held over subsidiaries.

Disposal groups held for sale as at 31 December 2017 are as follows:

Company	**Balance at 31.12.2017**	**% 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. In mid-2017, roads and networks started to be built; they will be completed by approximately mid-2018. In 2017, activities enabling us to launch sales started; currently, contracts for future contracts are being signed.

Subsidiaries of Bank as at 31 December 2016 are shown in the following table:

Company	**Net balance at 31.12.2016 in mil. CZK**	**Ownership interest impairment at 31.12.2016 in mil. CZK**	**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**	**449**				

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.

On February, 24, 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.

During 2016, there were no restriction on the ownership rights held over subsidiaries.

Disposal groups held for sale as at 31 December 2016 are as follows:

Company	Balance at 31.12.2016 in mil. CZK	% 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**			

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%).

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 2017 – 31 December 2017 ("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 2017, and have not been applied in preparing these financial statements:

IFRS 9 Financial Instruments

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

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.

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

Financial assets acquired for trading purposes and measured at FVTPL remain classified as business model “Trading” and measured at FVTPL.

Financial assets available for sale under IAS 39 were analysed in detail. Debt instruments that were analysed within the SPPI test, and shares were classified as FVOCI under IFRS 9. Allotment certificates were mandatorily reclassified from AFS to FVTPL, as under IFRS 9 they do not comply with the conditions to be measured at FVOCI. As part of this reclassification, accumulated revaluation reserves for the time of holding an allotment certificate were transferred to the opening balance of retained earnings as at 1 January 2018, net of the effect of deferred tax.

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.

For the purposes of preparing the ECL model, the portfolio of financial assets is divided into segments. Within each segment, financial assets are classified into three stages (Stage I- III) or into a group of financial assets that are impaired as at the date of initial recognition – purchased or originated credit impaired assets (“POCI”). As at the date of initial recognition, financial assets are classified either into Stage I or POCI. Subsequent reclassification into further stages is carried out according to the definition of an increase in credit risk (Stage II) or impairment of the relevant asset (Stage III) since its initial recognition as at the reporting date.

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 (Stage I). These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs (Stage II and III). 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.

A significant increase in credit risk (SICR) represents a significant increase in the risk of default in respect of a financial assets as at the reporting date compared with the risk as at the date of initial recognition.

When determining SICR, the Bank adheres to the requirements of IFRS 9. These requirements are based on an assumption that the credit risk usually increases significantly before a financial asset becomes past due or other lagging factors (e.g. restructuring) are observed. At each reporting date of a financial asset, the Bank will assess whether the credit risk of a financial assets has increased significantly since its initial recognition or not.

The Bank may assume that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date.

When determining SICR on a financial assets since its initial recognition, the Bank uses reasonable and supportable information that is relevant and available without undue cost or effort.

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 2017.

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 assessment included and analysis to identify data gaps against current processes and the Bank 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

Based on the models for the calculation of expected losses, the Bank quantified the impact of the transition from IAS 39 to IFRS 9 at CZK 568 million additional loss. Of this, the impact on allowances for loans at AC totals CZK 405 million, while the impact on provisions for off-balance sheet positions totals CZK 101 million. The impact on the creation of allowances for debt instruments measured at FVOCI totals CZK 62 million.

The reclassification change from IAS 39 to IFRS 9 affected only allotment certificates. Allotment certificates were reclassified from the FVOCI remeasurement model to FVTPL of CZK 5 024 million. Accumulated revaluation reserves for the time of holding an allotment certificate were transferred from the opening balance of retained earnings as at 1 January 2018, totalling CZK 338 million. Excluding the effect of deferred tax of CZK 64 million, the total effect of the reclassification of allotment certificates amounts to CZK 274 million.

Impact of accounting standard IFRS 9 on regulatory capital

At the end of 2017, the European Parliament and Council issued Regulation (EC) 2017/2395, specifying the impact of IFRS 9 on items of regulatory capital, risk-weighted assets and other related items and completing Article 473 of Capital Requirements Regulation (EU) No. 575/2013 (CRR). As a result of applying IFRS 9 effective from 1 January 2018, banks may experience a significant increase in allowances for expected credit losses and consequently a sudden decrease in their Common Equity Tier 1 (CET 1). The newly completed article to the above regulation enables banks to return a certain part of the loss expected as at 1 January 2018 back to CET 1 capital between 2018 and 2022. From 1 January 2018 to 31 December 2022, the Bank will proceed in line with Article 473a (2) of the above regulation. In this period, part of the loss incurred from the initial recognition of the impact of IFRS 9 multiplied by the relevant factor for the particular year (0.95 - 2018; 0.85 - 2019; 0.7 - 2020; 0.5 - 2021; 0.25 - 2022) will be returned to the Bank's CET 1 capital. At the same time, the Bank will, for a transitional period of five years, make specific adjustments taking into account credit risk and "the scaling factor" in line with Article 473a (7b), which will increase risk-weighted exposures.

IFRS 15 Revenue from contracts with customers and Clarifications to IFRS 15

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. Entities 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) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

– over time, in a manner that depicts the entity'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 an entity 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 Clarifications to IFRS 15 clarify some of the Standard's requirements and provide additional transitional relief for companies that are implementing the new Standard.

The amendments clarify how to:

– identify a performance obligation- the promise to transfer a good or a service to a customer- in a contract;
– determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and
– determine whether the revenue from granting a license should be recognised at a point in time or over time.

The amendments also provide entities with two additional practical expedients:

– An entity need not restate contracts that are completed contracts at the beginning of the earliest period presented (for entities that using the full retrospective method only);
– For contracts that were modified before the beginning of the earliest period presented, an entity need not retrospectively restate the contract but shall instead reflect the aggregate effect of all of the modifications that occur before the beginning of the earliest period presented (also for entities recognising the cumulative effect of initially applying the standard at the date of initial application).

The Standard is not applied to financial instruments. Considering the nature of the Bank's operations, the structure of the financial instruments and revenues, the Bank expects that changes in IFRS 15 will not have a significant effect on the consolidated financial statements of the Bank.

IFRS 16 Leases

Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the Bank 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, however, shall remain largely unchanged and the distinction between operating and finance leases will be retained.

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

Standards and Interpretations Issued but not yet Endorsed by the EU

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.

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

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

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

Amendments to IAS 40 Transfers of Investment Property
Effective for annual periods beginning on or after 1 January 2018; Earlier application is permitted.

The Amendments provide clarification on transfers to, or from, investment properties:
– a transfer into, or out of investment property should be made only when there has been a change in use of the property; and
– such a change in use would involve an assessment of whether the property qualifies as an investment property.

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

IFRIC 22 Foreign Currency Transactions and Advance Consideration
Effective for annual periods beginning on or after 1 January 2018. Early application is permitted.

IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions (such as revenue transactions) when payment is made or received in advance and clarifies that the transaction date is the date on which the company initially recognizes the prepayment or deferred

income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

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

IFRIC 23 Uncertainty over Income Tax Treatments
Effective for annual periods beginning on or after 1 January 2019. Early application is permitted.

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. Under IFRIC 23, the key test is whether it is probable that the tax authority will accept the entity's chosen tax treatment. If it is probable that the tax authorities will accept the uncertain tax treatment then the tax amounts recorded in the financial statements are consistent with the tax return with no uncertainty reflected in measuring current and deferred taxes. Otherwise, the taxable income (or tax loss), tax bases and unused tax losses shall be determined in a way that better predicts the resolution of the uncertainty, using either the single most likely amount or expected (sum of probability weighted amounts) value. An entity must assume the tax authority will examine the position and will have full knowledge of all the relevant information.

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

Annual Improvements to IFRS 2014-2016 Cycle
Improvements contain amendments to 3 standards with subsequent amendments to other standards and interpretations that result in changes in accounting, recognition or measurement. These amendments are applied to annual periods beginning on or after 1 January

2018, except for IFRS 12 applied for accounting periods beginning on or after 1 January 2017.

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

Amendments to IFRS 9: Prepayment Features with Negative Compensation
Effective for annual periods beginning on or after 1 January 2019.

These amendments address concerns raised about accounting for financial assets that include particular contractual prepayment options. In particular, the concern was related to how a company would classify and measure a debt instrument if the borrower was permitted to prepay the instrument at an amount less than the unpaid principal and interest owed. Such a prepayment amount is often described as including 'negative compensation'. Applying IFRS 9, a company would measure a financial asset with so-called negative compensation at fair value through profit or loss.

The amendments enable entities to measure at amortized cost some prepayable financial assets with so-called negative compensation.

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

Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures
Effective for annual periods beginning on or after 1 January 2019.

The amendment clarifies that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture.

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

Annual Improvements to IFRS 2015-2017 Cycle
Improvements contain amendments to 4 standards with subsequent amendments to other standards and interpretations that result in changes in accounting, recognition or measurement. These amendments are applied to annual periods beginning on or after 1 January 2019.

The Bank expects that the improvements, when initially applied, will not have a significant effect on the consolidated 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. Functional currency of the Slovakian branch is the Euro (“EUR”).

3. ACCOUNTING POLICIES

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

(a) Financial assets

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.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. 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 and liabilities.

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 amortised cost 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 monitors quality of loan receivables to customers according to categories performing and non-performing exposures forborne and non-forborne. 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 (nonstandard, doubtful, lossmaking based on the Czech National Bank classification).

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 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 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.

(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 based on the nature of the fee and the type of service provided divided into three groups:
- fees and commissions that are an integral part of the effective interest rate of a financial instrument and reported in the Net interest income;
- fees and commissions for services provided that are recognized as the services are provided and reported in the Net fee and commission income;
- fees and commissions for the execution of the transaction are recognized when the transaction is provided and also reported in the Net fee and commission income.

(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 temporary tax 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 / Other

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.

(r) Other capital funds

Other capital funds are issued, subordinated, unsecured and yield certificates with a fixed interest income dependent on the fulfilment of particular conditions (hereinafter “Certificates”). These Certificates have no maturity date.

The Certificates have the character of hybrid financial instruments combining the economic features of capital and debt securities.

The Bank classified Certificates in accordance with IAS 32 and assessed all the conditions for the definition as equity instrument. Certificates meet both of the required conditions:

a. the Certificates include no contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or liabilities with another entity under conditions that are potentially unfavourable to the issuer;
b. if the Certificates will or may be settled in the entity's own equity instruments, the Certificates are a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of it’s own equity instruments.

The Bank may repay the Certificates after approval by the Czech National Bank. Holders of Certificates have no right to ask for repayment, except in the case of liquidation.

The Bank commits to paying interest income generated from Certificates to the holders, but may also decide not to pay the interests accrued by the Certificates and are exempt from paying compensation. The Bank will pay interests, if there are funds available and approved to be used by the General Meeting of the Bank. When there are not sufficient resources available, the payment is reduced. Interest income can be drawn from:

– the Bank's net income,
– retained earnings from previous periods,
– other funds that might be divided among its shareholders.

As the Bank has no obligation to deliver interest income to the holders of Certificates or to settle the contractual obligation by sourcing other financial assets and as the Certificates have no maturity date, they are included in Tier 1 subsidiary capital. This inclusion is subjected to approval by the Czech National Bank.

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 process of calculation of the total allowances for impairment of loans 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 individually on an on-going 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 determines the fair value hierarchy according to IFRS 13 and establishes fair value using the following hierarchical system that reflects the significance of the inputs used in the valuation:

- Level 1: Level 1 entries are (unadjusted) quoted prices in active markets for identical assets or liabilities to which the Bank has access at value date;
- Level 2: level 2 inputs are inputs other than quoted prices included in level 1 that are directly or indirectly observable for an asset or liability:
  - quoted prices of similar assets or liabilities in active markets,
  - quoted prices of identical assets on markets that are not active,
  - input quantities other than quoted prices that are observable,
  - market-supported inputs;
- Level 3: Level 3 inputs are unobservable inputs for an asset or liability.

An active market is the market where transactions for assets or liabilities are carried out frequently and in sufficient volume to ensure regular price information:

a. the items traded on the market are homogeneous;
b. it is possible to find willing buyers and sellers at any time and
c. prices are publicly available.

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 355 million higher or lower than as disclosed as at 31 December 2017 (2016: CZK 234 million).

Financial assets

In the vast majority of cases, the fair value of Level 3 investments, bonds, loans 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 instrument 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, the structure of selected assets and liabilities according to the hierarchical system is set out in Note 44.

5. CASH AND CASH EQUIVALENTS

in MCZK	**2017**	**2016**
Cash on hand and current accounts with central banks (note 6)	751	641
Term deposits in central banks up to 3 months (note 6)	3,753	12,226
Loans to central banks – repurchase agreements (note 7)	45,006	20,000
Loans due from banks – repurchase agreements (note 7)	60	55
Current accounts with banks or payable within 3 months (note 7)	664	219
Total	**50,234**	**33,141**

6. CASH AND BALANCES WITH CENTRAL BANKS

in MCZK	**2017**	**2016**
Balances with central banks (including obligatory minimum reserves)	1,411	1,303
Current accounts with central banks	614	503
Term deposits in central banks up to 3 months	3,753	12,226
Total balance with central banks	**5,778**	**14,032**
Cash on hand	137	138
Total	**5,915**	**14,170**

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	2017	2016
Current accounts with banks	648	212
Term deposits and loans up to 3 months	16	7
Fixed term deposits and loans over 3 months	409	68
Loans to central banks- repurchase agreements (note 10)	45,006	20,000
Loans due from banks- repurchase agreements (note 10)	60	55
Subordinated loans to banks	460	495
Other receivables due from banks	71	268
Total	**46,670**	**21,105**

Subordinated loans to banks are provided to related banks.

Other receivables due from banks includes primarily cash collateral of derivative transactions amounting to CZK 67 million (2016: CZK 264 million).

There were no overdue current account with banks as of 31 December 2017 and 31 December 2016.

The contractual weighted average interest rate on deposits and loans with other banks was 0.54% p.a. (2016: 0.25% p.a.).

8. DERIVATIVES

(a) Derivatives held for trading:

in MCZK	2017 Notional amount buy	2017 Notional amount sell	2017 Fair value Positive	2017 Fair value Negative
Forward currency contracts	79,655	(79,161)	566	(222)
Other derivates	5	(5)	–	(3)
Total as at 31 December 2017	**(79,660)**	**(79,166)**	**566**	**(225)**

in MCZK	2016 Notional amount buy	2016 Notional amount sell	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)**

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:

Long position	**CZK**	**EUR**	**USD**	**Other**
31 December 2017	56%	39%	2%	3%
31 December 2016	60%	30%	8%	2%

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

Short position	**CZK**	**EUR**	**USD**	**Other**
31 December 2017	34%	60%	2%	4%
31 December 2016	25%	61%	7%	7%

(b) Derivatives held for risk management:

Fair value hedging

mil. CZK	**2017 Notional amount buy**	**2017 Notional amount sell**	**2017 Fair value Positive**	**2017 Fair value Negative**
Forward currency contracts	2,096	(2,085)	27	(16)
Total as at 31 December 2017	**2,096**	**(2,085)**	**27**	**(16)**

mil. CZK	**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 2017	**7,124**	**(7,150)**	–	**(27)**

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 ownership interests 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	2017 Fair value	2016 Fair value
SHARES		
– domestic	467	198
– foreign	10	253
BONDS		
– domestic	1,733	1,574
– foreign	1,391	640
Total	**3,601**	**2,665**

in MCZK	2017 Fair value	2016 Fair value
SHARES		
– listed	477	451
BONDS		
– listed	3,124	2,214
Total	**3,601**	**2,665**

Shares in portfolio as at 31 December 2017 comprise mainly non-government bonds of CZK 1 224 million (2016: CZK 403 million) mainly Slovakian bonds of CZK 989 million (2016: CZK 227 million), Luxembourgian bonds of CZK 172 million (2016: CZK 44 million), Netherlands bonds of CZK 40 million (2016: CZK 56 million), and Cyprian bonds of CZK 15 million (2016: CZK 28 million).

Foreign government bonds totaling the amount of CZK 167 million (2016: CZK 237 million) represent Poland government bonds of CZK 64 million (2016: CZK 155 million), Romanian government bonds of CZK 62 million (2016: CZK 28 million) and Turkish government bonds of CZK 41 million (2016: CZK 54 million).

in MCZK	2017 Fair value	2016 Fair value
SHARES		
– financial institutions	106	111
– corporate	371	340
BONDS		
– government	1,500	1,675
– financial institutions	675	114
– corporate	949	425
Total	**3,601**	**2,665**

in MCZK	2017 Fair value	2016 Fair value
SHARES		
– Level 1 – quoted market price	458	438
– Level 2 – derived from quoted prices	17	–
– Level 3 – calculated using valuation techniques	2	13
BONDS		
– Level 1 – quoted market price	1,972	2,167
– Level 2 – derived from quoted prices	1,135	–
– Level 3- calculated using valuation techniques	17	47
Total	**3,601**	**2,665**

The contractual weighted average interest rate on bonds was 3.44% p.a. (2016: 2.65% p.a.).

The higher value of bonds at level 2 as at 31 December 2017 results from an modification of the methodology for classifying investment instruments up to the level of the fair value hierarchy.

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 2017	**13**	**47**	**60**
Addition	–	16	16
Transfer to Level 2	(5)	(46)	(51)
Gains / (losses) recognised in profit for the period	(6)	–	(6)
Balance as at 31 December 2017	**2**	**17**	**19**

The Bank regularly monitors the classification of investment instruments into the fair value hierarchy. The Bank always assesses the individual ISIN codes of investment instruments according to the frequency and volume of trades, so there may be a situation that in the case of one issuer, one security may be classified into level 1 and the other one into level 2 or 3, based on the criteria stated in an internal decision-making tree.

(b) Financial assets available for sale:

in MCZK	2017 Fair value	2016 Fair value
SHARES		
– domestic	164	142
– foreign	183	167
ALLOTMENT CERTIFICATES		
– domestic	2,519	3,060
– foreign	2,505	2,045
BONDS		
– domestic	797	329
– foreign	2,277	2,783
Total	**8,445**	**8,526**

in MCZK	2017 Fair value	2016 Fair value
SHARES		
– listed	347	309
ALLOTMENT CERTIFICATES		
– not listed	5,024	5,105
BONDS		
– listed	2,214	2,234
– not listed	860	878
Total	**8,445**	**8,526**

Foreign shares in portfolio as at 31 December 2017 comprise mainly Slovakian corporate shares in the amount of CZK 131 million (2016: CZK 127 million) and Swiss corporate shares in the amount of CZK 52 million (2016: CZK 40 million).

Foreign allotment certificates comprise Malta certificates of CZK 2 373 million (2016: CZK 1 921 million) and Slovakian certificates of CZK 132 million (2016: CZK 124 million).

Foreign bonds include bonds of Slovakian companies of CZK 2 277 million (2016: CZK 2 410 million).

in MCZK	2017 Fair value	2016 Fair value
SHARES		
– corporate	347	309
ALLOTMENT CERTIFICATES		
– financial institutions	5,024	5,105
BONDS		
– financial institutions	518	548
– corporate	2,556	2,564
Total	**8,445**	**8,526**

in MCZK	2017 Fair value	2016 Fair value
SHARES		
– Level 1 – quoted market price	216	182
– Level 2 – derived from quoted prices	131	
– Level 3 – calculated using valuation	–	127
ALLOTMENT CERTIFICATES		
– Level 1 – quoted market price	–	–
– Level 2 – derived from quoted price	4,011	5,105
– Level 3 – calculated using valuation techniques	1,013	–
BONDS		
– Level 1 – quoted market price	37	412
– Level 2 – derived from quoted price	518	549
– Level 3 – calculated using valuation techniques	2,519	2,151
Total	**8,445**	**8,526**

The contractual weighted average interest rate on bonds was 4.67% p.a. (2016: 4.81% p.a.).

In 2017, the Bank has identified an impairment of financial assets available for sale amounting to CZK 123 million.

In 2016, as the result of sale of a financial asset, the Bank released an impairment of financial assets available for sale amounting to CZK 32 million identified in 2015.

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	Allotment certificates	Total
Balance as at 1 January 2017	**127**	**2,151**	**–**	**2,278**
Transfer to Level 2	(127)	–	–	(127)
Transfer from Level 2	–	–	1,105	1,105
Addition	–	490	56	546
Disposal	–	–	(9)	(9)
Gains / (losses) recognised in profit for the period	–	(38)	(16)	(54)
Gains / (losses) recognized in other comprehensive income	–	(84)	(123)	(207)
Balance as at 31 December 2017	**–**	**2,519**	**1,013**	**3,532**

The Bank regularly monitors the classification of investment instruments into the fair value hierarchy. The Bank always assesses the individual ISIN codes of investment instruments according to the frequency and volume of trades, so there may be a situation that in the case of one issuer, one security may be classified into level 1 and the other one into level 2 or 3, based on the criteria stated in an internal decision-making tree.

The following table sets out information about significant unobservable inputs used as at 31 December 2017 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

Type of financial instruments	Valuation technique	Significant unobservable input	Range of estimates	Fair Value measurement sensitivity unobservable input
Bonds	Discounted cash-flow	Credit spread	-0,5%- 2%	Significant increase would result in a lower fair value
Bonds	Discounted cash-flow	Risk-free rate	0,0%- 9,0%	Significant increase would result in a higher fair value
Allotment certificates	Discounted cash-flow	Expected cash-flow from the allotment certificates	Value of the investment	Significant increase would result in a higher fair value

(c) Financial assets held to maturity:

in MCZK	2017	2016
BONDS		
– foreign	–	617
Total	**–**	**617**

in MCZK	2017	2016
BONDS		
– listed	–	617
Total	**–**	**617**

in MCZK	2017	2016
BONDS		
– corporate	–	617
Total	**–**	**617**

As at 31 December 2017, the Bank recognize a Hungarian corporate bonds which matured in 2016. The Bank does not recognize any held to maturity financial assets as at 31 December 2017.

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 2017 and 31 December 2016, 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)	44,295	45,006	To 1 Month	45,009
Loans to banks (note 7)	42	60	To 1 Month	59
Loans and advances to customers (note 11)	1,908	1,201	To 1 Month	1,204
Loans and advances to customers (note 11)	595	364	To 3 Months	366
Total as at 31 December 2017	**46,840**	**46,631**		**46,638**

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**

(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 from banks (note 17)	20,786	20,541	To 1 Month	20,518
Loans and advances from customers (note 18)	20	20	To 1 Month	21
Total as at 31 December 2017	**20,806**	**20,561**		**20,539**

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 2016	**5**	**5**		**5**

As at 31 December 2017 recognize securities under repurchase agreements at CZK 20 786 million in the statement of financial position (2016: CZK 0 million). Other financial assets sold as at 31 December 2017 under repurchase agreements at CZK 21 million (2016: CZK 5 million) were purchased under reverse repurchase options before.

11. LOANS AND ADVANCES TO CUSTOMERS

in MCZK	**2017**	**2016**
Loans and advances to customers	55,858	59,185
Loans and advances to customers – repurchase agreements (note 10)	1,565	3,805
Bank overdraft	8,489	7,845
Debt securities – promissory notes	–	103
Other receivables	92	767
Less allowances for impairment of loans (note 12)	(2 219)	(1 991)
Total net loans and advances to customers	**63,785**	**69,714**

Loans and advances to customers as at 31 December 2017 include loans amounting to CZK 17 668 million (2016: CZK 21 357 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 2017 totalled to CZK 106 million (2016: 254 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 5.00% p.a. in 2016. The promissory notes was repaid during 2017 and there were no promissory notes as at 31 December 2017.

The contractual weighted average interest rate on loans to customers was 5.85% p.a. (2016: 5.90% p.a.).

For the additional information about Loans and advances to customers refer to note 37.

12. ALLOWANCES FOR IMPAIRMENT OF LOANS

in MCZK	**2017**	**2016**
1 January	**1,991**	**1,331**
Charge / (reversal) in the reporting period	384	673
Use / write-offs	(108)	(13)
Currency difference	(48)	–
Total as at 31 December	**2,219**	**1,991**

Use of allowances for impairment of loans for the year ended 31 December 2017 amounting to CZK 108 million (2016: CZK 13 million) represents the sale of receivables with gross value of CZK 108 million (2016: CZK 37 million), to which provisions of CZK 108 million (2016: CZK 21 million). The selling price of these receivables was insignificant (2016: CZK 24 million).

For the year ended 31 December 2017 and 31 December 2016 allowances were used upon the write-off of receivables, but the amount was insignificant.

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 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**
COST			
1 January 2017	21	71	92
Additions	–	2	2
Disposals	–	(5)	(5)
31 December 2017	**21**	**68**	**89**
Cost			
1 January 2017	9	41	50
Additions	2	3	5
Disposals	–	(4)	(4)
31 December 2017	**11**	**40**	**51**
NET BOOK VALUE			
31 December 2016	**12**	**30**	**42**
31 December 2017	**10**	**28**	**38**

The Bank did not record any fixed tangible assets under construction at the end of 2017 and 2016.

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 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**
COST		
1 January 2017	421	421
Additions	61	61
31 December 2017	**482**	**482**
ACCUMULATED AMORTISATION		
1 January 2017	317	317
Amortisation	64	64
31 December 2017	**381**	**381**
NET BOOK VALUE		
31 December 2016	**104**	**104**
31 December 2017	**101**	**101**

The Bank did not record any Intangible assets under construction at the end of 2017 and 2016.

15. OPERATING LEASES

(a) Leases entered into as lessee

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

in MCZK	2017	2016
Less than one year	91	96
Between one and five years	230	286
More than five years	–	3
Total	**321**	**385**

(b) Leases entered into as lessor

The Bank has non-cancellable operating lease receivables as follows:

in MCZK	2017	2016
Less than one year	2	3
Between one and five years	4	6
Total	**6**	**9**

16. PREPAYMENTS, ACCRUED INCOME AND OTHER ASSETS

in MCZK	2017	2016
Prepayments and accrued income	91	61
Receivables from customers from securities trading	402	289
Other trading receivables	370	369
Receivables from fees for portfolio management	65	50
Other receivables	36	32
Advance payments – other	22	23
Allowances for impairment of other assets	(1)	(1)
Total	**985**	**823**

Other trading receivables as at 31 December 2017 include reward for the issue of bonds and promissory notes of CZK 13 million (2016: CZK 17 million).

Allowances for impairment of other assets:

in MCZK	2017	2016
1 January	1	1
Charged / (reversed) in the period	–	–
Total as at 31 December	**1**	**1**

17. DEPOSITS AND LOANS FROM BANKS

Deposits and loans from banks comprise:

in MCZK	2017	2016
Deposits from banks	1,468	2,933
Deposits from central banks	–	405
Loans from banks – repurchase agreements (note 10)	20,541	–
Total	**22,009**	**3,338**

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-1.77% p.a. (2016:-0.26% p.a.).

18. DEPOSITS FROM CUSTOMERS

Deposits from customers comprise:

in MCZK	2017	2016
Current accounts	26,305	20,963
Term deposits	58,157	72,859
Loans from customers – repurchase agreements (note 10)	20	5
Other liabilities	2	6
Total	**84,484**	**93,833**

The contractual weighted average interest rate on deposits from customers was 0.83% p.a. (2016: 1.57% p.a.).

19. SUBORDINATED DEBT

Subordinated debt at amortised cost:

in MCZK	2017	2016
Issued subordinated bonds	640	676
Subordinated debt – term deposit from customers	748	751
Total	**1,388**	**1,427**

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 5.42% p.a. (2016: 4.43% p.a.).

The subordinated debt – term deposit from customers with a maturity up to 2025 bear an interest rate between 5.1% 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	2017	2016
Payables from securities of clients at trader´s disposal	6,041	4,538
Trade payables	123	148
Accruals and deferred income	142	110
Other tax liabilities	33	49
Payables to employees	25	24
Payables related to social costs	11	10
Other liabilities	724	272
Other liabilities	**7,099**	**5,151**
Provision for employee bonuses	580	557
Provision for off-balance sheet items	8	49
Provision for loyalty programmes – customers	29	31
Provision for untaken vacation	14	10
Provision for loyalty programmes – employees	3	4
Other provisions	27	23
Provisions	**661**	**674**
Total	**7,760**	**5,825**

Other liabilities primarily include payables from unsettled short sales of securities of CZK 132 million (2016: CZK 117 million), clearing of CZK 70 million (2016: CZK 36 million) and incoming and outgoing payments from nostro accounts of CZK 332 million (2016: CZK 40 million).

A provision for employee bonuses is established in relation to the approval of Bank 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 Bank 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 29 million (2016: CZK 31 million) and to employees of CZK 3 million (2016: CZK 4 million).

A provision for off-balance sheet items comprises in particular the provision for the loan promises and guarantees of CZK 8 million (2016: CZK 49 million).

As at 31 December 2017 other provisions amounted to CZK 27 million (2016: CZK 23 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.

in MCZK	Balance as at 1 January 2017	Additions / Creations	Use / Release	Balance as at 31 December 2017
Employee bonuses	557	458	(435)	580
Off-balance sheet items	49	12	(53)	8
Loyalty programmes – customers	31	–	(2)	29
Untaken vacation	10	15	(11)	14
Loyalty programmes – employees	4	4	(5)	3
Other current provisions	23	8	(4)	27
Total	**674**	**497**	**(510)**	**661**

21. SHARE CAPITAL, RETAINED EARNINGS AND OTHER RESERVES

in MCZK	**2017**
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 2017 retained earnings amounted to CZK 5 444 million (2016: CZK 5 500 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 available 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 2017 the revaluation reserve from the revaluation of financial assets available for sales amounted to CZK 138 million (2016: CZK 53 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 4 million (2016: CZK 0 million).

Assets and liabilities of the Bank's Slovakian branch are translated to Czech crowns using a rate of exchange valid as at the reporting date. Income and expenses of the Bank's Slovakian branch are translated to Czech crowns using the average rate of exchange for the relevant period.

Other capital instruments

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 2017 the volume of emitted certificated reached CZK 2 597 million (2016: CZK 2 597 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 2017 , another CZK 242 million (2016: CZK 312 million) was transferred to this fund from the 2016. The payment of revenue from certificates is governed by the conditions defined in the prospectus. In 2017 revenue of CZK 216 million (2016: CZK 229 million). As at 31 December 2017, the purpose-built capital fund for the payment of revenue from certificates was in amount of CZK 181 million (2016: CZK 155 million).

22. INCOME TAX

Income tax was calculated in accordance with Czech tax regulations at the rate of 19% in 2017 (2016: 19%). The income tax rate for 2018 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 2017 is 21%. The income tax rate for 2018 will be 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 all tax liabilities in the accompanying financial statements.

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

mil. CZK	**2017**	**2016**
Profit before tax	1,855	1,854
Statutory income tax rate	19%	19%
Income tax expenses	352	352
Non-taxable revenues	(175)	(212)
Tax non-deductible expenses	176	160
Correction of tax expenses from previous periods and additional payments	13	4
Deferred tax (note 23)	(7)	(2)
Total income tax expenses	**359**	**302**
Effective tax rate	19.38%	16.31%

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 348 million (2016: CZK 274 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:

in MCZK	**2017 Deferred tax asset**	**2016 Deferred tax asset**
Property, plant and equipment	(2)	(7)
Financial assets available for sale	(33)	(13)
Other temporary differences	118	119
Net deferred tax asset	**83**	**99**

The deferred tax asset is calculated using the 2017, income tax rate of 19% (2016: 19%).

The following table shows the reconciliation between the deferred tax income and the change in deferred tax receivables in 2017.

in MCZK	2017	2016
Deferred tax liability, net as at 1 January	99	88
Deferred tax income in the period (note 22)	7	2
Deferred tax recognized in equity	(21)	8
Currency difference (Slovak branch)	(2)	1
Net deferred tax liability as at the end of the period	**83**	**99**

24. INTEREST INCOME

in MCZK	2017	2016
Interest income from:		
Due from financial institutions	104	42
Loans and advances to customers	3,736	3,940
Repo transactions	181	200
Bonds and other fixed income securities	273	402
Total	**4,294**	**4,584**

Item "Loans and advances to customers" includes commissions for origination of loans of CZK 86 million (2016: CZK 82 million), which are part of effective interest rate.

Interest income according to classes of assets:

in MCZK	2017	2016
Interest income from:		
Financial assets at fair value through profit or loss:		
– those held for trading	100	141
Financial assets available for sale	160	217
Financial assets held to maturity	13	43
Loans and other receivables	4,021	4,183
– of which: Impaired loans and receivables	145	86
– of which: Forborne	114	123
Total	**4,294**	**4,584**

25. INTEREST EXPENSE

in MCZK	2017	2016
Interest expense on:		
Deposits and loans from banks	(7)	(10)
Deposits from customers	(967)	(1,759)
Repo transactions	(19)	–
Subordinated bonds and promissory notes	(33)	(33)
Total	**(1,026)**	**(1,802)**

Interest expense according to classes of liabilities:

in MCZK	2017	2016
Interest expense on:		
Financial liabilities at amortised cost	(1,026)	(1,802)
Total	**(1,026)**	**(1,802)**

26. FEE AND COMMISSION INCOME

in MCZK	2017	2016
Fee and commission income from:		
Securities and derivatives for customers	922	835
Loan activities	45	55
Payment transactions	100	97
Other	86	9
Total	**1,153**	**996**

27. FEE AND COMMISSION EXPENSE

in MCZK	2017	2016
Fee and commission expense on:		
Transactions with securities	(195)	(123)
Payment transactions	(23)	(19)
Other	(34)	(17)
Total	**(252)**	**(159)**

28. NET TRADING INCOME

Net trading income includes:

in MCZK	2017	2016
Realised and unrealised losses on financial instruments at fair value	114	383
Net gains / (losses) on derivative operations	(68)	40
Net profit / (loss) from foreign currency translation	(254)	(254)
Net gains / (losses) on hedging derivative operations	1	(8)
Dividend income	12	14
Total net trading income	**(195)**	**175**

Net trading income comprises of:

in MCZK	2017	2016
Financial assets and liabilities at fair value through profit or loss:		
– those held for trading	(7)	211
Financial assets available for sale	66	218
Exchange rate differences	(254)	(254)
Total	**(195)**	**175**

29. OTHER OPERATING INCOME

in MCZK	2017	2016
Income from outsourcing	14	15
Income from re-invoicing of services	5	5
Income from rent	2	2
Income from sale of ownership interests	55	–
Other income	3	10
Total	**79**	**32**

Other income includes a large number of sundry items that are not significant on an individual basis.

30. PERSONNEL EXPENSES

in MCZK	2017	2016
Wages and salaries	(562)	(535)
Directors’ and Supervisory Board members’ remuneration	(45)	(25)
Compulsory soc. security contributions	(153)	(128)
Other social costs	(15)	(14)
Total personnel expenses	**(775)**	**(702)**
Average number of employees during the reporting period	**468**	**454**

There were 4 members of the Bank’s Board of Directors at 31 December 2017 (2016: 4).

31. OTHER OPERATING EXPENSES

in MCZK	2017	2016
Rent expense	(123)	(126)
Contributions to Deposit Insurance Fund	(38)	(44)
Contributions to Crisis Resolution Fund	(83)	(71)
Taxes and fees	(49)	(60)
OPERATING COSTS:		
Outsourcing	(202)	(191)
Advertising expenses and representation	(156)	(153)
Rep Outsourcing airs and maintenance- IS, IT	(26)	(36)
Sponsoring and gifts	(30)	(31)
Services related to rent	(32)	(29)
Audit, legal and tax consulting	(31)	(26)
– statutory audit of the annual accounts	(14)	(15)
– other assurance services	–	(2)
– tax consultancy	(3)	–
– other non–audit services	(14)	(9)
Consulting expenses	(19)	(17)
Communication expenses	(15)	(16)
Transport and accommodation, travel expenses	(15)	(14)
Materials	(13)	(12)
Repairs and maintenance – other	(2)	(3)
Other operating costs	(101)	(96)
Total	**(935)**	**(925)**

Other operating costs of CZK 101 million at 31 December 2017 (2016: CZK 96 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 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**
Change in 2017	109	(8,473)	25,006	6	445	17,093
31 December 2017	**751**	**3,753**	**45,006**	**60**	**664**	**50,234**

33. FINANCIAL COMMITMENTS AND CONTINGENCIES

Financial commitments and contingencies comprise:

in MCZK	2017	2016
Granted guarantees	2 043	2 193
Unused credit lines	8 074	9 006
Values taken into custody, administration and deposit	47 028	39 816
Total	**57 145**	**51 015**

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 segment mainly includes the following items:
- Securities and fair value of derivatives,
- 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 2017:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Cash and balances with central banks	–	–	–	–	5,915	–	5,915
Due from financial institutions	20,541	–	–	–	26,129	–	46,670
Securities and the positive fair value of derivatives	4,166	–	–	–	8,473	–	12,639
Ownership interests	–	–	–	–	4,617	–	4,617
Loans and advances to customers	7,977	51,642	4,149	17	–	–	63,785
Deferred tax assets	–	–	–	–	–	83	83
Prepayments, accrued income and other assets	–	–	–	–	–	1,124	1,124
Disposal groups held for sale	–	–	–	–	107	–	107
Total Assets	**32,684**	**51,642**	**4,149**	**17**	**45,241**	**1,207**	**134,940**
Negative fair value of derivatives	224	–	–	–	17	–	241
Deposits and loans from banks	20,541	–	–	–	1,468	–	22,009
Deposits from customers	–	31,336	17,333	35,815	–	–	84,484
Subordinated debt	–	760	241	387	–	–	1,388
Current tax liability	–	–	–	–	–	60	60
Other liabilities and provisions	–	–	–	–	–	7,760	7,760
Total Liabilities	**20,765**	**32,096**	**17,574**	**36,202**	**1,485**	**7,820**	**115,942**

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
Securities and the positive fair value of derivatives	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 comprehensive income for the period ended 31 December 2017:

in MCZK	Financial markets	Corporate banking	Private banking	Retail banking	ALCO	Unallocated	Total
Net interest income	**266**	**1,388**	**462**	**406**	**721**	**25**	**3,268**
Fee and commission income	1,055	90	5	3	–	–	1,153
Fee and commission expense	(195)	(57)	–	–	–	–	(252)
Dividends from financial assets available for sale	–	–	–	–	54	–	54
Dividends from investment in equity	–	–	–	–	128	–	128
Impairment of assets available for sale	–	–	–	–	(123)	–	(123)
Net trading income / (expense)	(195)	–	–	–	–	–	(195)
Other operating income	–	–	–	–	–	79	79
Operating income	**931**	**1,421**	**467**	**409**	**780**	**104**	**4,112**
Personnel expenses	(97)	(49)	(166)	(30)	–	(433)	(775)
Other operating expenses	(50)	(11)	(59)	(45)	–	(770)	(935)
Depreciation and amortisation	–	–	(1)	–	–	(68)	(69)
Profit before provisions, allowances and income taxes	**784**	**1,361**	**241**	**334**	**780**	**(1,167)**	**2,333**
Net change in provisions from financial activities	–	43	(2)	–	–	–	41
Net change in allowances for loan losses	–	(288)	(98)	2	–	–	(384)
Allowances for Ownership interests	–	–	–	–	(135)	–	(135)
Profit before tax	**784**	**1,116**	**141**	**336**	**645**	**(1,167)**	**1,855**
Income tax expenses	(152)	(216)	(27)	(65)	(125)	226	(359)
Profit for the period	**632**	**900**	**114**	**271**	**520**	**(941)**	**1,496**

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.

The activities of the Bank's branch are the same as the Bank's activities.

In 2017, the Branch had 121 employees on average (2016: 129).

Total assets belonging to the Slovakian branch amount to CZK 23 552 million (31 December 2016: CZK 27 832 million).

For 2017, the Slovakian branch reported operating income of CZK 1 119 million (2016: CZK 1 269 million), profit before tax of CZK 180 million (31 December 2016: CZK 105 million) and corporate income tax of CZK 35 million (31 December 2016: CZK 22 million).

The branch was not granted any public aid. Stated accounting balances are before consolidation adjustments.

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 Ownership interests	–	–	–	–	(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**

(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 2017:

in MCZK	Czech Republic	Slovakia	Other European Union	Other countries	Total
Cash and balances with central banks	5,074	841	–	–	5,915
Due from financial institutions	45,325	321	836	188	46,670
Securities and the positive fair value of derivatives	5,804	3,586	3,138	111	12,639
Ownership interests	879	–	1,035	2,703	4,617
Loans and advances to customers	19,530	14,383	26,052	3,820	63,785
Deferred tax assets	35	48	–	–	83
Prepayments, accrued income and other asset	843	117	157	7	1,124
Disposal groups held for sale	107	–	–	–	107
Total Assets	**77,597**	**19,296**	**31,218**	**6,829**	**134,940**
Negative fair value of derivatives	53	15	172	1	241
Deposits and Loans from banks	75	563	20,633	738	22,009
Deposits from customers	51,109	21,902	9,855	1,618	84,484
Subordinated debt	693	1	668	26	1,388
Other liabilities and provisions	3,996	619	2,094	1,111	7,820
Total Liabilities	**55,926**	**23,100**	**33,422**	**3,494**	**115,942**

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
Ownership interests	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 comprehensive income for the year ended 31 December 2017:

in MCZK	Czech Republic	Slovakia	Other European Union	Other countries	Total
Net interest income	588	876	1,572	232	3,268
Fee and commission income	667	170	289	27	1,153
Fee and commission expense	(216)	(14)	(19)	(3)	(252)
Dividends from financial assets available for sale	9	–	44	1	54
Dividends from Ownership interests	100	–	–	28	128
Net trading income / (expense)	(506)	462	(120)	(31)	(195)
Impairment of assets available for sale	(123)	–	–	–	(123)
Other operating income	16	6	57	–	79
Operating income	**535**	**1500**	**1,823**	**254**	**4,112**
Personnel expenses	(512)	(263)	–	–	(775)
Other operating expenses	(646)	(277)	(6)	(6)	(935)
Depreciation and amortisation	(67)	(2)	–	–	(69)
Profit before provisions, allowances and income taxes	**(1,225)**	**(542)**	**(6)**	**(6)**	**(1,779)**
Net change in provisions from financial activities	35	(6)	12	–	41
Net change in allowances for impairment of loans	37	(350)	(71)	–	(384)
Allowances for Ownership interests	(13)	–	(122)	–	(135)
Profit before tax	**(631)**	**602**	**1,636**	**248**	**1,855**
Income tax expenses	(324)	(35)	–	–	(359)
Profit for the period	**(955)**	**567**	**1,636**	**248**	**1,496**

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 Ownership interests	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 Ownership interests	(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**

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 J&T FINANCE GROUP SE.

II. Majority owners of J&T FINANCE GROUP SE 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.

III. 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.

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

V. Key management personnel of the Bank or its parent and companies which these key management personnel 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.

Balance and off – balance sheet items as at 31 December 2017	**I.**	**II.**	**III.**	**IV.**	**V.**	**Total**
Receivables	2	–	2,143	–	4,050	6,195
Payables	699	79	1,847	–	567	3,192
Granted guarantees	–	–	7	–	4	11
Received guarantees	880	–	89	–	–	969
Provided loan commitments	511	–	849	–	39	1,399
Received collateral	–	–	1,532	–	–	1,532
Receivables	–	–	462	–	661	1,123
Profit / Loss items for period ended 31 December 2017						
Expenses	(409)	–	(671)	–	(161)	(1,241)
Income	306	–	1,177	–	277	1,760

Balance and off - balance sheet items as at 31 December 2016	**I.**	**II.**	**III.**	**IV.**	**V.**	**Total**
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

Receivables from related parties mainly consist of provided loans and overdrafts. Payables to related parties primarily comprise deposits payable on demand, and term, savings and tied deposits. Income and expenses mainly consist of gains/losses from currency derivatives, interest income and expenses from loans and income from fees and commissions from the mediation of issues.

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

in MCZK	Board of Directors and Supervisory Board 31.12.2017	Board of Directors and Supervisory Board 31.12.2016
Provided loans	7	21

Members of the Board of Directors and the Supervisory Board comprise key management personnel of the Bank.

Apart from the above, key management personnel of the Bank did not receive any other remuneration in the form of short-term benefits, benefits on the termination of employment, other long-term employee benefits, benefits upon an early termination of employment or any share-based payments.

Loans to employees of the Bank as at 31 December 2017 amounted to CZK 26 million (2016: CZK 48 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, operational 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 Bank'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 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	**2017**	**2016**
Performing exposition	58,052	64,494
– performing exposition forborne	2,934	2,971
Non-performing exposition	5,733	5,220
– non-performing exposition forborne	1,438	1,818
Total	**63,785**	**69,714**

The share of exposition forborne on the total loans provided to clients	6.85%	6.87%

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

in MCZK	**2017**	**2016**
Total not forborne	**59,412**	**64,925**
Non-financial organisations	38,781	43,776
Financial organisations	19,375	19,397
Households	1,256	1,752
Total forborne	**4,373**	**4,789**
Non-financial organisations	4,197	4,482
Financial organisations	117	140
Households	59	117
Other	–	50
Total	**63,785**	**69,714**

(c) Concentration of loans to customers by industry:

in MCZK	2017	2016
Financial activities	19,099	24,382
Real estate activities	10,682	8,972
Manufacturing	8,269	8,116
Information and communication	6,017	7,402
Construction	5,869	5,932
Production and distribution of electricity, gas and heat	4,100	5,054
Wholesale and retail trade	2,482	477
Accommodation and food service activities	2,149	2,137
Professional, scientific and technical activities	1,828	2,240
Transporting and storage	1,123	1,091
Sports, entertainment and recreation activities	713	749
Private households and employed persons	535	813
Mining and quarrying, agriculture	331	1,844
Health and social care	257	267
Administrative and support service activities	192	37
Other	139	201
Total	**63,785**	**69,714**

(d) Concentration of loans to customers by location:

in MCZK	2017	2016
Czech Republic	19,530	14,868
Cyprus	16,648	21,472
Slovakia	14,383	16,613
Luxembourg	3,944	4,558
Switzerland	2,648	2,756
Netherlands	2,303	3,524
Malta	1,234	644
Croatia	770	653
Poland	572	1,638
Maldives	380	605
Russia	366	366
Ireland	291	449
France	288	279
British Virgin Islands	260	642
Monaco	163	45
Jersey, C.I.	–	487
Great Britain	–	111
Others	5	4
Total	**63,785**	**69,714**

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

in MCZK	**2017**	**2016**
Czech Republic	36,101	35,120
Slovakia	13,416	19,281
China	2,463	2,868
Germany	1,848	4
Poland	1,840	3,040
Austria	1,589	2,337
Slovenia	1,565	1,608
Malta	822	177
Croatia	769	653
Greece	698	944
Russia	616	978
Ukraine	462	663
USA	454	185
France	448	323
Maldives	380	605
Cyprus	110	294
Great Britain	17	574
Other	187	61
Total	**63,785**	**69,714**

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 provided loans and repurchase agreements

As at 31 December 2017:

in MCZK	Loans to banks	Repurchase agreements – financial institutions	Loans and advances to customers	Repurchase agreements – customers
Provided loans and repurchase agreements at amortised cost individually assessed not forborne:				
Gross amount	–	–	4,259	–
Impairment	–	–	(780)	–
Carrying amount	–	–	3,479	–
Provided loans and repurchase agreements at amortised cost individually assessed forborne:				
Gross amount	–	–	2,258	–
Impairment	–	–	(1,440)	–
Carrying amount	–	–	818	–
Total provided loans and repurchase agreements	**–**	**–**	**4,297**	**–**
Provided loans and repurchase agreements to maturity without adjustments without relief:	**1,603**	**45,067**	**49,939**	**1,565**
Provided loans and repurchase agreements to maturity without adjustments with relief (forbearance):	**–**	**–**	**3,358**	**–**
Provided loans and repurchase agreements after maturity without adjustments without relief:	**–**	**–**	**4,429**	**–**
Provided loans and repurchase agreements after maturity without adjustments with relief (forbearance):	**–**	**–**	**197**	**–**
– to maturity date	–	–	4,421	–
– up to 1 month	–	–	124	–
– 1 month to 6 months	–	–	37	–
– 6 months to 12 months				
– more than 12 months	–	–	44	–
Total provided loans and resale not forborne	**1,603**	**45,067**	**57,847**	**1,565**
Total provided loans forborne	**–**	**–**	**4,373**	**–**
Of which: Financial assets neither past due nor impaired with a sign of impairment:	**–**	**–**	**5,477**	**–**
Gross amount not forborne	–	–	1,922	–
Gross amount forborne	–	–	3,555	–

As at 31 December 2016:

in MCZK	Loans to banks	Repurchase agree- ments – financial institutions	Loans and advances to customers	Repurchase agreements – customers
Provided loans and repurchase agreements at amortised cost individually assessed not forborne:				
Gross amount	–	–	1,968	–
Impairment	–	–	(369)	–
Carrying amount	–	–	1,599	–
Provided loans and repurchase agreements at amortised cost individually assessed forborne:				
Gross amount	–	–	2,708	–
Impairment	–	–	(1,622)	–
Carrying amount	–	–	1,086	–
Total provided loans and repurchase agreements	**–**	**–**	**2,685**	**–**
Provided loans and repurchase agreements to maturity without adjustments without relief:	**1,050**	**20,055**	**59,120**	**3,805**
Provided loans and repurchase agreements to maturity without adjustments with relief (forbearance):	**–**	**–**	**3,656**	**–**
Provided loans and repurchase agreements after maturity without adjustments without relief:	**–**	**–**	**401**	**–**
Provided loans and repurchase agreements after maturity without adjustments with relief (forbearance):	**–**	**–**	**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 provided loans and repurchase agreements not forborne	**1,050**	**20,055**	**61,120**	**3,805**
Total provided loans and repurchase agreements 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	–

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.

All loans to banks and repurchase agreements are to maturity date.

The part of the loans and advances to customers (after maturity without adjustments without relief and after maturity without adjustments with relief) that is not past due is presented in the line “To maturity date”. Past due receivables are presented in the appropriate lines according to the period past due.

(g) Collateral and credit enhancements for provided loans and repurchase agreements

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.

in MCZK	2017 Carrying value	2017 Fair value decreased to carrying value	2017 Fair value	2016 Carrying value	2016 Fair value decreased to carrying value	2016 Fair value
Neither past due nor impaired:	**69,823**	**69,823**	**79,200**	**48,931**	**48,391**	**56,154**
– Guarantees	1,740	1,740	1,785	1,729	1,729	1,786
– Acceptances of promissory note	1,330	1,330	1,877	1,336	1,336	1,978
– Real estate	5,506	5,506	8,785	3,250	3,250	4,513
– Cash deposits	1,971	1,971	1,972	2,313	2,313	2,313
– Securities	7,834	7,834	8,341	7,872	7,872	8,390
– Other	4,602	4,602	9,600	6,604	6,604	11,347
– Securities received under reverse repurchase agreements	46,840	46,840	46,840	25,827	25,827	25,827
Past due but not impaired:	**830**	**830**	**1,797**	**129**	**129**	**372**
– Guarantees	–	–	–	16	16	16
– Real estate	342	342	695	113	113	356
– Cash deposits	63	63	63	–	–	–
– Other	425	425	1,039	–	–	–
Impaired:	**2,880**	**2,880**	**4,651**	**5,686**	**5,686**	**9,304**
– Guarantees	–	–	–	314	314	332
– Real estate	934	934	1,968	2,631	2,631	4,858
– Cash deposits	8	8	8	59	59	60
– Pledges – securities	1,938	1,938	2,675	2,496	2,496	3,808
– Other	–	–	–	186	186	246

Other is mainly represented by movable assets and receivables.

For the purposes of reporting the collateral value of loans, the Bank only values promissory notes with a financial guarantee. The amount of collateral depends on the value of a guarantee provided by a promissory note holder.

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.

Collateral value is monitored and revised on regular basis.

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 to permit the structured entity 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.

As at 31 December 2017 there are not unconsolidated structured entities identified (2016: loans provided of CZK 3 078 million, total assets value of CZK 9 509 million). There was no loss incurred in 2017 and 2016 in respect of loans provided.

(i) Credit risk processes

Evaluating the risk of failure of counterparty is based on a creditworthiness, processed by the Credit Risk Management dept. These analyses provide conclusions for prompt measures when the counterparty's credit situation worsens or if the counterparty fails to comply with contractual conditions.

The results from the credit development analyses are reported to the Board of Directors or respective committee, 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 of trading book is monitored on daily basis, while credit risk of banking book is monitored on regular basis, minimum once a month by Credit Risk Management dept. The risk is calculated in accordance with ICAAP.

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 or members of the Investment Committee.

(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, as well as proposed conditions for effecting the transaction.

The Bank also evaluates financial and non-financial indicators, that may not enter be monitored within scoring system.

(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	**31.12.2017**	**31.12.2016**
Decrease of the trading portfolio value due to a rating migration by one credit class	63	33

(in the Standard & Poor’s scale)

(l) 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 2017, the Group record customer trades that would not be recognized in the Group financial statements in the form of repo transaction of CZK 1 155 million and reverse repo transactions of CZK 1 155 million (2016: clients repo transactions of CZK 683 million and reverse repo transactions of CZK 683 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.t 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 2017:

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	5,915	5,915	4,504	–	–	–	1,411
Due from financial institutions	46,670	46,836	46,221	24	320	271	–
Securities	12,046	13,409	36	534	3,375	3,615	5,849
Loans and advances to customers	63,785	74,432	14,316	12,261	36,035	11,820	–
Total	**128,416**	**140,592**	**65,077**	**12,819**	**39,730**	**15,706**	**7,260**
Off balance							
Unused credit lines	8,074	8,074	8,074	–	–	–	–
Granted guarantees	2,043	2,064	2,064	–	–	–	–

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	22,009	21,986	21,986	–	–	–	–
Deposits from customers	84,484	85,158	54,603	18,582	11,864	109	–
Subordinated debt	1,388	1,667	20	65	1,498	84	–
Total	**107,881**	**108,811**	**76,609**	**18,647**	**13,362**	**193**	**–**

Expected liquidity

In general, contractual cash flows represent expected contractual future cash flows of financial instruments. Occasionally, the expected maturity differs from contractual one as historical experience shows that short-term loans and deposits are prolonged. In addition, as outstanding balances on current accounts or short-term deposits are usually not withdrawn on a daily basis and accounts are not cancelled at maturity date, the Group regularly monitors period and percentage of deposits that remain available to the Group or are prolonged. Those ratios are used for managing the liquidity risk on the Group level.

Relating to loans, 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 month	Over 3 month & up to 1 year	1 to 5 years	>5 years	Undefined maturity
Loans and advances to customers	63,785	74,433	14,911	12,025	35,492	11,952	53

Liquidity risk of derivatives as of 31 December 2017:

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					
– inflow	593	593	339	143	111
Total	**593**	**593**	**339**	**143**	**111**

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	238	238	118	108	11
Commodity derivatives					
– outflow	3	3	3	–	–
Total	**241**	**241**	**121**	**108**	**11**

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	–
Securities	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**

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	69,714	83,430	10,282	19,759	35,704	17,680	5

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					
– inflow	202	202	153	47	2
Total	**202**	**202**	**153**	**47**	**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	184	184	130	40	14
Commodity derivates					
– inflow	4	4	4	–	–
Total	**188**	**188**	**134**	**40**	**14**

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 2017 and 31 December 2016 are as follows:

in MCZK	**31.12.2017**	**31.12.2016**
VaR market risk overall	105	65
VaR interest rate risk (general risk)	69	26
VaR FX risk	67	47
VaR stock risk	18	45
VaR commodity risk	1	4

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.

Change in the fair value of the trading portfolio due to historic shock scenario:

in MCZK	**31.12.2017**	**31.12.2016**
short-term scenario	46	45
medium-term scenario	49	49
long-term scenario	325	132

The market risk of the investment portfolio consists mainly of interest rate 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	**31.12.2017**	**31.12.2016**
% TIER 1 + TIER 2		
Decrease in the present value of the investment portfolio due to a sudden change in interest rates by 200 bp	4.32	5.68

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 2017 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	4,551	–	–	1,364	5,915
Due from financial institutions	45,638	205	179	648	46,670
Securities and the positive fair value of derivatives	2,629	2,658	1,503	5,849	12,639
Loans and advances to customers	34,893	12,894	1,573	14,425	63,785
Ownership interests	–	–	–	4,617	4,617
Investment property, property, plant and equipment, intangible assets	–	–	–	139	139
Deferred tax assets	–	–	–	83	83
Prepayments, accrued income and other assets	–	–	–	985	985
Disposal groups held for sale	–	–	–	107	107
Total assets	**87,711**	**15,757**	**3,255**	**28,217**	**134,940**

in MCZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
LIABILITIES					
Deposits and loans from banks	21,067	–	–	942	22,009
Deposits from customers	61,762	11,337	91	11,294	84,484
Negative fair value of derivatives	229	12	–	–	241
Subordinated debt	711	660	21	(4)	1,388
Other liabilities and provisions	–	–	–	7,820	7,820
Share capital	–	–	–	10,638	10,638
Retained earnings and other reserves	–	–	–	8,360	8,360
Total liabilities and equity	**83,769**	**12,009**	**112**	**39,050**	**134,940**
Net interest rate risk position	**3,942**	**3,748**	**3,143**	**(10,833)**	**–**
Cumulative interest rate risk	**3,942**	**7,690**	**10,833**	**–**	**–**

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
Securities and the positive fair value of derivatives	2,730	758	2,657	5,865	12,010
Loans and advances to customers	42,773	13,067	2,298	11,576	69,714
Ownership interests	–	–	–	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**

in MCZK	Up to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	Total
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**	**–**	**–**

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 2017, the exposure to Bank's foreign exchange risk was as follows:

in MCZK	CZK	USD	EUR	RUB	Other	Total
ASSETS						
Cash and balances with the central banks	5,050	9	847	–	9	5,915
Due from financial institutions	45,314	164	917	125	150	46,670
Securities and the positive fair value of derivatives	6,401	174	5,846	–	218	12,639
Loans and advances to customers	22,669	2,100	38,879	66	71	63,785
Ownership interests	264	324	616	2,703	710	4,617
Deferred tax assets	35	–	48	–	–	83
Investment property, property, plant and equipment, intangible assets, prepayments, accrued income and other assets	741	131	249	–	3	1,124
Disposal groups held for sale	107	–	–	–	–	107
Total	**80,581**	**2,902**	**47,402**	**2,894**	**1,161**	**134,940**

in MCZK	CZK	USD	EUR	RUB	Other	Total
LIABILITIES						
Deposits and loans from banks	20,005	80	1,857	3	64	22,009
Deposits from customers	51,012	1,775	31,105	411	181	84,484
Subordinated debt	691	–	697	–	–	1,388
Other liabilities and equity	24,610	833	1,456	3	157	27,059
Total	**96,318**	**2,688**	**35,115**	**417**	**402**	**134,940**
Long position off-balance sheet:						
items from derivative transactions	46,139	1,579	31,663	730	1,645	81,756
items from spot transactions with share instruments	39	40	–	–	–	79
Short position off-balance sheet:						
items from derivative transactions	27,721	1,598	48,490	2,104	1,338	81,251
items from spot transactions with share instruments	39	40	–	–	–	79
Open position asset/(liability)	**2,681**	**195**	**(4 540)**	**1,103**	**1,066**	**505**

As at 31 December 2016, the exposure to Bank'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
Securities and the positive fair value of derivatives	2,929	115	8,467	–	499	12,010
Loans and advances to customers	23,432	2,163	43,595	5	519	69,714
Ownership interests	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**

42. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. 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 of managing the operational risk is to minimize the risk and securing the Bank’s activities at the required level.

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:

- identification of operational risk for all processes within the Bank's control system ,
- evaluation of identified risks,
- adoption of a decision to accept or reduce the identified risks (while the required level of activities is secured),
- 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.
  - setting and monitoring of KRI (Key Risk Indicators) for early indication of increasing operational risk.

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.

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 952 million (31 December 2016: CZK 1 192 million).

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% and countercyclical buffer on all the levels of regulatory capital.

The specific countercyclical capital buffer rate is calculated in accordance with §63 ČNB decree No. 163/2014 Sb. and is calculated as a weighted average of the countercyclical buffer rates in effect in the jurisdictions to which the Bank has relevant risk exposures. It started to be relevant in 2017 when the Czech Republic and the Slovak Republic firstly set their countercyclical buffer rates.

Minimum requirements for capital ratios as at 31 December 2017 are as follows:

in MCZK	Minimal requirement	Capital conservation buffer	Countercyclical buffer	Total requirement
Common Equity Tier 1 capital (CET1)	4.5%	2.5%	0.31%	7.31%
Tier 1 capital	6%	2.5%	0.31%	8.81%
Total regulatory capital	**8%**	**2.5%**	**0.31%**	**10.81%**

Regulatory capital and equity reconciliation

The tables below summarize the composition of own funds (regulatory capital) and equity and capital ratios for 31 December 2017 and 31 December 2016, providing a complete reconciliation of individual items of regulatory capital to equity.

31 December 2017

in MCZK	Regulatory capital	Equity
Paid-up capital registered in the Commercial Register	10,638	10,638
Retained earnings	3,887	3,948
Profit for the period	–	1,496
Accumulated other comprehensive income	120	138
Reserve funds	–	181
(-) Additional value adjustments (AVA)	(14)	–
(-) Intangible assets other than goodwill	(98)	–
Paid-in AT1 instruments, share premium	2,597	2,597
Total Tier 1 capital	**17,130**	**n/a**
Total Tier 2 capital	952	–
Total regulatory capital/equity	**18,082**	**18,998**
Capital relevant for the large exposure limits, qualified share limits and capital adequacy calculation	**–**	**–**

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**	**–**

Based on the opinion of the Czech National Bank, retained earnings are 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.

Risk weighted assets (RWA) and capital ratios

in MCZK	31 December 2017	31 December 2016
Central governments or central banks	–	–
Institutions	1,057	341
Corporates	47,488	51,442
Retail	64	153
Secured by mortgages on immovable property	2,260	205
Exposures in default	5,986	6,118
Items associated with particular high risk	18,098	24,506
Covered bonds	52	55
Collective investments undertakings (CIU)	3,460	3,512
Equity	4,931	5,497
Other items	437	518
Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	**83,833**	**92,347**
Traded debt instruments	3,082	1,859
Equity	1,135	989
Position risk in collective investment undertakings (CIUs)	1	1
Foreign Exchange	2,659	1,723
Total risk exposure amount for position, foreign exchange and commodities risks	**6,877**	**4,572**
Operational risk	7,004	5,594
Total risk exposure amount for credit valuation adjustment	315	66
Total risk exposure amount	**98,029**	**102,580**

Capital adequacy ratios

in %	31 December 2017	31 December 2016
Common Equity Tier 1 capital (CET1)	14.83	14.06
Tier 1 capital	17.47	16.59
Total regulatory capital	**18.45**	**17.75**

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.

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 2017

in MCZK	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
FINANCIAL ASSETS					
Cash and balances with central banks	–	5,914	–	5,914	5,915
Due from financial institutions	–	46,684	–	46,684	46,670
Loans and advances to customers	–	–	65,507	65,507	63,785
FINANCIAL LIABILITIES					
Deposits and loans from banks	–	21,958	–	21,958	22,009
Deposits from customers	–	84,256	–	84,256	84,484
Subordinated debt	–	1,366	–	1,366	1,388

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

45. SUBSEQUENT EVENTS

From December 31, 2017, up to the date when these financial statements were approved by the Board of Directors, there were no further events identified that would require adjustments to these financial statements.

KPMG Česká republika Audit, s.r.o.
Pobřežní 1a, 186 00 Praha 8, Czech Republic
+420 222 123 111, www.kpmg.cz

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

Independent auditor's report to the shareholders of J & T BANKA, a.s.

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

Opinion

We have audited the accompanying separate 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 2017, 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 separate 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 separate financial statements.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, 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, Regulation (EU) No. 537/2014 of the European Parliament and of the Council, 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 Separate 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Allowances for impairment of loans

Key audit matter

We identified this area as a key audit matter because of material and complex judgements and assumptions made by the Company's management in estimating the size of allowances for impairment of loans.

Allowances for impairment of loans from customers of CZK 2 219 million as at 31 December 2017 represent the management's estimate as at the balance sheet date of future losses from these receivables, in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

To assess the impairment of individual credit exposures, the Company has set criteria to identify any objective evidence that the respective receivable is impaired. This evidence includes selected observable information, in particular about a debtor's financial difficulties, delinquency in payments of principal or interest, insolvency or other loan restructuring, or a deterioration of financial results. Based on these criteria, the Company classifies receivables from customers into a portfolio of unimpaired or impaired receivables.

Allowances for individual impaired receivables from customers are then calculated based on discounted future cash flows. The key assumption and judgment made by the Company in determining allowances for impairment of loans from customers is the estimation of the amount and timing of future cash inflows (including those recovered from any underlying loan security/collateral).

For further information, please refer to Note 3 (Accounting policies), Note 11 (Loans and advances to customers) and Note 12 (Allowances for impairment of loans) in the notes to the separate financial statements.

How the audit matter was addressed

To address this key audit matter, we performed, among other things, the procedures outlined below:

Applying our knowledge, experience and market standards in the industry, we critically assessed and challenged the Company's rules for the classification of receivables and the creation of loss allowances.

We tested the design, implementation and operating effectiveness of controls over the identification and calculation of impairment of receivables from customers, in particular controls over the matching of incoming payments, setting of effective interest rate and calculating days past due. We performed the testing by inquiry in combination with the observation, inspection and review of underlying documentation, and selected recalculations.

For a sample of loans, we assessed the facts concerning the debtor's development and the existence of objective evidence of impairment.

For a sample of impaired loans, we also assessed the key assumptions and judgements concerning both the amount and timing of expected future cash flows.

We engaged our real estate valuation specialist to challenge the valuation methods applied by the Company. The specialist tested the assumptions used in the valuation reports by comparing them to our own expectations based on our knowledge and experience.

We carried out analytical procedures by comparing key ratios, in particular loss allowances to total receivables from customers, year-on-year and against other banks in the market.

We assessed the adequacy of the Company's disclosures on the loss allowances and the related credit risk management in the notes to the separate 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 separate and consolidated financial statements and our auditor's reports. The statutory body is responsible for the other information.

The Company has not prepared an annual report as at 31 December 2017, 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 Separate Financial Statements

The statutory body is responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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 Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 separate 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 separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
– Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor’s report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 29 June 2017 and our uninterrupted engagement has lasted for 17 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 26 March 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit, we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in notes to the separate financial statements or annual report.

Statutory Auditor Responsible for the Engagement

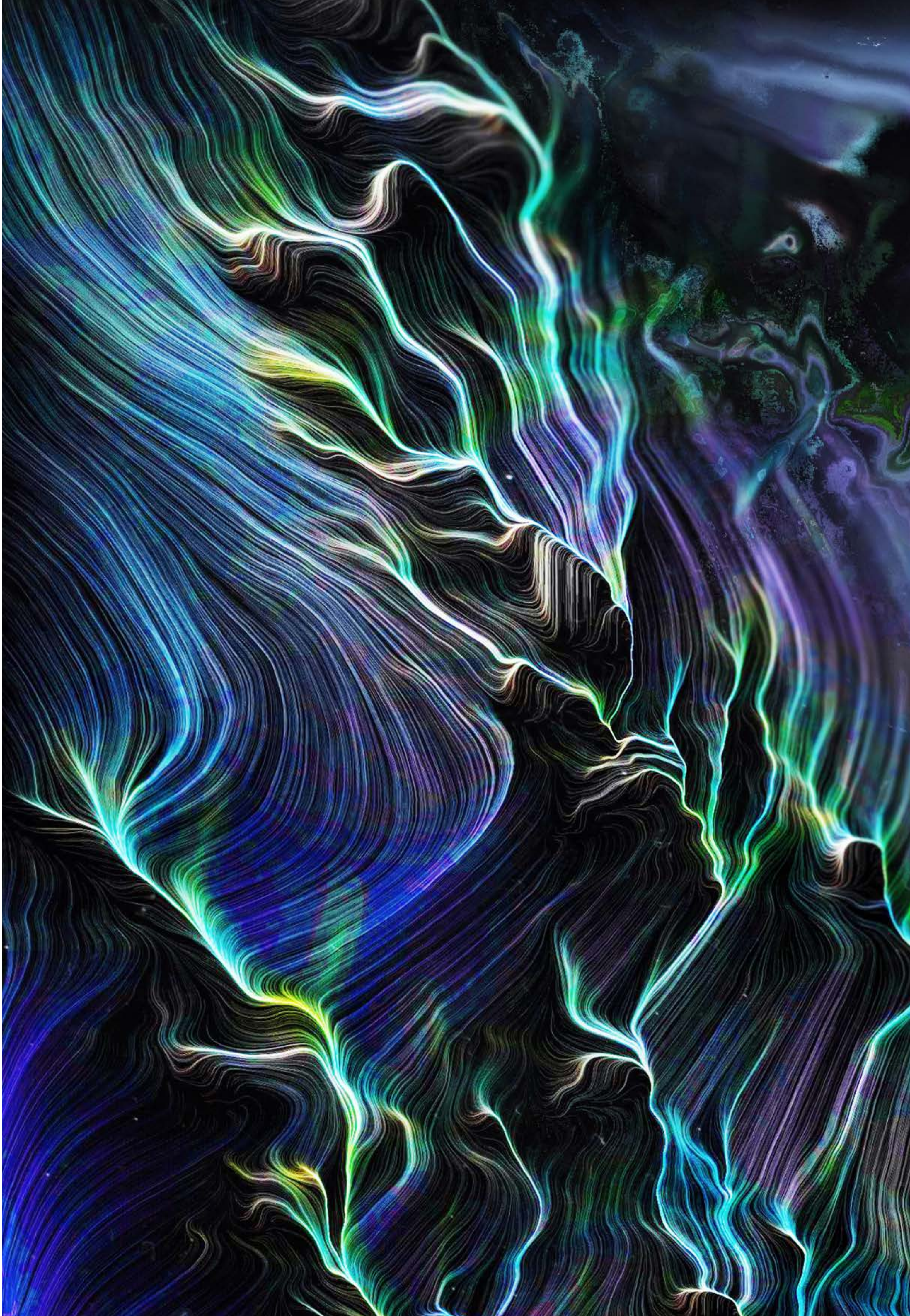
Vladimír Dvořáček is the statutory auditor responsible for the audit of the separate financial statements of J & T BANKA, a.s. as at 31 December 2017, based on which this independent auditor's report has been prepared.

Prague, 29 March 2018

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.
Registration number 71

Vladimír Dvořáček
Partner
Registration number 2332



Report on relations between related parties parties for the accounting period of 2017

Prepared in accordance with Section 82 of Act No. 90/2012 Coll., on Commercial Companies and Cooperatives (the Act on Business Corporations).

This report has been prepared by the Board of Directors of J & T BANKA, a.s., with its registered office at Praha 8, Pobřežní 297/14, postcode 186 00, ID# 47115378 („the Bank").

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 2017 to 31 December 2017, 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 2017 to 31 December 2017, J & T BANKA, a.s. was indirectly controlled by the following persons and entities:

Ing. Ivan Jakabovič
Birth ID# 721008/6246, residing at 98000 MONACO, 41 avenue HECTOR OTTO, Monaco, 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 Akropoleos, 59-61 SAVVIDES CENTER, 1st floor, Flat/Office 102, Nicosia- P.C.2012, Cyprus, controlled by Ing. Ivan Jakabovič along with Ing. Jozef Tkáč, until 28 April 2017.

Ing. Jozef Tkáč
Birth ID# 500616/210, residing at Bratislava, Júlová 10941/32, postcode 831 01, Slovakia, who, along with Ing. Ivanem Jakabovičem (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 2017 to 31 December 2017, 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 poisťovňa, 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.
ID# 36864013, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by 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 v likvidáci, a. s.
ID# 47621320, with its registered office at Dvořákovo nábrežie 4, Bratislava 811 02, Slovakia, controlled by Poštová banka, a.s.

Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s.
ID# 03451488, Na příkopě 393/11, Staré Město, 110 00 Praha 1, Czech Republic, controlled by Poštová banka, a.s., since 31 December 2017.

FORESPO SOLISKO a.s.
ID# 47232935, with its registered office at Karloveská 34, Bratislava 841 04 Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s., since 31 December 2017.

FORESPO HELIOS 1 a.s.
ID# 47234032, with its registered office at Karloveská 34, Bratislava 841 04 Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s., since 31 December 2017.

FORESPO HELIOS 2 a.s.
ID# 47234024, with its registered office at Karloveská 34, Bratislava 841 04 Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s., since 31 December 2017.

FORESPO HOREC a SASANKA a.s.
ID# 47232994, with its registered office at Karloveská 34, Bratislava 841 04 Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s., since 31 December 2017.

FORESPO PÁLENICA a.s.
ID# 47232978, with its registered office at Karloveská 34, Bratislava 841 04 Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s., since 31 December 2017.

INVEST-GROUND a.s.
ID# 36858137, with its registered office at Karloveská 34, Bratislava 841 04 Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s., since 31 December 2017.

FORESPO - RENTAL 1 a.s.
ID# 36782653, with its registered office at Karloveská 34, Bratislava 841 04 Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s., since 31 December 2017.

FORESPO - RENTAL 2 a.s.
ID# 36781487, with its registered office at Karloveská 34, Bratislava 841 04 Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s., since 31 December 2017.

FORESPO BDS a.s.
ID# 27209938, with its registered office at Janáčkovo nábřeží 478/39, Smíchov, 150 00 Praha 5, Czech Republic, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s., since 31 December 2017.

DEVEL PASSAGE s.r.o.
ID# 43853765, with its registered office at Karloveská 34, Bratislava 841 04 Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s., since 31 December 2017.

FORESPO DUNAJ 6 a.s.
ID# 47235608, with its registered office at Karloveská 34, Bratislava 841 04 Slovakia, controlled by Compact Property Fund, investiční fond s proměnným základním kapitálem, a.s., since 31 December 2017.

J&T SERVICES ČR, 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, 115035 Moscow, Russia, controlled by J&T FINANCE, LLC

J&T Bank Switzerland Ltd. in liquidation
ID# CH02030069721, with its registered office at Zürich, Talacker 50, 12th floor, P.C. 8001, Switzerland, controlled by J&T FINANCE GROUP SE.

PBI, a.s.
ID# 03633527, with its registered office at Sokolovská 394/17, 186 00 Praha 8, Czech Republic, controlled by J&T FINANCE GROUP SE

J&T Wine Holding SE
ID# 06377149, with its registered office at Pobřežní 297/14, Karlín, 186 00 Praha 8, Czech Republic, controlled by J&T FINANCE GROUP SE, since 23 August 2017.

KOLBY, a.s.
ID# 25512919, with its registered office at Česká č.ev. 51, 691 26 Pouzdřany, Czech Republic, controlled by J&T Wine Holding SE, since 13 September 2017.

SAXONWOLD LIMITED

ID# 508611, with its registered office at Cam Lodge, Kilquaide, The Russian Village, Co.Wicklow, A63 FK24, Ireland, controlled by J&T Wine Holding SE, since 11 August 2017.

World's End

ID# 200807010154, with its registered office at 5 Financial Plaza 116, Napa, CA, 94558, USA, controlled by SAXONWOLD LIMITED, since 11 August 2017.

OUTSIDER LIMITED

ID# HE 372202, with its registered office at Klimentos, 41-43; KLIMENTOS TOWER, Floor 2, Flat 21; 1061, Nicosia, Cyprus, controlled by J&T Wine Holding SE, since 11 August 2017.

STE CIVILE D'EXPLOITATION DU CHATEAU TEYSSIER

ID# 316 809 391, with its registered office at 33330 VIGNONET, Saint Emilion, France, controlled by OUTSIDER LIMITED, since 11 August 2017.

CT DOMAINES

ID#507 402 386, with its registered office at 33330 VIGNONET, Saint Emilion, France, controlled by Chateau Teyssier, since 11 August 2017.

J&T INTEGRIS GROUP LIMITED

ID# HE207436, with its registered office at Klimentos, Kyriakou Matsi, 11, NIKIS CENTER, Floor 3, Flat 301 1082, Nicosia, 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 J&T INTEGRIS GROUP LIMITED

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, 11000, Ciudad de Mexico, Mexico, controlled by Bayshore Merchant Services Inc.

J&T MINORITIES PORTFOLIO LTD

ID# HE260754, with its registered office at Kyriakou Matsi, 11, NIKIS CENTER, Floor 3, Flat 301 1082, Nicosia, Cyprus, controlled by J&T INTEGRIS GROUP LIMITED.

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.

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 LIMITED

J&T Global Finance IV., B.V.
ID# 60411740, with its registered office at La Fontainestraat 7, 1902CW, Castricum, Netherlands, controlled by J&T INTEGRIS GROUP LIMITED.

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 LIMITED.

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 LIMITED.

J&T Global Finance VII., s.r.o.
ID# 05243441, with its registered office at Pobřežní 297/14, Karlín, 186 00 Praha 8, Czech Republic, controlled by J&T INTEGRIS GROUP LIMITED.

J&T Global Finance VIII., s.r.o.
ID# 06062831, with its registered office at Pobřežní 297/14, Karlín, 186 00 Praha 8, Czech Republic, controlled by J&T INTEGRIS GROUP LIMITED, since 1 May 2017.

J&T Mezzanine, a.s.
ID# 06605991, with its registered office at Pobřežní 297/14, Karlín, 186 00 Praha 8, Czech Republic, controlled by J&T FINANCE GROUP SE, since 15 November 2017.

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 2017 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.

Contracts in force entered into between related parties based on which performance was provided in 2017:
– Agent agreement dated 15 December 2008, based on which, in 2017, 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 agreement for the custody of investment instruments, dated 1 January 2014, based on which J & T BANKA, a.s. provided to related party in 2017 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 2017, in exchange for adequate consideration.
- Contract for the provision of a guarantee, dated 15 December 2005, based on which, in 2017, 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 2017, 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 2017, 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.
- Agent agreement for the brokerage of purchase and sale of securities, dated 10 April 2008, as further amended based on which, in 2017, 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 business lease of movable assets, dated 22 September 2010, as further amended, based on which, in 2017, 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 2017, 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 2017, J & T B ANKA, 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 2017, 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 6 1/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 30 November 2017, based on which, in 2017, 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 2017, J&T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration.
– Agreement on Sharing Promotion Costs dated 3 February 2017, based on which the parties of this Agreement agreed to share the costs of promoting the J&T financial group within the FED CUP 2017.
– 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 2017:
– 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:

Contracts in force entered into between related parties based on which performance was provided in 2017:
– Contract for the provisions of banking services, dated 26 February 2015, based on which, in 2017, 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 2017:
– 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 2017 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 2017, 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.

Contracts in force entered into between related parties based on which performance was provided in 2017:

– Agent agreement, dated 18 December 2008, based on which, in 2017, 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.
– 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 2017, 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 2017, 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.
– 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 2017:

– General contract for the provision of banking services, dated 20 December 2012, based on which, in 2017, J & T BANKA, a.s. undertook to provide services pursuant to this contract, in exchange for adequate consideration.
– General contract for the provision of legal services, dated 20 November 2017, based on which, in 2017, 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 2017:

– 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 2017 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.
– Escrow Account Agreement dated 13 December 2017, based on which J & T BANKA, a.s. has committed to establish and maintain an internal account for the next consideration for the payment of the services provided.

With PB Finančné služby, a. s.

Contracts in force entered into between related parties based on which performance was provided in 2017:

– Overdraft loan agreement No. EUR 04/KTK/2017, dated 23 January 2017, as further amended, based on which J & T BANKA, a.s undertook to provide funds (an overdraft loan), and PB Finanční služby, a.s. undertook to repay the loan and pay interest and other fees in accordance with the agreed terms and conditions.
– Current 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 2017:

– 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 2017 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 2017, 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 2017, J&T SERVICES ČR, a.s. provided the Bank with the lease of nonresidential 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 2017, 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 2017 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 2017, 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 2017, 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 2017, in exchange for adequate consideration.
- Mandate contract for tax advisory services, dated 3 January 2011, based on which, in 2017, 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 2017 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 2017, 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 2017, 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 w ith J & T BANKA, a.s., dated 31 December 2014, based on which, in 2017, 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 2017, 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 2017, J&T SERVICES ČR, a.s. provided I T/IS s ervices 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 2017, 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 2017, 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 October 2017, based on which, in 2017, J & T BANKA, a.s. sold IT equipment in exchange for adequate consideration.
- Contract for the sale of movable assets, dated 15 November 2017, based on which, in 2017, J & T BANKA, a.s. sold mobile phones in exchange for adequate consideration.
- Agent agreement for provision of legal services, dated 1 August 2018, based on which, in 2017, 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.
- 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 2017:

- Mandate contract for payroll and personnel services, dated 26 October 2012, as further amended, based on which, in 2017, 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 2017, 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 2017, 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.
- Brokerage contract dated 3 April 2013, based on which, in 2017, 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 2017, 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 2017, 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 2017, 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 2017, 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 2017, 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, in 2017, J&T SERVICES SR, s.r.o. provided the Bank with IT and press services, in exchange for adequate consideration.
- Contract for the provision of services, dated 9 December 2015, as further amended, based on which, in 2017, 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 2017, J&T S ERVICES 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 2017, 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 2017:

- 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.
- Brokerage contract No. 01-01/17, dated 30 June 2017, based on which J&T FINANCE, LLC mediated opportunities to conclude a contract with potential clients, in exchange for adequate consideration.

With OUTSIDER LIMITED:

Contracts in force entered into between related parties:
- Agent agreement for provision of legal services, dated 22 November 2017.
- Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Bank Switzerland Ltd. in liquidation:

Contracts in force entered into between related parties:
- Agent agreement No. 18387 for the brokerage of purchase and sale of securities, dated 9 July 2009.
- General agreement for loan secured by transfer of securities dated 1 November 2006.

With PBI, a.s.:

Contracts in force entered into between related parties:
- Agent agreement, dated 18 December 2015, based on which, in 2017, 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 2017:
- Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Wine Holding SE:

Contracts in force entered into between related parties based on which performance was provided in 2017:
- Current account maintenance in accordance with the terms and conditions of the Bank.
- Maintenance of the bank account for increase of the registered capital of the company in accordance with the terms and conditions of the Bank.

With KOLBY, a.s.:
- 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 J&T INTEGRIS GROUP LIMITED:
- 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 2017:
- Agent agreement for the brokerage of purchase and sale of investment instruments, dated 13 August 2012, based on which, in 2017, 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:
– Agent agreement No. 19181 for the brokerage of purchase and sale of securities, dated 20 August 2010.

Contracts in force entered into between related parties based on which performance was provided in 2017:
– Contract for the provision of banking services, dated 5 February 2015, based on which, in 2017, 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 2017, 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.
– General contract for the trading in financial markets, dated 30 November 2015, based on which, in 2017, J & T BANKA, a.s. negotiated currency derivative transactions.

Contracts in force entered into between related parties based on which performance was provided in 2017:
– 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:
– Bond placement agreement dated 13 May 2013, along with the Special arrangement to this agreement.
– 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 2017:
– Contract for the provision of banking services, dated 8 April 2013, based on which, in 2017, J & T BANKA, a.s. undertook to provide services pursuant to this contract, in exchange for adequate consideration.
– General agreement for provision of legal services, dated 10 February 2017, based on which, in 2017, J & T BANKA, a.s. provided the related party with services pursuant to this contract, 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.
– Agent agreement dated 29 December 2014, based on which, in 2017, 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 2017:

- Administration contract dated 26 August 2014, along with the Special arrangement to this contract, based on which, in 2017, 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.
- Bond placement agreement dated 27 November 2014, along with the Special arrangement to this agreement.
- Agent agreement dated 21 August 2015, based on which, in 2017, 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 2017:

- Contract for the provision of banking services, dated 20 August 2014, based on which, in 2017, J & T BANKA, a.s. undertook to provide services pursuant to this contract, in exchange for adequate consideration.
- General agreement for provision of legal services, dated 10 February 2017, based on which, in 2017, J & T BANKA, a.s. provided the related party with services pursuant to this contract, in exchange for adequate consideration.
- Administration contract dated 27 November 2014, along with the Special arrangement to this contract, based on which, in 2017, 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 VI., s.r.o.:

Contracts in force entered into between related parties:

- Bond placement agreement dated 20 April 2016, along with the Special arrangement to this agreement.

Contracts in force entered into between related parties based on which performance was provided in 2017:

- Administration contract dated 20 April 2016, along with the Special arrangement to this contract, based on which, in 2017, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration.
- General agreement for provision of services, dated 7 March 2016, based on which, in 2017, 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:

- Bond placement agreement dated 16 November 2016, along with the Special arrangement to this agreement.

Contracts in force entered into between related parties based on which performance was provided in 2017:

- Administration contract dated 16 November 2016, along with the Special arrangement to this contract, based on which, in 2017, 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 VIII., s.r.o.:

Contracts in force entered into between related parties based on which performance was provided in 2017:

- Administration contract dated 21 June 2017, along with the Special arrangement to this contract, based on which, in 2017, J & T BANKA, a.s. provided administration services as part of a bond issue programme, in exchange for adequate consideration.
- Bond placement agreement dated 21 June 2017, along with the Special arrangement to this agreement, based on which J & T BANKA, a.s. arranged a bond issue in 2017, in Exchange for adequate consideration.
- Current account maintenance in accordance with the terms and conditions of the Bank.

With J&T Mezzanine, a.s.:

Contracts in force entered into between related parties based on which performance was provided in 2017:

- 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 2017 to 31 December 2017.

Board of Directors
J & T BANKA, a.s.

Information about securities, rights and obligations

Information on securities

In 2015 Česká národní banka approved and J & T BANKA, a.s., IČO: 47115378, Legal Entity Identifier: 31570010000000043842, registered office Prague 8, Pobřežní 297/14, postcode 186 00, 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 as at 31 December 2017 amounted to CZK 2 597 million (2016 – CZK 2 597 million).

As at 31 December 2017, 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 mainly upon maintaining a good reputation, not only among clients, counterparties, investors but also in relation to the fulfilment of regulatory obligations of the company imposed by law and supervisory authorities. The potential loss of its good reputation might have an adverse impact on volume of deposits, availability of external financing, access to capital markets and as a result on Issuer's business and financial performance its ability to disburse yields and meet obligations arising from the issued investment instruments.

The Issuer has not obligatorily adopted Corporate Governance Code issued by Securities Commission that is available on the website of the Ministry of Finance www.mfcr.cz and Czech National Bank www.cnb.cz. However, Issuer's Corporate Governance is organized in accordance with the principles outlined in this document, as defined in the internal regulations and statutes of the Issuer. In addition to its own regulations that are fully in line with applicable law, the Issuer fulfils the obligations imposed by law, in particular by the Business Corporations Act, the Act on Banks and other relevant legal regulations concerning corporate governance.

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.

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 2017, the contribution amounted to CZK 17.8 million (2016: CZK 14.6 million).

The Issuer provides non-financial information in a separate statement on the website www.jtbank.cz.

Information about 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 2017, the Issuer and the Group spent financial means for audit and other services in a volume as follows:

In TCZK	2017 Paid by the Issuer	2016 Paid by the Issuer	2017 Paid by other companies in the Group	2016 Paid by other companies in the Group
Audit services	14,107	14,698	3,016	4,214
Other services	–	–	–	–
Total	**14,107**	**14,698**	**3,016**	**4,214**

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

Remuneration policy

The Bank applies the remuneration principles in compliance with Decree No. 163/2014 Coll., on activities of banks, savings and credit co-operatives and investment firms (hereinafter the "Decree") and Directive 2013/36/EU (hereinafter the "Directive" or "CRD IV"). The key concepts of the remuneration policy, regulated in the Employee Remuneration Rules, include, in particular, transparency and predictability, compliance with regulatory requirements and fairness. Special remuneration principles and procedures are applied proportionately to the degree of influence of the individual selected persons on the Bank's overall risk profile and on selected employees in control functions.
The Bank's control body regularly, once a year, evaluates the remuneration principles; the remuneration principles applicable to employees with a significant influence on the Bank's overall risk profile are also subject to assessment by the employees responsible for the compliance and internal audit functions.

The assessment period is a calendar year and the persons responsible for deciding on the frequency of assessment of the individual employees are the employees performing the assessment, namely the direct superiors of the employees under assessment.

Board of Directors and Supervisory Board

The remuneration principles applicable to the members of the Board of Directors are approved by the Supervisory Board and the shareholders at the General Meeting based on a proposal of the Remuneration Committee, while complying with the condition that the variable component of remuneration of the members of the Board of Directors may not exceed 100% of the fixed remuneration component. The amount of the variable remuneration component is always proposed by the Remuneration Committee for the relevant calendar year; the Remuneration Committee subsequently evaluates the achievement of set targets and proposes the amount of the variable remuneration component to be awarded for the relevant period.

Members of the Supervisory Board only receive fixed remuneration based on the agreement on the discharge of office of a member of the Supervisory Board.

Based on an analysis performed, members of the Board of Directors and the Supervisory Board have been included among employees with a significant influence on the Bank's overall risk profile. At the same time, they are the persons holding executive powers of the issuer.

Fixed component of Bank employees' remuneration

The amount of the employees' fixed remuneration component is determined on the basis of their key abilities, professional experience and working tasks and based on a market comparison with the salaries of other entities of the financial and banking market in the Czech Republic.

Variable component of Bank employees' remuneration

The target variable component of remuneration of the individual employees is determined individually and makes up 15–100% of their fixed remuneration component. The employee is not contractually entitled to receive this remuneration component. The amount of the employee's variable remuneration component takes into account the regulatory requirements and depends on the amount of the employee's fixed remuneration component and on a work performance assessment by the employee's manager; such assessment includes an assessment of the targets set by the direct superior and also the targets set by the Bank's management. The criteria under assessment are divided into corporate, departmental and personal criteria and include, in particular, a qualitative and quantitative performance assessment, fulfilment of the Bank's strategy in the area of performance, risk management and work development indicators. If the set targets (including the targets related to the degree of the risks to which the Bank is exposed) are not fulfilled, the combination of various levels of the criteria results in the decision not to award the variable remuneration component in part or in full – a penalty is applied. The Bank does not use the clawback option, i.e. the option to demand the return of remuneration, unless permitted by Czech labour-law legislation in the particular case.

If, for extraordinary reasons, the variable remuneration component of any employee exceeds 100% of the paid fixed remuneration for the assessment period, this amount of remuneration will be subject to approval by the General Meeting and notified in advance to the Czech National Bank in accordance with the requirements of the Decree. The variable remuneration component will not exceed 200% of the fixed remuneration paid for the assessment period.

The Bank does not apply payment of the variable remuneration component in the form of capital or similar instruments, since its position on the market is not significant and it does not have suitable capital instruments that would enable a suitable manner of postponing a part of the variable remuneration component.

The amount and manner of payment of the variable remuneration component are determined in compliance with the following rules:

1. "Bonus Pool"
   The calculation of the amount of the Bonus Pool is based on the sum of the target variable components of individual employees, taking into account the ability of the Bank as a whole to strengthen its capital, and it is adjusted based on the regularly estimated degree of target performance on the level of the Bank and its individual divisions and departments.
2. "Corporate targets"
   Performance targets are set every year and are closely tied to the Bank's strategic plan. The Remuneration Committee annually approves their fulfilment on the basis of audited data and proposes the amount of remuneration for the assessment period. The corporate targets consist of the planned ROE values (50% weight), the volume of client assets (25% weight) and risk factors (25% weight).
   For individual employees, the corporate targets have a weight for the determination of the total variable remuneration component between 25% and 70% depending on their functional and organisational position in the Bank.

3. “Departmental and personal targets”
   The targets are set based on a proposal from direct superiors for each calendar year. The targets can have the nature of individual tasks, projects, activities or any other targets or behaviour. These targets are both quantitative and qualitative and are set on the basis of the priorities of the division for which the relevant manager is responsible. The departmental and personal targets also include the obligation to comply with the rules of prudent risk management within the degree of risk acceptable by the Bank and act in compliance with the Bank’s strategy, targets, values and long-term interests.
4. “K.O. criteria”
   The Bank specifies conditions under which the variable remuneration component will not be awarded at all. This applies especially in situations where: (a) the volume of net assets decreases year-on-year without an increase in the Company’s internal resources by shareholders and without dividend payment; (b) the operational profit decreases by more than 15%; (c) the ROE is less than 200 bps above the reference rate valid at the beginning of the accounting period; (d) the Bank did not initiate a recovery plan. The variable remuneration component awarded in previous years will not be paid should its payment result in a limitation of the Bank’s ability to strengthen capital.

Rules for setting the variable remuneration component for selected groups of employees

1. Employees with a significant influence on the Bank’s overall risk profile
   The payment of the variable remuneration component to these employees is postponed in that 60% of the remuneration is paid in money immediately after the employee assessment process has been completed and remuneration has been awarded. The payment of the remaining 40% is postponed and will be paid during the next three years; however, the Bank has the right not to pay this portion for objective reasons.
2. Employees in sales positions
   Employees in sales positions who are not classified as employees with a significant influence on the Bank’s overall risk profile have a special system of payment of the variable component; their remuneration is distributed over time in that a part of the payment amounting to 50% of the awarded variable remuneration component is payable in money immediately after the employee assessment process has been completed and remuneration has been awarded. The payment of the remaining 50% is postponed and will be paid during the next two years; however, the Bank has the right not to pay this portion for objective reasons.
3. Employees in internal control functions
   Employees in internal control functions are not assessed based on the performance results of the units they control but only based on the targets set for the relevant control function. The rules for remuneration of the heads of the risk management, internal audit and compliance functions are directly supervised by the Remuneration Committee and the Supervisory Board.

Remuneration of persons holding executive powers

The remuneration of persons holding executive powers for 2017 amounted to CZK 97 million in total and was distributed among 11 recipients, members of the Board of Directors and other persons holding executive powers and 5 members of the Supervisory Board. For 2017, members of the Board of Directors received remuneration in the amount of CZK 39 million in the form of salaries and CZK 1.5 million for the discharge of their office from the parent company.

Members of the Supervisory Board received remuneration in the form of salaries amounting to CZK 5 million. Other persons holding executive powers received remuneration in money in the form of salaries amounting to CZK 52 million. Furthermore, members of the Supervisory Board received remuneration for the discharge of their office in the amount of CZK 0.1 million. In 2017, the Bank did not pay any remuneration for the discharge of office to any other persons holding executive powers.

Members of the Board of Directors, Supervisory Board and persons holding executive powers did not receive any income in money or in kind from the subsidiaries in 2017. No severance pay was paid or awarded and no remuneration exceeding EUR 1 million was paid in 2017. Neither the Bank nor its subsidiaries contribute to supplementary pension insurance schemes or any other similar schemes. The Bank declares that members of its administrative, management and supervisory bodies of the Bank and its subsidiaries do not enjoy any special advantages connected with the termination of activity.

Real estate, machinery and equipment

As at 31 December 2017, the Issuer's total tangible assets amounted to CZK 38 million (as at 31 December 2016: CZK 42 million). As at 31 December 2017, total tangible assets and investment property of the Issuer's Group amounted to CZK 611 million (as at 31 December 2016: CZK 685 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 2017 will be transferred to retained earnings and part of profit for 2017 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.

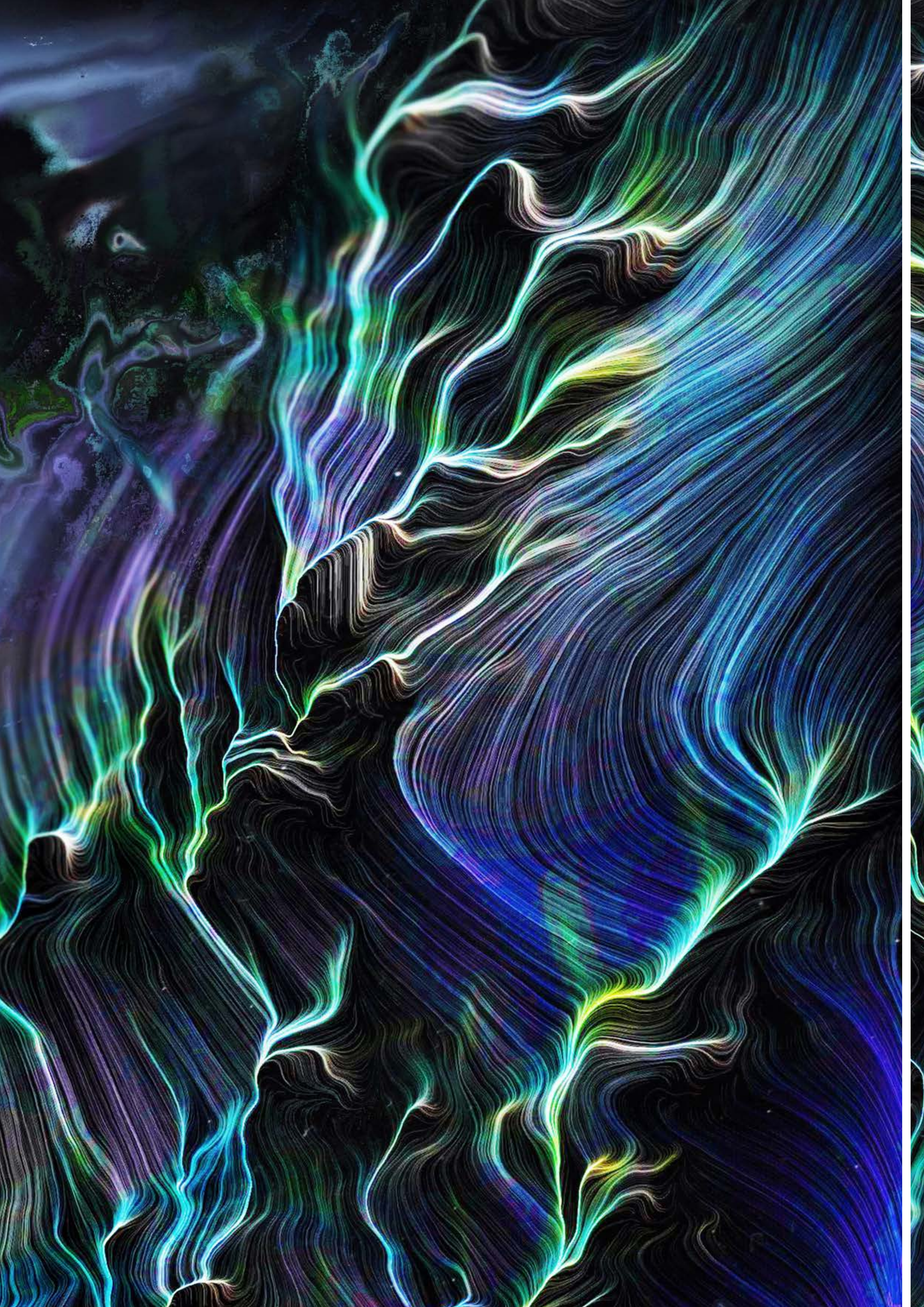
Significant contracts

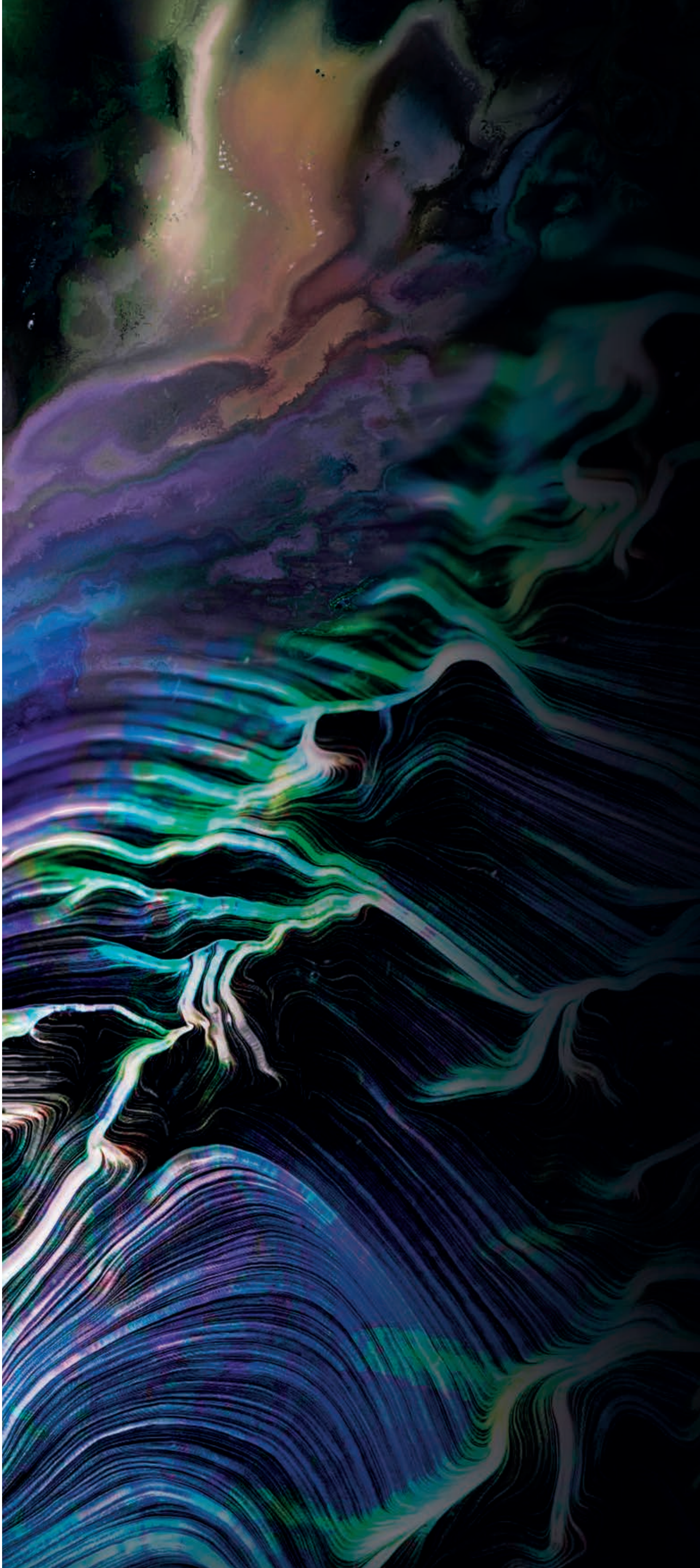
The Issuer's significant transactions made after 31 December 2017 are disclosed in the Notes to the financial statements. Contracts entered into between the Group members are given in a separate part of the annual report, the Report on relations between related parties.

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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