ČESKÁ SPOŘITELNA
Head Office in Prague

Česká spořitelna, a.s.

Separate Financial Statements for the Year Ended 31 December 2016 Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union

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I. Statement of Comprehensive Income of Česká spořitelna, a.s. for the year ended 31 December 2016

Income statement

in CZK million	Notes	2016	2015
Net interest income	1	23,857	24,304
Net fee and commission income	2	8,254	9,280
Dividend income	3	436	427
Net trading and fair value result	4	2,691	3,016
Rental income from investment properties & other operating leases	5	87	116
Personnel expenses	6	(8,113)	(7,713)
Other administrative expenses	6	(6,784)	(7,434)
Depreciation and amortisation	6	(1,889)	(1,857)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	7	1,423	324
Net impairment loss on financial assets not measured at fair value through profit or loss	8	(1,403)	(2,170)
Other operating result	9	(875)	(746)
Pre-tax result from continuing operations		**17,684**	**17,547**
Taxes on income	10	(3,176)	(3,403)
Post-tax result from continuing operations		**14,508**	**14,144**
Net result for the period		**14,508**	**14,144**

Statement of Comprehensive Income

in CZK million	Notes	2016	2015
Net result for the period		**14,508**	**14,144**
Items that may be reclassified to profit or loss			
Available for sale reserve			
Gain/(loss) during the period	10	(844)	1,508
Cash flow hedge reserve			
Gain/(loss) during the period	10	257	(81)
Deferred taxes relating to items that may be reclassified			
Gain/(loss) during the period	10, 25	110	(269)
Total		**(477)**	**1,158**
Total other comprehensive income		**(477)**	**1,158**
Total comprehensive income for the year		**14,031**	**15,302**

The accompanying notes are an integral part of these financial statements.

ČESKÁ SPOŘITELNA
Head Office in Prague

II. Statement of Financial Position of Česká spořitelna, a.s. as of 31 December 2016

in CZK million	Notes	2016	2015
Assets			
Cash and cash balances	12	151,877	100,895
Financial assets - held for trading		21,045	14,914
Derivatives	13	13,458	14,184
Other trading assets	14,18	7,587	730
Financial assets – designated at fair value through profit or loss	15,18	394	354
Financial assets - available for sale	16,18	80,979	77,796
Financial assets - held to maturity	17,18	159,874	151,682
Loans and receivables to credit institutions	19	21,823	34,120
Loans and receivables to customers	20	538,359	494,915
Derivatives - hedge accounting	21	519	663
Property and equipment	22	10,070	11,947
Intangible assets	23	3,994	3,675
Investments in subsidaries and associates	24	8,200	8,432
Current tax assets	25	578	689
Deferred tax assets	25	-	-
Non-current assets and disposal groups classified as held for sale	27	123	-
Other assets	26	1,176	1,196
Total assets		**999,011**	**901,278**
Liabilities and equity			
Financial liabilities - held for trading		18,161	15,020
Derivatives	13	14,056	15,008
Other trading liabilities	28	4,105	12
Financial liabilities – designated at fair value through profit or loss	29	1,997	4,019
Deposits from customers		1 997	4,019
Financial liabilities measured at amortised cost	30	851,018	759,445
Deposits from banks		120,019	92,313
Deposits from customers		711,400	636,694
Debt securities issued		18,859	28,319
Other financial liabilities		740	2,119
Derivatives - hedge accounting	21	452	495
Provisions	31	2,796	2,482
Current tax liabilities	25	-	-
Deferred tax liabilities	25	55	509
Other liabilities	32	8,580	3,972
Total equity	33	115,952	115,336
Total liabilities and equity		**999,011**	**901,278**

The accompanying notes are an integral part of these financial statements.

These separate financial statements were prepared by the Bank and authorized for issue by the Board of Directors on 7 March 2017 and are subject to approval at the General Meeting of shareholders.

Tomáš Salomon
Chairman of the Board of Directors

Wolfgang Schopf
Vice-chairman of the Board of Directors

III. Statement of Changes in Total Equity

in CZK million	Subscribed capital	Capital reserves	Retained earnings	Other capital instruments	Statutory reserve	Cash flow hedge reserve	Available for sale reserve	Total equity
As of 1 January 2015	**15,200**	**12**	**82,866**	**-**	**3,040**	**151**	**2,042**	**103,311**
Dividends paid	-	-	(11,384)	-	-	-	-	(11,384)
Issuance of other capital instruments				8,107				8,107
Total comprehensive income	-	-	14,144	-	-	(64)	1,222	15,302
Net result for the period	-	-	14,144	-	-	-	-	14,144
Other comprehensive income	-	-	-	-	-	(64)	1,222	1,158
As of 31 December 2015	**15,200**	**12**	**85,626**	**8,107**	**3,040**	**87**	**3,264**	**115,336**
As of 1 January 2016	**15,200**	**12**	**85,626**	**8,107**	**3,040**	**87**	**3,264**	**115,336**
Dividends paid	-	-	(13,423)	-	-	-	-	(13,423)
Other changes			8	-				8
Transfers			3,040		(3,040)			-
Total comprehensive income	-	-	14,508	-	-	207	(684)	14,031
Net result for the period	-	-	14,508	-	-	-	-	14,508
Other comprehensive income	-	-	-	-	-	207	(684)	(477)
As of 31 December 2016	**15,200**	**12**	**89,759**	**8,107**	**-**	**294**	**2,580**	**115,952**

The accompanying notes are an integral part of these financial statements.

IV. Cash Flow Statement for the year ended 31 December 2016

in CZK million	Notes	2016	2015 reclassified
Net profit/loss for the year		**17,684**	**17,547**
Non-cash adjustments for items in net profit/loss for the year			
Allocation to and release of provisions (including risk provisions)	8,9,31	2,158	2,675
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	6	1,889	1,857
Gains/(losses) from the sale of assets		(1,181)	(57)
Change in fair values of derivatives		(125)	(478)
Accrued interest, amortisation of discount and premium		(2,056)	(1,447)
Other adjustments		751	(191)
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Deposits with CNB		4,077	2,820
Loans and advances to credit institutions		10,048	4,157
Loans and advances to customers		(44,831)	(31,799)
Trading assets		(6,986)	3,884
Financial assets - at fair value through profit or loss		(5)	367
Financial assets - available for sale : debt instruments		(4,346)	14,884
Financial assets - held to maturity		(10,704)	(6,192)
Other assets from operating activities		649	315
Deposits by banks		24,055	22,743
Customer deposits		74,713	49,460
Trading liabilities		2,058	(8,411)
Other liabilities from operating activities		2,927	13
Payments for taxes on income		(3,753)	(3,738)
Cash flow from operating activities		**67,022**	**68,409**
Financial assets - available for sale : equity instruments		870	(1,421)
Proceeds of disposal			
Property and equipment and intangible assets	22,23	1,345	214
Acquisition of			
Property and equipment, intangible assets and investment properties	22,23	(1,900)	(1,950)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)		(330)	(321)
Disposal of subsidiaries	24	1,259	-
Cash flow from investing activities		**1,244**	**(3,478)**
Capital increases		8	-
Issuance of other capital instruments		-	8,107
Dividends paid to equity holders of the parent		(13,292)	(11,267)
Dividends paid to non-controlling interests		(131)	(117)
Other financing activities (mainly changes of subordinated liabilities)		-	(262)
Proceeds from bonds issued		553	509
Repurchase of bonds in issue		(9,705)	(10,143)
Cash flow from financing activities		**(22,567)**	**(13,173)**
Cash and cash equivalents at beginning of period		**84,214**	**32,456**
Cash flow from operating activities		67,022	68,409
Cash flow from investing activities		1,244	(3,478)
Cash flow from financing activities		**(22,567)**	**(13,173)**
Cash and cash equivalents at end of period	12	**129,913**	**84,214**
Cash flows related to taxes, interest and dividends			
Payments for taxes on income (included in cash flow from operating activities)		(3,753)	(3,738)
Interest received		25,135	25,694
Dividends received		436	427
Interest paid		(2,398)	(2,241)
Dividends paid		(13,423)	(11,400)

The accompanying notes are an integral part of these financial statements.

V. Notes to the Financial Statements of Česká spořitelna, a.s. for the year ended 31 December 2016

A. GENERAL INFORMATION

Česká spořitelna, a.s. (‘the Bank’), having its registered office address at Olbrachtova 1929/62, Prague 4, 140 00, Corporate ID 45244782, is the legal successor of the Czech State Savings Bank and was founded as a joint stock company in the Czech Republic on 30 December 1991. The Bank is a universal bank offering retail, corporate and investment banking services within the Czech Republic.

Due to the group internal merger between EGB Ceps Holding GmbH with Erste Group Bank the Bank’s majority shareholder became Erste Group Bank AG (‘Erste Group Bank’) which is the ultimate parent. The Bank together with subsidiaries and associated companies forms the Group. The Bank is subject to the regulatory requirements of the Czech National Bank (‘CNB’), the banking Act and EU guidelines/directives. These regulations include those pertaining to minimum capital adequacy requirements, categorization of exposures and off-balance sheet commitments, credit risk connected with clients of the Bank, liquidity, interest rate risk, foreign currency positions and operating risk.

The Bank offers a complete range of banking and other financial services, such as savings and current accounts, asset management, consumer credit and mortgage lending, investment banking, securities and derivatives trading, portfolio management, project finance, foreign trade financing, corporate finance, capital and money market services and foreign exchange trading.

B. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation of financial statements

The financial statements of the Bank for the 2016 financial year and the comparative information were prepared in compliance with applicable International Financial Reporting Standards as adopted by the European Union (‘IFRS’) on the basis of IAS Regulation (EC) No. 1606/2002.

The financial statements have been prepared on a historical cost basis, except for financial assets available-for-sale, derivative financial instruments, financial assets and liabilities held for trading, and financial assets and liabilities designated at fair value through profit or loss, all of which have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The financial statements have been prepared on a going concern basis. The Bank has not prepared the separate annual report and intends to include the information in the consolidated annual report.

Except as otherwise indicated, all amounts are stated in millions of Czech crowns (‘CZK’). The tables in this report may contain rounding differences.

b) Accounting and Measurement Methods

Cash flow statement reclassification

In 2016 the Bank reviewed the cash flow disclosure regarding the business model of the underlying financial instruments. The result of the review led to a change in the cash flow disclosure of Financial assets - available for-sale equity instruments and Financial assets - held to maturity.

Based on the reassessment, cash flows from equity instruments, which were shown on the balance sheet item “Financial assets – available for sale”, are now presented as cash flows from investing activities (i.e. together with cash flows from debt instruments) and not as cash flows from operating activities. In addition, cash flows from “Financial assets – held to maturity are shown as cash flow from operating activities (previously cash flow from investing activities.

The reclassification was made in order to provide more relevant and reliable cash flow information of the Bank.

in CZK million	1-12 15 Published	Restatement	1-12 15 Restated
Pre-tax result from continuing operations	17,547	-	17,547
Financial assets - available for sale: debt instruments	13,463	1,421	14,884
Financial assets - held to maturity	-	(6,192)	(6,192)
Not restated items	42,170	-	42,170
Cash flow from operating activities	**73,180**	**(4,771)**	**68,409**
Financial assets - available for sale: equity instruments	-	(1,421)	(1,421)
Proceeds of disposal/redemption			
Financial assets - held to maturity and associated companies	11,410	(11,410)	-
Acquisition of			
Financial assets - held to maturity and associated companies	(17,602)	17,602	-
Not restated items	(2,057)	-	(2,057)
Cash flow from investing activities	**(8,249)**	**4,771**	**(3,478)**
Cash flow from financing activities	**(13,173)**	**-**	**(13,173)**
Cash and cash equivalents at beginning of period	32,456	-	32,456
Cash and cash equivalents at end of period	84,214	-	84,214

Foreign currency translation

The financial statements are presented in Czech crowns, which is the functional currency of the Bank. The functional currency is the currency of the primary business environment in which the Bank operates.

For foreign currency translation, exchange rates quoted by the Czech National Bank are used.

(i) Transactions and balances in foreign currency

Transactions in foreign currencies are initially recorded at the functional currency exchange rate effective as of the date of the transaction. Subsequently, monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate as of the balance sheet date. All resulting exchange differences that arise are recognised in the income statement under the line item ‘Net trading and fair value result’. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Financial instruments – recognition and measurement

A financial instrument is any contract giving rise to a financial asset of one party and a financial liability or equity instrument of another party. In accordance with IAS 39, all financial assets and liabilities – which also include derivative financial instruments – have to be recognised on the statement of financial position and measured in accordance with their assigned categories.

Bank uses the following categories of financial instruments:

- financial assets or financial liabilities at fair value through profit or loss
- available-for-sale financial assets
- held-to-maturity investments
- loans and receivables
- financial liabilities measured at amortised cost

IAS 39 categories of financial instruments are not necessarily the line items presented on thestatement of financial position. Relationships between the statement of financial position line items and categories of financial instruments are described in the table at point (xii).

(i) Initial recognition

Financial instruments are initially recognised when the Bank becomes a party to the contractual provisions of the instrument. Regular way (spot) purchases and sales of financial assets stated at fair value are recognised at trade date and for financial assets not stated at fair value at settlement date . Regular way trades are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. The classification of financial instruments at initial recognition depends on their characteristics as well as the purpose and management's intention for which the financial instruments were acquired.

(ii) Initial measurement of financial instruments

Financial instruments are measured initially at their fair value including transaction costs. In the case of financial instruments at fair value through profit or loss, however, transaction costs are not included but are recognised directly in profit or loss. Subsequent measurement is described in the chapters below.

(iii) Cash and cash balances

The Bank considers cash and deposits with the CNB, treasury bills and treasury bonds with a residual maturity of three months or less and nostro and loro accounts with financial institutions to be cash equivalents.

Cash balances include only claims (deposits) against central banks and credit institutions that are repayable on demand. Repayable on demand means that they may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this item.

(iv) Derivative financial instruments

Derivatives used by the Bank include mainly interest rate swaps, futures, forward rate agreements, interest rate options, currency swaps and currency options as well as credit default swaps. Derivatives are measured at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

For presentation purposes derivatives are split into:

- derivatives – held for trading; and
- derivatives – hedge accounting

Derivatives – held for trading are those which are not designated as hedging instruments. They are presented in the line item 'Derivatives' under the heading 'Financial assets / financial liabilities – held for trading'. All kinds of non-hedging derivatives without regard to their internal classification, i.e. both derivatives held in the trading book and banking book are presented in this line item.

Changes in fair value (clean price) of derivatives – held for trading are recognised in the income statement in the line item 'Net trading and fair value result'.

Interest income/expense related to derivatives – held for trading is recognised in the income statement under the line item 'Net interest income' if held in the banking book or under the line item 'Net trading and fair value result' if held in the trading book.

Derivatives – hedge accounting are those which are designated as hedging instruments in hedges fulfilling the conditions of IAS 39. In the statement of financial position, they are presented in the line item 'Derivatives - hedge accounting' on asset or liability side.

Changes in fair value (clean price) of derivatives in fair value hedges are recognised in the income statement in the line item 'Net trading and fair value result'. Effective part of changes in fair value (clean price) of derivatives in cash flow hedges is reported in other comprehensive income in the line item 'Cash flow hedge reserve'. Ineffective part of changes in fair value (clean price) of derivatives in cash flow hedges is recognised in the income statement under the line item 'Net trading and fair value result'.

Interest income/expense related to derivatives in fair value hedges is recognised in the income statement in the line item 'Net interest income'. Interest income/expense from hedging derivatives in cash flow hedges is part of the dirty price measurement which is split into effective part and ineffective part as described above.

(v) Financial assets and financial liabilities - held for trading

Financial assets and financial liabilities – held for trading comprise derivatives and other trading assets and liabilities. Treatment of derivatives – held for trading is discussed above in (iv).

Other trading assets and liabilities are non-derivative instruments. They include debt securities as well as equity instruments acquired or issued principally for the purpose of selling or repurchasing in the near term. In the statement of financial position, they are presented as ‘Other trading assets’ or ‘Other trading liabilities’ under the heading ‘Financial assets / financial liabilities – held for trading’ .

Changes in fair value (clean price for debt instruments) resulting from other trading assets and liabilities are reported in the income statement under the line item ‘Net trading and fair value result’. Interest income and expenses are reported in the income statement under the line item ‘Net interest income’. Dividend income is shown under the line item ‘Dividend income’.

If securities purchased under agreement to resell or borrowed through securities lending transactions are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within ‘Other trading liabilities’.

(vi) Financial assets or financial liabilities designated at fair value through profit or loss

Financial assets or financial liabilities classified in this category are those that have been designated by management on initial recognition (fair value option).

The Bank uses the fair value option in the case of financial assets managed on a fair value basis. In accordance with a documented investment strategy, the performance of the portfolio is evaluated and regularly reported to the management board. The portfolio contains mostly items of Funds and Financials.

Financial assets - designated at fair value through profit or loss are recorded on the statement of financial position at fair value under the line item ‘Financial assets - designated at fair value through profit or loss’, with changes in fair value recognised in the income statement under the line item ‘Net trading and fair value result’. Interest earned on debt instruments is reported under the line item ‘Net interest income’. Dividend income on equity instruments is shown under the line item ‘Dividend income’.

Furthermore, the Bank uses the fair value option in case of some hybrid financial liabilities. This is relevant when:

- such classification eliminates or significantly reduces an accounting mismatch between the financial liability otherwise measured at amortised cost and the related derivative measured at fair value; or
- the entire hybrid contract is designated at fair value through profit or loss due to the existence of an embedded derivative.

The amount of fair value change attributable to changes in own credit risk for financial liabilities designated at fair value through profit or loss is calculated by the method described by IFRS 7. This amount is the difference between the present value of the liability and the observed market price of the liability at the end of the period. The rate used for discounting the liability is the sum of the observed (benchmark) interest rate at the end of the period and the instrument-specific component of the internal rate of return determined at the start of the period.

Financial liabilities designated at fair value through profit or loss are reported in the statement of financial position under the line item ‘Financial liabilities designated at fair value through profit or loss’ further broken down into ‘Deposits from customers’ and ‘Debt securities issued’. Changes in fair value are recognised in the income statement under the line item ‘Net trading and fair value result’. Interest incurred is reported under the line item ‘Net interest income’.

(vii) Financial assets – available for sale

Available-for-sale financial assets include debt and equity securities as well as other interests in entities with lower than significant influence. Equity investments classified as available for sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

Available-for-sale financial assets are measured at fair value. On the statement of financial position, available-for-sale financial assets are disclosed under the line item ‘Financial assets – available for sale’.

Unrealised gains and losses are recognised in other comprehensive income and reported in the ‘Available for sale reserve’ until the financial asset is disposed of or impaired. If available-for-sale assets are disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss and reported in the line item ‘Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net’ in case of sale or in the line item ‘Net impairment loss on financial assets’ in case of impairment.

Interest income on available-for-sale financial assets is reported under the line item ‘Net interest income’. Dividend income is reported under the line item ‘Dividend income’.

If the fair value of investments in non-quoted equity instruments cannot be measured reliably, they are recorded at cost less impairment. This is the case when the range of reasonable fair value estimates as calculated by valuation models is significant and the probabilities of the various estimates cannot be reasonably assessed. There is no market for such investments.

(viii) Financial assets – held to maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity and reported on the statement of financial position as ‘Financial assets – held to maturity’ if the Bank has the intention and ability to hold them until maturity. After initial recognition, held-to-maturity financial assets are measured at amortised cost. Amortised cost is calculated by taking into account any discount, premium and/or transaction costs that are an integral part of the effective interest rate.

Interest earned on financial assets held to maturity is reported in the income statement under the line item ‘Net interest income’. Losses arising from impairment of such financial assets are presented as ‘Net impairment loss on financial assets’. Occasional realised gains or losses from selling are recognised in the income statement under the line item ‘Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net’.

(ix) Loans and receivables

The statement of financial position line items ‘Loans and receivables to credit institutions’ and ‘Loans and receivables to customers’ include financial assets meeting the definition of loans and receivables.

Loans and receivables are non-derivative financial assets (including debt securities) with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank, upon initial recognition, designates as available for sale; or
- those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial recognition, loans and receivables are measured at amortised cost. Interest income earned is included under the line item ‘Net interest income’ in the income statement.

Impairment losses arising from loans and receivables are recognised in the income statement under the line item ‘Net impairment loss on financial assets’.

(x) Financial liabilities measured at amortised cost

Financial liabilities are measured at amortised cost, unless they are measured at fair value through profit or loss.

For presentation in the statement of financial position the line item ‘Financial liabilities measured at amortised cost’ is used. The liabilities are further broken down by ‘Deposits from banks’, ‘Deposits from customers’, ‘Debt securities issued’ and ‘Other financial liabilities’.

Interest expenses incurred are reported in the line item ‘Net interest income’ in the income statement. Gains and losses from derecognition (mainly repurchase) of financial liabilities at amortised cost are reported under the line item ‘Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net’.

(xi) ‘Day 1’ profit

Where the transaction price differs from the fair value derived from other observable transactions for the identical instrument in active market or derived using valuation technique that has all significant inputs based on observable markets data, the Bank immediately recognises the difference between the transaction price and the fair value (a Day 1 profit) in the income statement in line item ‘Net trading and fair value result’.

(xii) Relationships between statement of financial position items, measurement methods and categories of financial instruments:

Statement of financial position position	Measurement principle			Financial instrument category
	Fair value	At amortised cost	Other	
Assets				
Cash and cash balances		x	Nominal value	n/a
Financial assets - held for trading				
Derivatives	x			Financial assets at fair value through profit or loss
Other trading assets	x			Financial assets at fair value through profit or loss
Financial assets - at fair value through profit or loss	x			Financial assets at fair value through profit or loss
Financial assets - available for sale	x			Available for sale financial assets
Financial assets - held to maturity		x		Held to maturity investments
Loans and receivables to credit institutions		x		Loans and receivables
Loans and receivables to customers		x		Loans and receivables
Derivatives - hedge accounting	x			n/a
Liabilities and equity				
Financial liabilities - held for trading				
Derivatives	x			Financial liabilities - at fair value through profit or loss
Other trading liabilities	x			Financial liabilities - at fair value through profit or loss
Financial liabilities - at fair value through profit or loss	x			Financial liabilities - at fair value through profit or loss
Financial liabilities measured at amortised cost		x		Financial liabilities measured at amortised cost
Derivatives - hedge accounting	x			n/a

Furthermore, two additional classes of financial instruments which are not presented in the table above are part of IFRS 7 disclosures. These are financial guarantees and irrevocable credit commitments.

Embedded derivatives

The Bank is involved in business with debt instruments containing structured features. Structured features mean that a derivative is embedded in the host instruments. Embedded derivatives are separated from the host debt instruments if

- the economic characteristics of the derivatives are not closely related to the economic characteristics and risks of the host debt instruments;
- the embedded derivative meets the IAS 39 definition of derivative; and
- the hybrid instrument is not a financial asset or liability held for trading or designated at fair value through profit or loss.

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented on the statement of financial position under the line item 'Derivatives' in financial assets – held for trading or financial liabilities – held for trading.

At the Bank, derivatives that are not closely related and are separated are predominantly embedded in issued host debt instruments recognised as liabilities. The most typical cases are issues of bonds and deposits that contain interest caps, floors or collars that were in the money at origination, contractual features linking payments to non-interest variables such as FX rates, equity and commodity prices and indices, or third-party credit risk.

Reclassifications of financial assets

IAS 39 provides various possibilities to reclassify financial assets between categories of financial instruments. It also places restrictions on some reclassifications. The Bank makes use of reclassification alternatives only in the case of held-to-maturity financial assets. If a significant credit deterioration in a held-to-maturity financial asset results in a change in the intention and ability to hold the asset until maturity, the asset is reclassified into available-for-sale financial assets category. Such reclassifications are not included in the limit that triggers automatic reclassification of the entire held-to-maturity portfolio.

Derecognition of financial assets and financial liabilities

A financial asset (or where applicable part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset
  or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
  and either:
  - it has transferred substantially all the risks and rewards connected with the ownership of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards connected with the ownership of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Repurchase and reverse repurchase agreements

Transactions where securities are sold under an agreement to repurchase at a specified future date are also known as 'repos' or 'sale and repurchase agreements'. Securities sold are not derecognised from the statement of financial position, as the Bank retains substantially all the risks and rewards of ownership because the securities are repurchased at a fixed price when the repo transaction ends. Furthermore, the Bank is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the repo transactions. These payments are remitted to the Bank or are reflected in the repurchase price.

The corresponding cash received is recognised on the statement of financial position with a corresponding obligation to return it as a liability under the line item 'Financial liabilities measured at amortised cost', sub-items 'Deposits from banks' or 'Deposits from customers' reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and recorded in the income statement under the line item 'Net interest income' and is accrued over the life of the agreement. Financial assets transferred out by the Bank under repurchase agreements remain on the Bank's statement of financial position and are measured according to the rules applicable to the respective statement of financial position item.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised on the statement of financial position. Such transactions are also known as 'reverse repos'. The consideration paid is recorded on the statement of financial position under the respective line items 'Loans and receivables to credit institutions' or 'Loans and receivables to customers', reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is treated as interest income and is accrued over the life of the agreement and recorded in the income statement under the line item 'Net interest income'.

Securities lending and borrowing

In securities lending transactions, the lender transfers ownership of securities to the borrower on the condition that the borrower will retransfer, at the end of the agreed loan term, ownership of instruments of the same type, quality and quantity and will pay a fee determined by the duration of the lending. The transfer of the securities to counterparties via securities lending does not result in derecognition. Substantially all the risks and rewards of ownership are retained by the Bank as a lender because the securities are received at the end of the securities lending transaction. Furthermore, the Bank is the beneficiary of all the coupons and other income payments received on the transferred assets over the period of the securities lendings.

Securities borrowed are not recognised on the statement of financial position unless they are then sold to third parties. In this case, the obligation to return the securities is recorded as a short sale within 'Other trading liability'.

Impairment of financial assets and credit risk losses of contingent liabilities

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or 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.

The Bank uses the Capital requirements regulation ("CRR") definition of default as a primary indicator of loss events. Default, as a loss event, occurs when

- the obligor is more than 90 days past due on any material credit obligation;
- as a result of specific information or an event, the obligor is unlikely to fulfil its credit obligations in full, without recourse to actions such as realising security;
- the obligor is subject to distressed restructuring, i.e. a change in contract terms, for clients in financial difficulties, resulting in a material loss;
- the obligor is subject to bankruptcy or similar protection proceedings.

In order to maximise collection opportunities and minimise the number of defaults, the Bank renegotiates loans to customers in financial difficulties (referred to as forbearance cases). Both retail and corporate loans can be subject to forbearance. Under the Bank's forbearance policy, loan forbearance can be granted if the debtor is currently in default or if there is a high risk of default, there is evidence that the debtor made all efforts to pay according to the original contractual terms and it is expected that the debtor is able to meet the revised terms. Revised terms could be extended maturity, instalment reduction, changing the timing of the interest payments, interest reduction or forgiveness, revolving exposure change to instalments.

Loans subject to forbearance are generally not derecognised and are considered for impairment based on renegotiated conditions. However, if the renegotionation can be qualitatively assessed as a substantial extinguishment of the rights to collect the cash flows due to material changes in the timing and amount of the cash flows the loan is derecognised and the renegotiated loan is recognized as a new loan initially measured at fair value.

For assessment at portfolio level, the Bank uses the incurred but not reported losses concept. It identifies the time period between the moment of the loss event causing future problems and actual detection of the problems by the Bank at the moment of default.

Credit risk losses resulting from contingent liabilities are recognised if it is probable that there will be an outflow of resources to settle a credit risk bearing contingent liability that will result in a loss.

(i) Financial assets carried at amortised cost

The Bank first assesses individually for significant loans and held-to-maturity securities whether objective evidence of impairment exists. If no objective evidence of impairment exists for an individually assessed financial asset, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate (this holds also for the loans subject to forbearance, where the contractual cash-flows were renegotiated and which were not derecognized as a result of the forbearance). The calculation of the present value of the estimated future cash flows of a collateralised financial asset also reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Impairment losses on financial assets carried at amortised cost are recognised as loss allowance. On the statement of financial position, loss allowances decrease the value of the assets, i.e. the net carrying amount of the financial asset presented in the statement of financial position is the difference between the gross carrying amount and the cumulative loss allowance. This treatment holds for loss allowances for loans and receivables and for incurred but not reported losses (i.e. portfolio allowances) on held-to-maturity financial assets. Reconciliation of changes in these loss allowance accounts is disclosed in the notes. However, individual loss allowances for held to maturity financial assets are treated as direct reduction of the asset carrying amount and therefore reconciliation of changes is not disclosed in the notes.

In the income statement, impairment losses and their reversals are presented in the line item 'Net impairment loss on financial assets'.

Loans together with the associated allowance are removed from the statement of financial position when there is no realistic prospect of future recovery and all collaterals have been realised by the Bank.

If in a subsequent year, the amount of the estimated impairment loss increases or decreases the previously recognised impairment loss is increased or reduced by adjusting the loss allowance.

(ii) Available-for-sale financial assets

In cases of debt instruments classified as available for sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as used for financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that asset previously recognised in the income statement. On recognising impairment, any amount of losses retained in the other comprehensive income item 'Available for sale reserve' is reclassified to the income statement and shown as impairment loss under the line item 'Net impairment loss on financial assets'.

If, in a subsequent period, the fair value of a debt instrument increases, which can be related objectively to an event occurring after the impairment was recognised, impairment loss is reversed through the income statement under the line item 'Net impairment loss on financial assets'. Impairment losses and their reversals are recognized directly against the assets on the statement of financial position.

In cases of equity investments classified as available for sale, objective evidence also includes a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. For this purpose at the Bank, 'significant' decline means a market price below 80% of the acquisition cost and 'prolonged' decline refers to a market price that is permanently below the acquisition cost for a period of nine months up to the reporting date.

Where there is evidence of impairment on equity investments, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement, is shown as an impairment loss in the income statement under the line item 'Net impairment loss on financial assets'. Any amount of losses previously recognised under the other comprehensive income item 'Available for sale reserve' has to be reclassified to the income statement as part of an impairment loss under the line item 'Net impairment loss on financial assets'.

Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised directly in other comprehensive income. Impairment losses and their reversals are recognised directly against the assets on the statement of financial position.

For investment in unquoted equity instruments carried at cost because their fair value cannot be determined reliably the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

(iii) Contingent liabilities

Provisions for credit losses of contingent liabilities (particularly financial guarantees as well as credit commitments) are included under the statement of financial position line item 'Provisions'. The related expense or its reversal is reported in the income statement under the line item 'Other operating result'.

Hedge accounting

The Bank makes use of derivative instruments to manage exposures to interest rate risk and foreign currency risk. At inception of a hedge relationship, the Bank formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset the fair value changes of the hedging instrument in a range of 80% to 125%. Hedge effectiveness is assessed at inception and throughout the term of each hedging relationship. Exact conditions for particular types of hedges and for testing the hedge effectiveness by the Bank are specified internally in hedge policy.

(i) Fair value hedges

Fair value hedges are employed to reduce market risk. For qualifying and designated fair value hedges, the change in the fair value (clean price) of a hedging instrument is recognised in the income statement under the line item ‘Net trading and fair value result’. Interest income and expenses on hedging derivatives are reported under the line item ‘Net interest income’. The change in the fair value of the hedged item attributable to the hedged risk is also recognised in the income statement under the line item ‘Net trading and fair value result’ and adjusts the carrying amount of the hedged item.

If the hedging instrument expires, is sold, is terminated or is exercised, or when the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the fair value adjustment of the hedged item is amortised to the income statement under the line item ‘Net interest income’ until maturity of the financial instrument.

(ii) Cash flow hedges

Cash flow hedges are used to eliminate uncertainty in the future cash flows in order to stabilise net interest income. For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and reported under the ‘Cash flow hedge reserve’. The ineffective portion of the gain or loss on the hedging instrument is recognised in the income statement under the line item ‘Net trading and fair value result’. For determination of the effective and ineffective portions, the derivative is considered at its dirty price, i.e. including the interest component. If the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is reclassified from other comprehensive income in the corresponding income or expense line item in the income statement (mainly ‘Net interest income’). As far as accounting for hedged items in cash flow hedges is concerned there is no change compared to the situation when no hedging is applied.

When a hedging instrument expires, is sold, is terminated, is exercised, or when a hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. In this case, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income remains separate in ‘Cash flow hedge reserve’ until the transaction occurs.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported on the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between knowledgeable market participants at the measurement date.

Details on valuation techniques applied for fair value measurement and on fair value hierarchy are disclosed in Note 40 Fair value of assets and liabilities.

Leasing

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. A finance lease at the Bank is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other lease agreements at the Bank are classified as operating leases.

The Bank as a lessor

In the case of operating leases, the leased asset is reported by the lessor in ‘Property and equipment’ and is depreciated in accordance with the principles applicable to the assets involved. Lease income is recognised on a straight-line basis over the lease term in the income statement under the line item ‘Rental income from investment properties & other operating leases’.

The Bank as a lessee

As a lessee, the Bank has not entered into any leases meeting the conditions of finance leases. Operating lease payments are recognised as an expense in the income statement on the line item ‘Other administrative expenses’ on a straight-line basis over the lease term.

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment. Borrowing costs for qualifying assets are capitalised into the costs of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Depreciation is recognised in the income statement on the line item ‘Depreciation and amortisation’ and impairment under the line item ‘Other operating result’.

The estimated useful lives are as follows:

	Useful life in years
Buildings	15 - 50
Office furniture and equipment	4 - 10
Passenger cars	4 - 8
Computer hardware	4 - 6

Land is not depreciated.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on disposal of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement under the line item ‘Other operating result’.

Intangible assets

The Bank’s intangible assets include computer software, licences, know-how and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Costs of internally generated software are capitalised if the Bank can demonstrate the technical feasibility and intention of completing the software, the ability to use it, how it will generate probable economic benefits, the availability of resources and the ability to measure the expenditures reliably. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over their useful economic lives using the straight-line method. The amortisation period and method are reviewed at least at each financial year-end and adjusted if necessary. The amortisation expense on intangible assets with finite lives is recognised in the income statement under the line item 'Depreciation and amortisation'.

The estimated useful lives are as follows:

	Useful life in years
Computer software	4 - 8
Customer relationships	10 - 20
Distribution network	5.5

Impairment of non-financial assets (property and equipment, intangible assets)

The Bank assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets.

If any indication of impairment exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash generating unit's (CGU) fair value less costs of disposal and its value in use. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

At each reporting date an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Bank estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairments and their reversals are recognised in the income statement under the line item 'Other operating result'.

Non-current assets and disposal groups held for sale

Non-current assets are classified as held for sale if they can be sold in their present condition and the sale is highly probable within 12 months of classification as held for sale. If assets are to be sold as part of a group that may also contain liabilities (e.g. a subsidiary) they are referred to as disposal group held for sale.

Assets classified as held for sale and assets belonging to disposal groups held for sale are reported under the balance sheet line item 'Assets held for sale'. Liabilities belonging to the disposal groups held for sale are presented on the balance sheet under the line item 'Liabilities associated with assets held for sale'.

Non-current assets and disposal groups that are classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Should the impairment loss in a disposal group exceed the carrying amount of the assets that are within the scope of IFRS 5 measurement requirements, there is no specific guidance on how to treat such a difference. The Bank recognises this difference as a provision under the balance sheet line item 'Provisions'.

Financial guarantees

In the ordinary course of business, the Bank provides financial guarantees, consisting of various types of letters of credit and guarantees. According to IAS 39, a financial guarantee is a contract that requires the guarantor to make specified payments to reimburse the holder for a loss it incurs in case a specified debtor fails to make a payment when due in accordance with the original or modified terms of a debt instrument.

If the Bank is in a position of being a guarantee holder, the financial guarantee is not recorded on the statement of financial position but is taken into consideration as collateral when determining impairment of the guaranteed asset.

The Bank as a guarantor recognises financial guarantees as soon as it becomes a contracting party (i.e. when the guarantee offer is accepted). Financial guarantees are initially measured at fair value. Generally, the initial measurement is the premium received for a guarantee. If no premium is received at contract inception, the fair value of a financial guarantee is nil, as this is the price that would be paid to transfer the liability in an orderly transaction between market participants. Subsequent to initial recognition, the financial guarantee contract is reviewed for the possibility that provisioning will be required under IAS 37. Such provisions are presented in the statement of financial position under the line 'Provisions'.

The premium received is recognised in the income statement under the line item 'Net fee and commission income' on a straight-line basis over the life of the guarantee.

Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. On the statement of financial position, provisions are reported under the line item 'Provisions'. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments) as well as provisions for litigation and restructuring. Expenses or income related to provisions are reported under the line item 'Other operating result'. However restructuring expenses are presented under line item Personnel expenses.
A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly before the end of the reporting period. Any restructuring provision only includes the direct expenditure arising from the restructuring which is necessarily entailed and is not associated with the ongoing activities of the Bank.

Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those enacted by the balance sheet date.

(ii) Deferred tax

Deferred tax is recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts as of the balance sheet date. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses can be utilised. Deferred taxes are not recognised on temporary differences arising from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the temporary difference is reversed or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at balance sheet date and are expected to apply when the temporary differences are reversed.

Deferred tax relating to items recognised in other comprehensive income is recognised in other comprehensive income and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right to offset exists and the deferred taxes relate to the same taxation authority.

Share capital

The issued capital (registered, subscribed and paid) as at the end of the reporting period is accounted for at an amount recorded in the Commercial register.

Fiduciary assets

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Bank.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders.

Recognition of income and expenses

Revenue is recognised to the extent that the economic benefits will flow to the entity and the revenue can be reliably measured. The description and revenue recognition criteria of the line items reported in the income statement are as follows:

(i) Net interest income

Interest income or expense is recorded using the effective interest rate (EIR) method. The calculation includes origination fees resulting from the lending business as well as transaction costs that are directly attributable to the instrument and are an integral part of the EIR (apart from financial instruments at fair value through profit or loss), but no future credit losses. Interest income from individually impaired loans and receivables and held-to-maturity financial assets is calculated by applying the original effective interest rate used to discount the estimated cash flows for the purpose of measuring the impairment loss.

Interest income includes interest income on loans and receivables to credit institutions and customers, on cash balances and on bonds and other interest-bearing securities in all financial assets categories. Interest expenses include interest paid on deposits from customers, deposits from banks, debt securities issued and other financial liabilities in all financial liabilities categories.

In net interest income also interest on derivative financial instruments held in the banking book is included.

(ii) Net fee and commission income

The Bank earns fee and commission income from a diverse range of services that it provides to its customers.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include lending fees, guarantee fees, commission income from asset management, custody and other management and advisory fees as well as fees from insurance brokerage, building society brokerage and foreign exchange transactions.

Fee income earned from providing transaction services, such as arranging the acquisition of shares or other securities or the purchase or sale of businesses, is recognised upon completion of the underlying transaction.

(iii) Dividend income

Dividend income is recognised when the right to receive the payment is established.

This line item includes dividend from shares and other equity-related securities in all portfolios as well as income from other investments in companies categorised as available for sale.

(iv) Net trading and fair value result

Results arising from trading activities include all gains and losses from changes in fair value (clean price) on financial assets and financial liabilities classified as held for trading, including all derivatives not designated as hedging instruments. In addition, for derivative financial instruments held in the trading book, net trading result also contains interest income or expense. However, interest income or expenses on non-derivative trading assets and liabilities and on derivatives held in the banking book are not part of net trading result as they are reported as 'Net interest income'. It also includes any ineffective portions recorded in fair value and cash flow hedge transactions as well as foreign exchange gains and losses.

Fair value result relates to changes in the clean price of assets and liabilities designated at fair value through profit or loss.

(v) Rental income from investment properties & other operating leases

Rental income from investment properties and other operating leases is recognised on a straight-line basis over the lease term.

(vi) Personnel expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include service cost for severance payment.
Furthermore, restructuring provisions expenses are part of personnel expenses.

(vii) Other administrative expenses

Other administrative expenses include information technology expenses, expenses for office space, office operating expenses, advertising and marketing, expenditures for legal and other consultants as well as sundry other administrative expenses. Furthermore the line item contains deposit insurance contributions expenses.

(viii) Depreciation and amortisation

This line item comprises depreciation of property and equipment, and amortisation of intangible assets.

(ix) Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net

This line item includes selling and other derecognition gains or losses on available-for-sale and held-to-maturity financial assets, loans and receivables and financial liabilities measured at amortised cost. However, if such gains/losses relate to individually impaired financial assets they are included as part of net impairment loss.

(x) Net impairment loss on financial assets

Net impairment losses on financial assets comprise impairment losses and reversals of impairment on loans and receivables, held-to-maturity and available-for-sale financial assets. Net impairment losses relate to allowances recognised both at individual and portfolio (incurred but not reported) level. Direct write-offs are considered as part of impairment losses. This line item also includes recoveries on written-off loans removed from the statement of financial position.

(xi) Other operating result

Other operating result reflects all other income and expenses not directly attributable to the Bank's ordinary activities.
Other operating result includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment and intangible assets. Also included here are any impairment losses on goodwill.

In addition, other operating result encompasses the following: expenses for other taxes; income from the release of and expenses for allocations to provisions; impairment losses (and their reversal if any) as well as selling gains and losses on equity investments accounted for using the equity method; and gains or losses from derecognition of subsidiaries.

c) Significant accounting judgements, assumptions and estimates

The separate financial statements contain amounts that have been determined on the basis of judgements and by the use of estimates and assumptions. The estimates and assumptions used are based on historical experience and other factors, such as planning as well as expectations and forecasts of future events that are currently deemed to be reasonable. As a consequence of the uncertainty associated with these assumptions and estimates, actual results could in future periods lead to adjustments in the carrying amounts of the related assets or liabilities. The most significant uses of judgements, assumptions and estimates are as follows:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgement is required to establish fair values. Disclosures for valuation models, the fair value hierarchy and fair values of financial instruments can be found in Note 41 Fair value of assets and liabilities.

Impairment of financial assets

The Bank reviews its financial assets not measured at fair value through profit or loss at each balance sheet date to assess whether an impairment loss should be recorded in the income statement. In particular, it is required to determine whether there is objective evidence of impairment as a result of a loss event occurring after initial recognition and to estimate the amount and timing of future cash flows when determining an impairment loss.

Disclosures concerning impairment are provided in Note 39 Risk management in the ‘Credit risk’ subsection ’. The development of loan loss provisions is described in Note 8 Net impairment loss on financial assets not measured at fair value through profit or loss.

Impairment of non-financial assets

The Bank reviews its non-financial assets at each balance sheet date to assess whether there is an indication of impairment loss that should be recorded in the income statement. Judgement and estimates are required to determine the value in use and fair value less costs of disposal by estimating the timing and amount of future expected cash flows and the discount rates. Assumptions and estimates used for impairment on non-financial assets calculations are described in the part ‘Impairment of non-financial assets (property and equipment, intangible assets)’ in the Accounting Policies.

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. Disclosures concerning deferred taxes are in Note 25 Tax assets and liabilities.

Provisions

Recognition of provisions requires judgement with respect to whether the Bank has a present obligation as a result of a past event and whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Furthermore, estimates are necessary with respect to the amount and timing of future cash flows when determining the amount of provisions. Provisions are disclosed in Note 31 Provisions and further details on provisions for contingent credit liabilities in Note 44 Contingent assets and liabilities. Legal proceedings that do not meet the criteria for recognition of provisions are described in Note 44 Contingent assets and liabilities.

Leasing

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for an agreed period of time in return for a payment or series of payments. A finance lease at the Bank is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. All other lease agreements at the Bank are classified as operating leases.

From the Bank’s perspective as a lessor, judgement is required to distinguish whether a given lease is a finance or operating lease based on the transfer of substantially all the risk and rewards from the lessor to the lessee. Disclosures concerning leases are in Note 35 Leases.

d) Application of amended and new IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning on or after 1 January 2016. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Bank are listed below.

Effective standards and interpretations

The following standards and their amendments have been mandatory since 2016, endorsed by EU:

- *Amendments to IAS 1: Disclosure Initiative*
- *Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation*

- *Annual Improvements to IFRSs 2012-2014 Cycle*
- *Amendments to IFRS 11: Accounting for Acquisitions of Interest in Joint Operations*

- *Amendment to IAS 27 Separate Financial Statements*

Application of other standards and amendments had no material effect on the financial statements of the Bank.

Amendments to IAS 1: Disclosure Initiative (IASB effective date: 1 January 2016). Disclosure Initiative makes the following changes:

_ Materiality: The amendments clarify that (1) information should not be obscured by aggregating or by providing immaterial information, (2) materiality considerations apply to the all parts of the financial statements, and (3) even when a standard requires a specific disclosure, materiality considerations do apply.
_ Statement of financial position and statement of profit or loss and other comprehensive income: The amendments (1) introduce a clarification that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and (2) clarify that an entity's share of OCI of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether or not it will subsequently be reclassified to profit or loss.
_ Notes: The amendments add additional examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1. The IASB also removed guidance and examples with regard to the identification of significant accounting policies that were perceived as being potentially unhelpful.

Application of these these changes and clarifications did not result in significant changes in the presentation of the Bank’s IFRS financial statements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (IASB Effective Date: 1 January 2016)
Amendments to IAS 16 and IAS 38 were issued in May 2014 and are effective for annual periods beginning on or after 1 January 2016. The amendments prohibit the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortisation for intangible assets. Application of these amendments did not have a significant impact on the Bank’s financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle (IASB effective date: 1 January 2016)
In September 2014, the IASB issued a set of amendments to various standards. The amendments are effective for annual periods beginning on or after 1 January 2016. Application of these amendments did not have a significant impact on the Bank’s financial statements.

Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (IASB Effective Date: 1 January 2016)

Amendments to IFRS 11 were issued in May 2014 and are effective for annual periods beginning on or after 1 January 2016. The amendments specify that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11.

Application of these amendments is not expected to have a significant impact on the Bank’s financial statements.

Amendments to IAS 27 Separate Financial Statements

The amendment is effective for annual periods beginning on or after 1 January 2016. This amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and will help some jurisdictions move to IFRS for separate financial statements, reducing compliance costs without reducing the information available to investors.
Application of these amendment is not expected to have a significant impact on the Bank's financial statements.

Standards and interpretations not yet effective

The standards and interpretations shown below were issued by the IASB but are not yet effective.

Following standards, amendments and interpretations are not yet endorsed by the EU:
_ *IFRS 16: Leases*
_ *Clarifications to IFRS 15 Revenue from Contracts with Customers*
_ *Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses*
_ *Amendments to IAS 7: Disclosure Initiative*
_ *Annual Improvements to IFRSs 2014-2016*
_ *IFRIC 22 on foreign currency transactions and advance consideration*
_ *amendments to IAS 40 Investment Property*

Thereof, the following standards have been endorsed by the EU, but are not yet effective:

- *IFRS 9: Financial Instruments*
- *IFRS 15: Revenue from Contracts with Customers including Amendments to IFRS 15: Effective date of IFRS 15*

Although they have been endorsed by the EU, the Bank decided not to apply them before they become effective.

IFRS 9: Financial Instruments (IASB Effective Date: 1 January 2018).

IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 addresses three main areas of accounting for financial instruments: classification and measurement, impairment and hedge accounting.

IFRS 9 introduces two classification criteria for financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost only if both of the following conditions are met: a) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding and b) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows. Measurement of a fair value through other comprehensive income is applicable to debt instruments that meet condition a) but the business model applied to them is focused both on holding the assets to collect contractual cash flows and selling the assets. All other financial assets are measured at fair value with changes recognised in profit or loss. For investments in equity instruments that are not held for trading, an entity may make an irrevocable election at initial recognition to measure them at fair value with changes recognised in other comprehensive income. Bank intends to use this election for some of its investments in equity instruments which are of a long-term nature and do not have quoted market price.

IFRS 9 does not change classification and measurement principles for financial liabilities compared to IAS 39. The only change is related to financial liabilities designated at fair value through profit or loss (fair value option). The fair value changes related to the credit risk of such liabilities will be presented in other comprehensive income (unless such treatment would create or enlarge accounting mismatch in profit or loss, in which case these changes are presented in profit or loss as well). IFRS 9 provides an option to apply this requirement early, however Group does not intend to make use of this option.

The standard provides a uniform impairment model applied to both financial assets and off-balance sheet credit risk bearing exposures (loan commitments and financial guarantees). At initial recognition of financial instruments loss allowance to reflect credit loss is recognised in the form of 12-month expected credit losses. Lifetime expected credit losses are to be recognised for all instrument whose credit risk increases significantly after initial recognition. Furthermore the standard clarifies the rules for accounting for gains and losses resulting from modification of contractual conditions of financial assets.

The objective of the new hedge accounting model is to reflect in accounting actual risk management practices of entities hedging risks. For Bank, the following areas are expected to be relevant to achieve this objective: only the prospective effectiveness test is required and the retrospective effectiveness test with the 80%-125% corridor was abandoned; when options are used as hedging instruments, the volatility of the time value is recognised through OCI rather than profit or loss; the possibility of hedging synthetic items containing derivatives.

IFRS 9 provides an accounting policy choice in the area of hedge accounting. Thus, upon adoption of IFRS9, entities can either (a) start with full application of the hedge accounting requirements of IFRS 9, (b) start with limited application of the hedge accounting requirements of IFRS 9 by continuing to apply IAS39 to the specific case of fair value hedges of interest rate exposure of a portfolio of financial assets or financial liabilities, or (c) continue with full application of the hedge accounting requirements of IAS39. Bank plans to implement the third choice. However, some actions are expected to be necessary in order to address additional disclosures that will be required based on IFRS 7 after adoption of IFRS 9.

Bank will not restate comparative information upon initial application of IFRS 9. Instead, the one-off impact from initial application of IFRS 9 will be reflected in the equity as of the initial application date.

During the year 2016, Erste Group Bank (parent company) has completed the development of business requirements documentation addressing the changes in group-level policies, procedures, processes and systems, assessed as necessary in preparation for transition to IFRS 9 on 1 January 2018. On this basis, the Bank started the localization of the group-level requirements, both in terms of local implementation of new group-wide solutions (e.g. in respect of fair valuation of non-SPPI non-trading debt instrument assets, or, to some extent, in respect of calculation of expected credit losses), and in terms of adapting existing local solutions to the group-level requirements. As part of this effort, iterative financial impact studies (notably with regards to classification/measurement and impairment of financial assets but gradually also with regards to regulatory capital and ratios) continued across the Bank and are planned be further refined throughout the first half of 2017. Starting with the second half of 2017 a fully-fledged parallel run of the “as is” IAS 39 and the “to be” IFRS9 driven processes for classification, measurement, impairment and disclosure/reporting for financial instruments is planned. On this basis, Bank upholds its previouse expectations that this standard will have a significant effect on balance sheet items and measurement methods for financial instruments.

In the area of expected credit loss modelling and ensuing impairment loss, the Bank believes that one of the key drivers of the expected impact from adopting the new impairment model required by IFRS 9 is the assessment of significant increase in credit risk for exposures that are not identified as credit-impaired. In this respect, across portfolios and product types, quantitative indicators defined for assessing significant increase in credit risk will include adverse change in lifetime probability of default and days-past-due in excess of 30 days. Qualitative indicators will include specific early-warning-system risk type flag (adversely changing since initial recognition), specific forbearance type flag (adversely changing since initial recognition) or work-out transfer flag being assigned. Some of the qualitative indicators (assignments of some specific flag types) will inherently rely on experienced credit risk judgment being exercised adequately and timely. The related Bank-wide and entity-level credit risk controlling policies and procedures (most of them already in place, some of them in progress of being adapted in preparation for IFRS 9) will ensure the necessary governance framework. Besides the qualitative indicators defined on client level, it is planned to use and perform the assessment of significant increase in credit risk on portfolio level if the increase in credit risk on individual instrument or client level is only available with a certain time lag. The portfolio triggers should cover the unexpected increase in credit risk on portfolio level. However, the exact definition of such portfolio triggers has yet to be stabilized. Also, the Bank believes that another significant driver of the expected impact from adopting the IFRS 9 impairment model required by IFRS 9 is incorporation of forward-looking macro-economic information. In this respect, the Bank has developed a methodology for lifetime probabilities of default calculation that requires the application of a macroeconomic overlay. That is, the probabilieites of default are modified by using a macroeconomic function as estimated for stress testing purposes (i.e. function linking selected macroeconomic variables with probabilities of default). In consideration of these methodological requirements, credit loss allowances are expected to increase more than insignificantly for some non-defaulted exposures.

Also, the Bank expects that the structure of the financial statements (both main components and explanatory notes) will be have to be adapted, notably in the light of the new reporting and disclosure requirements of IFRS 7, as triggered by IFRS 9. Such adaptions would also consider any new regulatory reporting requirements (notably FINREP related) which EU or national regulators may contemplate as part of preparing for initial application of IFRS 9 at the level of the wider European and national banking sector.

IFRS 15 Revenue from Contracts with Customers (IASB Effective Date: 1 January 2018).

IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2018. Clarifications to IFRS 15 were issued in April 2016. IFRS 15 specifies how and when an entity recognises revenue from contracts with customers. It also requires such entities to provide users of financial statements with more informative and more relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. Also in the areas of variable considerations and capitalisation of cost IFRS 15 provides modified regulations. As the standard is not focused on recognition of revenues from financial services, application of this standard is not expected to have a significant impact on Bank's financial statements.

Amendments to IAS 7: Disclosure Initiative (IASB effective date: 1 January 2017).
Amendments to IAS 7 were issued in January 2016 and are effective for annual periods beginning on or after 1 January 2017. The amendments require disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

Application of these amendments is not expected to result in new disclosures since financing activities in the cash flow statement of Bank relate only to equity and not to financial liabilities.

IFRS 16 Leases (IASB Effective Date: 1 January 2019).
In January 2016, the IASB issued IFRS 16 being effective for annual periods beginning on or after 1 January 2019. IFRS 16 specifies the depiction of lease arrangements in the financial statements. Compared to the previous standard IAS 17, there is a fundamental alteration in respect of the recognition of operating leasing arrangements for the lessee. As defined in IFRS 16, the standard requires the lessee to recognize a right of use asset on the debit side of the balance sheet as well as a corresponding lease liability on the credit side of the balance sheet except for immateriality in cases of short term leasing arrangements and small ticket leasing arrangements for low-value assets. By contrast, accounting changes for the lessor are only minor compared to IAS 17. Compared to IAS 17 the notes will be much more comprehensive under IFRS 16.

The impact on the Bank financial statements is being evaluated.

Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses (IASB effective date: 1 January 2017).
Amendments to IAS 12 were issued in January 2016 and are effective for annual periods beginning on or after 1 January 2017. The amendments clarify that unrealised losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can lead to deductible temporary differences. The amendments also clarify that not the carrying amount but the tax base of an asset is the relevant base for the estimate of future taxable profits and that the carrying amount is not the ceiling to be used for the calculation. When comparing deductible temporary differences with future taxable profits, the future taxable profits exclude tax deductions resulting from the reversal of those deductible temporary differences.

The impact on the Bank financial statements will be evaluated, but it is not expected that these amendments will have a significant impact.

Annual Improvements to IFRSs 2014-2016

In December 2016, the IASB issued 'Annual Improvements to IFRS Standards 2014 –2016 Cycle'. The pronouncement contains amendments to following three International Financial Reporting Standards (IFRSs) IFRS 1 First-time Adoption of IFRSs, IAS 28 Investments in Associates and Joint Ventures and IFRS 12 Disclosure of Interests in Other Entities and. The amendments of first two IFRS is effective for annual periods beginning on or after 1 January 2018. The amendment of IFRS 12 is effective for annual periods beginning on or after 1 January 2017.

Application of these amendments is not expected to have a significant impact on the Bank's financial statements.

IFRIC 22 on foreign currency transactions and advance consideration

On 8 December 2016, the International Accounting Standards Board (IASB) published IFRIC 22 'Foreign Currency Transactions and Advance Consideration' developed by the IFRS Interpretations Committee to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The interpretation addresses foreign currency transactions or parts of transactions where
• there is consideration that is denominated or priced in a foreign currency;
• the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
• the prepayment asset or deferred income liability is non-monetary

The Interpretations Committee came to the following conclusion:

• The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
• If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.
IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018

Application of these interpretation is not expected to have a significant impact on the Bank's financial statements.

Amendments to IAS 40 Investment Property

On 8 December 2016, the International Accounting Standards Board (IASB) published 'Transfers of Investment Property (Amendments to IAS 40)' to clarify transfers of property to, or from, investment property.
Paragraph 57 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
The amendments are effective for periods beginning on or after 1 January 2018.
Application of this amendment is not expected to have a significant impact on the Bank's financial statements.

C. NOTES TO THE STATEMENT OF COMPREHENSIVE INCOME AND THE STATEMENT OF FINANCIAL POSITION OF ČESKÁ SPOŘITELNA, A.S.

1. Net interest income

in CZK million	2016	2015
Interest income		
Financial assets held for trading	1,088	254
Financial assets designated at fair value through profit or loss	13	11
Available-for-sale financial assets	725	687
Loans and receivables	19,594	20,612
Held-to-maturity investments	4,222	4,599
Derivatives - Hedge accounting, interest rate risk	115	74
Other assets	100	7
Total interest income	**25,857**	**26,244**
Interest expenses		
Financial liabilities held for trading	(977)	(212)
Financial liabilities measured at amortised cost	(1,130)	(2,033)
Derivatives - Hedge accounting, interest rate risk	110	305
Other liabilities	(3)	-
Total interest expenses	(2,000)	**(1,940)**
Net interest income	**23,857**	**24,304**

For financial assets or liabilities that are not measured at fair value through profit or loss, the total interest income amounted to CZK 24,756 million (2015: CZK 25,979 million) and the total interest expense to CZK (1,023) million (2015: CZK (1,728) million). Net interest income for these items is therefore CZK 23,733 million (2015: CZK 24,251 million). Accrued Interest income on impaired financial assets amounted to CZK 295 million (2015: CZK 418 million).

2. Net fee and commission income

in CZK million	2016	2015
Securities	1,066	1,020
Own issues	132	158
Transfer orders	909	862
Other	25	-
Clearing and settlement	206	248
Asset management	91	146
Custody	151	146
Payment services	4,556	5,060
Card business	486	810
Other	4,070	4,250
Customer resources distributed but not managed	648	749
Insurance products	451	489
Building society brokerage	131	212
Forreign exchange transactions	-	-
Other	66	48
Lending business	1,653	1,956
Loan commitments given, loan commitments received	47	55
Guarantees given, guarantees received	176	187
Other lending business	1,430	1,714
Other	(117)	(45)
Net fee and commission income	**8,254**	**9,280**
Fee and commission income	**11,655**	**13,236**
Fee and commission expenses	**(3,401)**	**(3,956)**

3. Dividend income

in CZK million	2016	2015
Financial assets - designated at fair value through profit or loss	19	10
Financial assets – available for sale	32	32
Dividend income from equity investments	385	385
Dividend income	**436**	**427**

4. Net trading and fair value result

in CZK million	2016	2015
Net trading result	**2,761**	**3,098**
Securities and derivatives trading	1,399	2,092
Foreign exchange transactions	1,362	1,006
Result from financial assets and liabilities designated at fair value through profit or loss	**(59)**	**(113)**
Result from measurement/sale of financial assets designated at fair value through profit or loss	(22)	(22)
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(37)	(91)
Gains or losses from hedge accounting	**(11)**	**31**
Net trading and fair value result	**2,691**	**3,016**

With effect from 4 February 2008, Česká spořitelna transferred its financial markets trading to make use of Erste Group Bank's business model. The market risk arising from the sales activities of the Financial Markets Division (i.e., transactions with retail and corporate clientele), with the exception of equity risk and transactions for the Erste Group's liquidity management purposes (money market), was transferred to Erste Group Bank using back-to-back transactions. Trading gains (i.e. from The Erste Group Bank's market positions) are distributed according to approved rules to the relevant banks within the Group and reported in the 'Net trading result'.

The basic principle underlying these rules involves Erste Group Bank absorbing potential loss in individual classes of assets in exchange for the risk premium derived from the Value at Risk ('VaR') indicator. The remaining positive result after deducting expenses (calculated using the Cost Income Ratio) is reallocated to individual participants in the model based on the results from the sale of assets in individual asset groups.

The net trading result includes the income from the market positions of the Erste Group Bank structured as follows:

in CZK million	2016	2015
Realised and unrealised gains on trading assets	572	440
Derivative instruments	-	10
Foreign exchange trading	211	262
Total	**783**	**712**

5. Rental income from investment properties & other operating leases

in CZK million	2016	2015
Other operating leases	87	116
Rental income from investment properties & other operating leases	**87**	**116**

6. General administrative expenses

in CZK million	2016	2015
Personnel expenses	**(8,113)**	**(7,713)**
Wages and salaries	(5,800)	(5,497)
Compulsory social security	(1,802)	(1,723)
Other personnel expenses	(511)	(493)
Other administrative expenses	**(6,784)**	**(7,434)**
Deposit insurance contribution	(165)	(955)
IT expenses	(2,816)	(2,796)
Expenses for office space	(1,384)	(1,431)
Office operating expenses	(590)	(681)
Advertising / marketing	(822)	(824)
Legal and consulting costs	(346)	(251)
Sundry administrative expenses	(661)	(496)
Depreciation and amortisation	**(1,889)**	**(1,857)**
Software and other intangible assets	(849)	(749)
Owner occupied real estate	(693)	(673)
Office furniture and equipment and sundry property and equipment	(347)	(435)
General administrative expenses	**(16,786)**	**(17,004)**

Reduced contributions to the Deposit Insurance Fund compared to 2015 resulted from the amended calculation procedure prescribed by the Czech National Bank in 2016.

Board of Directors and Supervisory Board Remuneration

in CZK million	2016	2015
Remuneration	79	88

Remuneration to the members of the Board of Directors and Supervisory Board is accounted for as short - term employee benefits.

Average headcount of full time employees per reporting date

	2016	2015
Staff	9 270	9 473

7. Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net

in CZK million	2016	2015
From sale of financial assets available for sale	1,423	279
From sale of financial assets held to maturity	-	45
From sale of loans and receivables	-	3
From repurchase of liabilities measured at amortised cost	-	(3)
Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net	**1,423**	**324**

Gain from the sale of the stake in VISA Europe Ltd. in amount of 1,423 million CZK was reported as of 31 December 2016.

8. Net impairment loss on financial assets not measured at fair value through profit or loss

in CZK million	2016	2015
Loans and receivables	(1,406)	(2,172)
Allocation to risk provisions	(3,078)	(4,018)
Release of risk provisions	1,225	1,511
Direct write-offs	(39)	(11)
Recoveries recorded directly to the income statement	486	346
Financial assets - held to maturity	3	2
Net impairment loss on financial assets not measured at fair value through profit or loss	**(1,403)**	**(2,170)**

9. Other operating result

in CZK million	2016	2015
Result from properties/moveables/other intangible assets other than goodwill	(69)	(391)
Allocation to/release of other provision	(41)	(2)
Allocation to/release of provisions for commitments and guarantees given	(314)	(157)
Other taxes	(28)	(50)
Result from other operating expenses/income	(423)	(146)
Other operating result	**(875)**	**(746)**

Due to the existence of the impairment's indication in 2016 the Bank recognized in the line "Result from properties/movables/other intangible assets other than goodwill" mainly impairment loss of non-financial assets (buildings) in amount of CZK 1,040 million. In 2016, the gain from the sale of stake (51%) in merchant acquiring business in amount of CZK 1,148 million was presented in the same line.

10. Taxes on income

Taxes on income are made up of current taxes on income based on the results reported for tax purposes, corrections to taxes on income for previous years, and the change in deferred taxes.

in CZK million	2016	2015
Current tax expense / income	(3,520)	(3,475)
current period	(3,520)	(3,432)
prior period	-	(43)
Deferred tax expense / income	344	72
current period	344	72
Total	**(3,176)**	**(3,403)**

The following table reconciles the income taxes reported in the income statement to the pre-tax profit/loss multiplied by the nominal Czech tax rate.

in CZK million	2016	2015
Pre-tax profit/loss	17,684	17,547
Income tax expense for the financial year at the domestic statutory tax rate (19%)	(3,360)	(3,334)
Non-taxable income	693	74
Non-deductible expenses	(529)	(108)
Other	20	8
Prior period over/(under) accrual	-	(43)
Total	**(3,176)**	**(3,403)**
Effective tax rate	**17.96%**	**19.39%**

In 2016 non-taxable income was positively influenced by the income from sale of merchant acquiring business.
Tax effects relating to each component of other comprehensive income:

		2016			2015	
in CZK million	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount
Available for sale- eserve	**(844)**	**161**	**(683)**	**1,508**	**(286)**	**1,222**
Unrealized profits / (losses) on revaluation	582	(110)	472	1,787	(339)	1,448
Reclassification adjustments to the income statement	(1,426)	271	(1,155)	(279)	53	(226)
Cash flow hedge reserve	**257**	**(51)**	**206**	**(81)**	**17**	**(64)**
Gains and losses on the hedging instruments	257	(51)	206	(81)	17	(64)
Reclassification adjustments to the income statement	-	-	-	-	-	-
Other comprehensive income	**(587)**	**110**	**(477)**	**1,427**	**(269)**	**1,158**

11. Appropriation of profit

Management of the Bank has proposed that total dividends of CZK 11,552 million be declared in respect of the profit for the year ended 31 December 2016, which represents 76 CZK per both ordinary and preference share (2015: CZK 12,798 million, that is, CZK 84.2 per both ordinary and preference share). The declaration of dividends is subject to the approval of the Annual General Meeting. Dividends paid to shareholders are subject to a withholding tax of 15% or a percentage set out in the relevant double tax treaty. Dividends paid to shareholders that are tax residents of an European Union member country and whose interest in a subsidiary's share capital is no less than 10% and that hold the entity's shares for at least one year are not subject to withholding tax.

Management of the Bank proposed that AT1 (see Note 33 Total equity for descripition of AT1) distribution would be CZK 623,7 million (2015: CZK 659 million) from total nominal value of EUR 300 million.Starting 2016 management of the Bank further proposed to transfer the whole balance of the Bank's Legal and statutory reserve in amount of CZK 3,040 into Retained earnings. Both AT1 distribution and transfer of the Bank's Legal and statutory reserve are subject to the approval of the Annual General Meeting.

12. Cash and cash balances

in CZK million	2016	2015
Cash on hand	24,144	23,776
Cash balances at central banks	126,612	73,819
Other demand deposits	1,121	3,300
Cash and cash balances	**151,877**	**100,895**

A portion of 'Cash balances with central banks' includes mandatory reserve deposits in amount of CZK 6,262 million (2015: CZK 8,161 milion). Mandatory reserve deposits accrue interest at the CNB's two week repo rate. The Bank is authorised to make withdrawals of minimum reserve deposits in an amount that exceeds the actual average level of minimum reserve deposits for the relevant holding period calculated pursuant to the CNB's regulations.
Other demand deposits consist of current accounts and overnight deposits with credit institutions.

Cash and cash equivalents

in CZK million	2016	2015
Cash on hand	24,144	23,776
Nostro accounts at central banks	120,350	65,658
Treasury bills and treasury bonds with maturity of less than three months	-	3,448
Nostro accounts with credit institutions	1,121	3,300
Loro accounts with credit institutions	(15,702)	(11,968)
Total cash and cash equivalents	**129,913**	**84,214**

13. Derivatives – held for trading

	2016			2015		
in CZK million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**579,486**	**11,649**	**(11,450)**	**509,870**	**12,466**	**(12,338)**
Interest rate	315,486	8,974	(8,684)	314,058	9,922	(9,841)
Equity	550	24	(7)	3,552	65	(10)
Foreign exchange	260,863	2 461	(2,492)	188,015	2,123	(2,177)
Credit	-	-	-	324	1	(1)
Commodity	2,587	190	(267)	3,921	355	(309)
Derivatives held in the banking book	**62,537**	**1,809**	**(2,606)**	**54,161**	**1,718**	**(2,670)**
Interest rate	14,708	1,155	(19)	9,818	1,073	(23)
Foreign exchange	47,829	654	(2,587)	44,343	645	(2,647)
Total	**642,023**	**13,458**	**(14,056)**	**564,031**	**14,184**	**(15,008)**

In 2015 the Bank transferred portfolio of macro-hedge derivatives (economic hedge) hedging the interest rates of banking book's positions from the trading into the banking book.

14. Other trading assets

in CZK million	2016	2015
Equity instruments	-	11
Debt securities	351	619
General governments	97	120
Credit institutions	254	499
Loans and advances	7,236	100
Other trading assets	**7,587**	**730**

Money-market intruments classified as trading assets (i.e. reported within other trading assets) amounted to CZK 7,236 million CZK (2015: 100 million CZK).

15. Financial assets designated at fair value through profit and loss

in CZK million	2016	2015
Equity instruments	17	38
Debt securities	314	316
Credit institutions	314	316
Loans and advances	63	-
Financial assets designated at fair value through profit and loss	**394**	**354**

16. Financial assets – available for sale

in CZK million	2016	2015
Equity instruments	1,314	2,183
Debt securities	79,665	75,613
General governments	61,738	63,850
Credit institutions	8,978	6,443
Other financial corporations	2,257	270
Non-financial corporations	6,692	5,050
Financial assets – available for sale	**80,979**	**77,796**

Equity intruments classified as available for sale amounted to CZK 1,314 million CZK (2015: 2,183 million CZK). Equity instruments consist of stocks and other equity instruments.

17. Financial assets – held to maturity

	Gross carrying amount		Collective allowances		Net carrying amount	
in CZK million	2016	2015	2016	2015	2016	2015
General governments	147,242	139,065	-	(1)	**147,242**	**139,064**
Credit institutions	11,782	11,108	(3)	(2)	**11,779**	**11,106**
Other financial corporations	851	852	-	(1)	**851**	**851**
Non-financial corporations	3	664	(1)	(3)	**2**	**661**
Financial assets – held to maturity	**159,878**	**151,689**	**(4)**	**(7)**	**159,874**	**151,682**

18. Securities

	Loans and advances to customers and credit institutions		Trading assets		Financial assets: At fair value through profit or loss		Financial assets: Available for sale		Financial assets: Held to maturity		Total	
in CZK million	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Bonds and other interest-bearing securities	2,099	2,285	351	619	314	316	**79,665**	75,612	159,874	151,682	**242,303**	230,514
Listed	-	-	53	79	-	-	67,322	65,341	145,366	137,393	212,741	202,813
Unlisted	2,099	2,285	298	540	314	316	12,343	10,271	14,508	14,289	29,562	27,701
Equity-related securities	-	-	-	11	17	38	**1,256**	2,126	-	-	**1,273**	2,175
Listed	-	-	-	11	-	-	74	502	-	-	74	513
Unlisted	-	-	-	-	17	38	1,182	1,624	-	-	1,199	1,662
Equity holdings	-	-	-	-	-	-	**58**	58	-	-	**58**	58
Total	2,099	2,285	351	630	331	354	**80,979**	77,796	159,874	151,682	**243,634**	232,747

Investment funds are disclosed within equity-related securities.
Securities lending and repurchase transactions are disclosed in Note 37 Transfers of financial assets – repurchase transactions and securities lending.

19. Loans and receivables to credit institutions

Loans and receivables to credit institutions

in CZK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
As of 31 December 2016				
Debt securities	1,312	-	(7)	1,305
Credit institutions	1,312	-	(7)	1,305
Loans and receivables	20,523	(2)	(3)	20,518
Credit institutions	20,523	(2)	(3)	20,518
Total	**21,835**	**(2)**	**(10)**	**21,823**
As of 31 December 2015				
Debt securities	1,731	-	(9)	1,722
Credit institutions	1,731	-	(9)	1,722
Loans and receivables	32,403	(1)	(4)	32,398
Credit institutions	32,403	(1)	(4)	32,398
Total	**34,134**	**(1)**	**(13)**	**34,120**

As at 31 December 2016, the Bank granted certain financial institutions loans of CZK 4,535 million (2015: CZK 560 million) under reverse repurchase transactions which were collateralised by securities amounting to 4,606 CZK million (2015: CZK 655 million).

Allowances for loans and receivables to credit institutions

in CZK million	As of Dec 15	Allocations	Release	Transfer between allowances	As of Dec 16
Specific allowances	**(1)**	**(7)**	**6**	**-**	**(2)**
Loans and receivables	(1)	(7)	6	-	(2)
Credit institutions	(1)	(7)	6	-	(2)
Collective allowances	**(13)**	**(3)**	**6**	**-**	**(10)**
Debt securities	(9)	-	2	-	(7)
Credit institutions	(9)	-	2	-	(7)
Loans and receivables	(4)	(3)	4	-	(3)
Credit institutions	(4)	(3)	4	-	(3)
Total	**(14)**	**(10)**	**12**	**-**	**(12)**

in CZK million	As of Dec 14	Allocations	Release	Transfer between allowances	As of Dec 15
Specific allowances	**(1)**	**(3)**	**4**	**(1)**	**(1)**
Loans and receivables	(1)	(3)	4	(1)	(1)
Credit institutions	(1)	(3)	4	(1)	(1)
Collective allowances	**(8)**	**(9)**	**4**	**-**	**(13)**
Debt securities	(7)	(2)	-	-	(9)
Credit institutions	(7)	(2)	-	-	(9)
Loans and receivables	(1)	(7)	4	-	(4)
Credit institutions	(1)	(7)	4	-	(4)
Total	**(9)**	**(12)**	**8**	**(1)**	**(14)**

20. Loans and receivables to customers

Loans and receivables to customers

in CZK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
As of 31 December 2016				
Debt securities with customers	795	-	(2)	793
Non-financial corporations	795	-	(2)	793
Loans and receivables to customers	551,152	(11,515)	(2,071)	537,566
General governments	19,124	(1)	(10)	19,113
Other financial corporations	25,333	(145)	(33)	25,155
Non-financial corporations	209,837	(6,092)	(1,395)	202,350
Households	296,858	(5,277)	(633)	290,948
Total	**551,947**	**(11,515)**	**(2,073)**	**538,359**
As of 31 December 2015				
Debt securities with customers	565	-	(2)	563
Non-financial corporations	565	-	(2)	563
Loans and receivables to customers	509,313	(13,353)	(1,608)	494,352
General governments	19,934	(1)	(1)	19,932
Other financial corporations	25,107	(127)	(17)	24,963
Non-financial corporations	191,239	(6,528)	(969)	183,742
Households	273,033	(6,697)	(621)	265,715
Total	**509,878**	**(13,353)**	**(1,610)**	**494,915**

Allowances for loans and receivables to customers

in CZK million	As of Dec 15	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/-)	As of Dec 16	Recoveries of amounts previously written off	Amounts written off
Specific allowances	**(13,353)**	**(2,728)**	**2,928**	**1,071**	**295**	**276**	**(4)**	**(11,515)**	**486**	**(39)**
Loans and receivables to customers	(13,353)	(2,728)	2,928	1,071	295	276	(4)	(11,515)	486	(39)
General governments	(1)	(1)	-	1	-	-	-	(1)	-	-
Other financial corporations	(127)	(51)	-	33	-	-	-	(145)	-	-
Non-financial corporations	(6,528)	(1,776)	1,039	772	129	276	(4)	(6,092)	44	(4)
Households	(6,697)	(900)	1,889	265	166	0	0	(5,277)	442	(35)
Collective allowances	**(1,610)**	**(340)**	**-**	**142**	**-**	**(264)**	**(1)**	**(2,073)**	**-**	**-**
Debt securities with customers	(2)	(81)	-	81	-	0	0	(2)	-	-
Non-financial corporations	(2)	(81)	-	81	-	0	0	(2)	-	-
Loans and receivables to customers	(1,608)	(259)	-	61	-	(264)	(1)	(2,071)	-	-
General governments	(1)	(9)	-	0	-	0	0	(10)	-	-
Other financial corporations	(17)	(21)	-	5	-	0	0	(33)	-	-
Non-financial corporations	(969)	(204)	-	43	-	(264)	(1)	(1,395)	-	-
Households	(621)	(25)	-	13	-	0	0	(633)	-	-
Total	**(14,963)**	**(3,068)**	**2,928**	**1,213**	**295**	**12**	**(5)**	**(13,588)**	**486**	**(39)**

in CZK million	As of Dec 14	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/-)	As of Dec 15	Recoveries of amounts previously written off	Amounts written off
Specific allowances	**(15,085)**	**(3,315)**	**3,601**	**1,000**	**418**	**1**	**27**	**(13,353)**	**346**	**(11)**
Loans and receivables to customers	(15,085)	(3,315)	3,601	1,000	418	1	27	(13,353)	346	(11)
General governments	(2)	(8)	-	9	-	-	-	(1)		
Other financial corporations	(131)	(8)	-	12	-	-	-	(127)		
Non-financial corporations	(6,741)	(1,782)	1,147	637	184	-	27	(6,528)	217	(2)
Households	(8,211)	(1,517)	2,454	342	234	1	-	(6,697)	129	(9)
Collective allowances	**(1,423)**	**(691)**	**-**	**503**	**-**	**-**	**1**	**(1,610)**	**-**	**-**
Debt securities with customers				-	-	-	-	(2)		
Non-financial corporations		(2)	-	-	-	-	-	(2)		
Loans and receivables to customers	(1,423)	(689)	-	503	-	-	1	(1,608)	-	-
General governments	(1)	(1)	-	1	-	-	-	(1)	-	-
Other financial corporations	(32)	(40)	-	55	-	-	-	(17)	-	-
Non-financial corporations	(865)	(519)	-	414	-	-	1	(969)	-	-
Households	(525)	(129)	-	33	-	-	-	(621)	-	-
Total	**(16,508)**	**(4,006)**	**3,601**	**1,503**	**418**	**1**	**28**	**(14,963)**	**346**	**(11)**

Related Party's provisions for doubtful debts related to the amount of outstanding balances were CZK 0 million (2015: CZK 345 million).

21. Derivatives – hedge accounting

	As of 31 December 2016			As of 31 December 2015		
in CZK million	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Fair value hedges	**4,453**	**21**	**(12)**	**8,000**	**342**	**(6)**
Interest rate	4,453	21	(12)	8,000	342	(6)
Foreign exchange	-	-	-	-	-	-
Cash flow hedge	**45,997**	**498**	**(440)**	**29,806**	**321**	**(489)**
Interest rate	29,898	455	(54)	21,137	321	(97)
Foreign exchange	16,099	43	(386)	8,669	-	(392)
Total	**50,450**	**519**	**(452)**	**37,806**	**663**	**(495)**

22. Property and equipment

A) AT COST

	Property and equipment - Acquisition and production costs			
in CZK million	Land and buildings (used by the Bank)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Property and equipment
Balance as of 1 Jan 2015	20,566	4,613	2,237	27,416
Additions in current year (+)	516	204	88	808
Disposals (-)	(659)	(284)	(537)	(1,480)
Reclassification (+/-)	-	(6)	6	-
Balance as of 31 Dec 2015	20,423	4,527	1,794	26,744
Additions in current year (+)	280	235	204	**719**
Disposals (-)	(987)	(330)	(230)	**(1,547)**
Reclassification (+/-)	-	8	(8)	**-**
Balance as of 31 Dec 2016	**19,716**	**4,440**	**1,760**	**25,916**

B) ACCUMULATED DEPRECIATION

	Property and equipment – Accumulated depreciation			
in CZK million	Land and buildings (used by the Bank)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Property and equipment
Balance as of 1 Jan 2015	(9,114)	(3,421)	(1,862)	(14,397)
Depreciation (-)	(673)	(291)	(144)	(1,108)
Disposals (+)	512	276	536	1,324
Impairment (-)	(617)	-	-	(617)
Reversal of impairment (+)	1	-	-	1
Reclassification (+/-)	-	-	-	-
Balance as of 31 Dec 2015	(9,891)	(3,436)	(1,470)	(14,797)
Depreciation (-)	(693)	(227)	(120)	**(1,040)**
Disposals (+)	838	321	223	**1,382**
Impairment (-)	(1,389)	(2)	-	**(1,391)**
Reversal of impairment (+)	-	-	-	-
Reclassification (+/-)	-	-	-	-
Balance as of 31 Dec 2016	**(11,135)**	**(3,344)**	**(1,367)**	**(15,846)**

C) CARRYING AMOUNTS

	Property and equipment			
in CZK million	Land and buildings (used by the Bank)	Office and plant equipment/other fixed assets	IT assets (Hardware)	Property and equipment
Balance as of 1 Jan 2015	11,452	1,192	375	13,019
Balance as of 31 Dec 2015	10,532	1,091	324	11,947
Balance as of 31 Dec 2016	8,581	1,096	393	10,070

The balances as at 31 December 2016 shown above include CZK 397 million (2015: CZK 464 million) in property and equipment under construction.The acquisition cost of fully depreciated tangible assets still in use was CZK 4,450 million as at 31 December 2016 (2015: CZK 4,788 million).The fair value less costs of disposalin respect of impaired buildings (see note 9 Other operating result) amounts to CZK 1,226 million.

23. Intangible assets

A) AT COST

	Acquisition and production costs		
in CZK million	Software acquired	Other (licenses, patents, etc.)	Intangible assets
Balance as of 1 Jan 2015	**9,431**	**6,109**	**15,540**
Additions in current year (+)	1,079	63	1,142
Disposals (-)	(112)	(529)	(641)
Reclassification (+/-)	27	(27)	-
Balance as of 31 Dec 2015	**10,425**	**5,616**	**16,041**
Additions in current year (+)	1,099	81	**1,180**
Disposals (-)	(393)	(251)	**(644)**
Reclassification (+/-)	511	(511)	**-**
Balance as of 31 Dec 2016	**11,642**	**4,935**	**16,577**

B) AMORTISATION

	Amortisation		
in CZK million	Software acquired	Other (licenses, patents, etc.)	Intangible assets
Balance as of 1 Jan 2015	**(6,503)**	**(5,748)**	**(12,251)**
Amortisation charge (-)	(658)	(91)	(749)
Disposals (+)	110	528	638
Impairment (-)	(3)	(1)	(4)
Balance as of 31 Dec 2015	**(7,054)**	**(5,312)**	**(12,366)**
Amortisation charge (-)	(751)	(98)	**(849)**
Disposals (+)	394	250	**644**
Impairment (-)	(12)	-	**(12)**
Reclassification (+/-)	(683)	683	**-**
Balance as of 31 Dec 2016	(8,106)	(4,477)	**(12,583)**

C) CARRYING AMOUNTS

in CZK million	Software acquired	Other (licenses, patents, etc.)	Intangible assets
Balance as of 1 Jan 2015	**2,928**	**361**	**3,289**
Balance as of 31 Dec 2015	**3,371**	**304**	**3,675**
Balance as of 31 Dec 2016	**3,536**	**458**	**3,994**

Other intangible assets include licenses and know-how. In addition, the item includes CZK 1,251 million in intangibles under construction as at 31 December 2016 (2015: CZK 1,104 million).

The acquisition cost of fully amortised intangible assets still in use was CZK 4,679 million as at 31 December 2016 (2015: CZK 6,399 million).

24. Investments in subsidaries and associates

As of 31 December 2016	Share capital in MCZK/ TEUR	Currency	Ownership %	Voting power in %	Net Carrying amount in MCZK
Investments in subsidaries					
brokerjet ČS, a.s.	120.0	CZK	100%	100%	45
CEE Property Development Portfolio B.V.	20.0	EUR	20%	20%	-
CEE Property Development Portfolio 2 a.s.	2.0	CZK	100%	100%	1,036
CS Property Investment Limited.**)	120.0	EUR	100%	100%	145
Czech and Slovak Property Fund B.V. **)	30.0	EUR	20%	20%	101
Czech TOP Venture Fund B.V.	19.0	EUR	84%	84%	30
Erste Corporate Finance, a.s.	6.0	CZK	100%	100%	15
Energie ČS, a.s.	2.0	CZK	100%	100%	-
Erste Grantika Advisory, a.s.	7.0	CZK	100%	100%	-
Factoring České spořitelny, a.s.	114.0	CZK	100%	100%	985
ČS do domu, a.s.	4.0	CZK	100%	100%	-
Česká spořitelna - penzijní společnost, a.s.	350.0	CZK	100%	100%	841
Mopet, a.s.	102	CZK	100%	100%	-
Realitní společnost ČS, a.s.	2.0	CZK	100%	100%	-
REICO investiční společnost ČS, a.s.	25.2	CZK	100%	100%	130
sAutoleasing, a.s.	500.0	CZK	100%	100%	1,964
s IT Solutions CZ, s.r.o.	0.2	CZK	100%	100%	28
Erste Leasing, a.s.	200.0	CZK	100%	100%	742
Stavební spořitelna ČS, a.s.	750.0	CZK	100%	100%	1,515
Věrnostní program IBOD, a.s.	2.0	CZK	100%	100%	-
Investicniweb s.r.o	0.1	CZK	100%	100%	3
Holding Card Service, s.r.o.	614	CZK	69%	69%	423
Subtotal					**8,003**
Investments in associates					
CBCB-Czech Banking Credit Bureau, a.s.	1.2	CZK	20%	20%	0.24
Erste Group Shared Services (EGSS), s.r.o.	0.2	CZK	40%	40%	0.08
ÖCI-Unternehmensbeteiligungs	18.2	EUR	40%	40%	0.19
Procurement Services CZ, s.r.o.	0.2	CZK	40%	40%	0.08
První certifikační autorita, a.s.	20.0	CZK	23.25%	23.25%	7.94
Global Payments s.r.o.*)	1 590.0	CZK	10%	10%	159
Subtotal					**168**
Foreign exchange differences hedges relating to equity investments denominated in EUR					29
Total					**8,200**

*) reported within associates as the Bank has the significant ifluence in the entity

Starting 1.1.2017 s IT Solution CZ, sr.o. and Brokerjet will begin the liqudiation of their businesses.
**) Decrease in carrying amount due to the fact that part of the share premium was returned back to Česka spořitelna, a.s.
Gross carrying amount of investments and subsidiaries was as of 31 December 2016 CZK 13,008 million (2015: CZK 13,424 million). Allowances for investments and subsidiaries amounted as of 31 December 2016 to CZK 4,837 million (2015: 5,062 million).

As of 31 December 2015	Share capital in MCZK/ TEUR	Currency	Ownership %	Voting power in %	Net Carrying amount in MCZK
Investments in subsidaries					
brokerjet ČS, a.s.	120.0	CZK	100%	100%	79
CEE Property Development Portfolio B.V.	20.0	EUR	20%	20%	-
CEE Property Development Portfolio 2 a.s.	2.0	CZK	100%	100%	924
CS Investment Limited	0.1	EUR	100%	100%	-
CS Property Investment Limited	120.0	EUR	100%	100%	470
Czech and Slovak Property Fund B.V.	30.0	EUR	20%	20%	745
Czech TOP Venture Fund B.V.	19.0	EUR	84%	84%	30
Erste Corporate Finance, a.s.	6.0	CZK	100%	100%	15
Erste Energy Services, a.s.	2.0	CZK	100%	100%	103
Erste Grantika Advisory, a.s.	7.0	CZK	100%	100%	30
Factoring České spořitelny, a.s.	114.0	CZK	100%	100%	985
ČS do domu, a.s.	4.0	CZK	100%	100%	-
Česká spořitelna - penzijní společnost, a.s.	350.0	CZK	100%	100%	841
Mopet, a.s.	102	CZK	100%*	100%	39
Realitní společnost ČS, a.s.	2.0	CZK	100%	100%	-
REICO investiční společnost ČS, a.s.	25.2	CZK	100%	100%	110
sAutoleasing, a.s.	500.0	CZK	100%	100%	1,694
s IT Solutions CZ, s.r.o.	0.2	CZK	100%*	100%	28
Erste Leasing, a.s.	200.0	CZK	100%	100%	742
Stavební spořitelna ČS, a.s.	750.0	CZK	100%	100%	1,515
Věrnostní program IBOD, a.s.	2.0	CZK	100%	100%	-
Investicniweb s.r.o	0.1	CZK	100%*	100%	3
Holding Card Service, s.r.o.	0.2	CZK	100%	100%	0.2
Subtotal					**8,353**
Investments in associates					
CBCB-Czech Banking Credit Bureau, a.s.	1.2	CZK	20%	20%	0.24
Erste Group Shared Services (EGSS), s.r.o.	0.2	CZK	40%	40%	0.08
ÖCI-Unternehmensbeteiligungs	18.2	EUR	40%	40%	0.19
Procurement Services CZ, s.r.o.	0.2	CZK	40%	40%	0.08
První certifikační autorita, a.s.	20.0	CZK	23.25%	23.25%	7.94
s IT Solutions SK, spol. s r.o.	6.8	EUR	23.50%	23.50%	-
Subtotal					**9**
Foreign exchange differences hedges relating to equity investments denominated in EUR					70
Total					**8,432**

*) Increase (movement) in ownership was not registered by the Commercial Register as of 31 December 2015.

Name of company	Registered office	Principal activities
Investments in subsidaries		
brokerjet ČS, a.s.	Prague	Investment services
CEE Property Development Portfolio B.V.	The Netherlands	Real estate investment
CEE Property Development Portfolio 2 a.s.	Prague	Real estate investment
CS Property Investment Limited	Cyprus	Investments in securities, issuance of loans
Czech and Slovak Property Fund B.V.	The Netherlands	Real estate investment
Czech TOP Venture Fund B.V.	The Netherlands	Management and financing services
Erste Corporate Finance, a.s.	Prague	Consultancy
Energie ČS, a.s.	Prague	Electricity and gas trading
Erste Grantika Advisory, a.s.	Brno	Business consulting
Factoring České spořitelny, a.s.	Prague	Factoring
ČS do domu, a.s.	Prague	Financial advisory network
Česká spořitelna - penzijní společnost, a.s.	Prague	Pension insurance
Mopet, a.s.	Prague	Mobile payment services
Realitní společnost ČS, a.s.	Prague	Real estate activities
REICO investiční společnost ČS, a.s.	Prague	Real estate investment
sAutoleasing, a.s.	Prague	Leasing
s IT Solutions CZ, s.r.o.	Prague	Provision of software and advisory involving hardware and software
Erste leasing, a.s.	Znojmo	Leasing
Stavební spořitelna ČS, a.s.	Prague	Construction savings bank
Věrnostní program IBOD, a.s.	Prague	Management of loyalty program
Investicniweb s.r.o	Prague	Web portal for investors
Holding Card Service, s.r.o.	Prague	Property Management
Investments in associates		
CBCB-Czech Banking Credit Bureau, a.s.	Prague	Provision of information from the client information banking register
Erste Group Shared Services (EGSS), s.r.o.	Hodonín	Foreign payments services
ÖCI-Unternehmensbeteiligungs	Austria	Provision of management services
Procurement Services CZ, s.r.o.	Prague	Provision of procurement services
První certifikační autorita, a.s.	Prague	Digital signature certification services
Global Payments s.r.o.	Prague	Payment services

25. Tax assets and liabilities

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 19%, depending on the year in which the relevant asset/liability will be realised/settled.

					Net variance 2016			Net variance 2015		
in CZK million	Tax assets 2016	Tax assets 2015	Tax liabilities 2016	Tax liabilities 2015	Total	Through profit or loss	Through other compre-hensive income	Total	Through profit or loss	Through other compre-hensive income
Temporary differences relate to the following items:										
Loans and advances to credit institutions and customers	-	-	345	351	(6)	(6)	-	103	103	-
Financial assets - available for sale	-	-	(604)	(765)	161	-	161	(286)	-	(286)
Property and equipment	-	-	19	(256)	275	275	-	(29)	(29)	-
Sundry provisions	-	-	193	131	62	62	-	23	23	-
Other	-	-	(8)	30	(38)	13	(51)	(8)	(25)	17
Total deferred taxes	**-**	**-**	**(55)**	**(509)**	**454**	**344**	**110**	**(197)**	**72**	**(269)**
Current taxes	**578**	**689**	**-**	**-**						
Total taxes	**578**	**689**	**(55)**	**(509)**						

26. Other assets

in CZK million	2016	2015
Prepayments and accrued income	207	261
Sundry assets	969	935
Other assets	**1,176**	**1,196**

'Sundry assets' consist mainly of not invoiced receivables from customers relations of CZK 432 million (2015: CZK 526 million).

27. Assets held for sale and liabilities associated with assets held for sale

in CZK million	2016	2015
Assets held for sale	123	-

Having met the qualifying criteria of IFRS 5, tangible assets in amount of CZK 123 million are presented for the financial year ending 31 December 2016 under the balance sheet line item 'Assets held for sale.

28. Other trading liabilities

in CZK million	2016	2015
Deposits	4,105	12
Credit institutions	-	-
Other financial corporations	4,009	11
Non financial corporations	96	1
Other trading liabilities	**4,105**	**12**

Increase in deposits in 2016 comparing to 2015 is influenced by the clients' (i.e. other financial corporations) liquidity.

29. Financial liabilities designated at fair value through profit and loss

in CZK million	2016	2015
Deposits	1,997	4,019
General governments	-	3
Non financial corporations	2	24
Households	1,995	3,992
Financial liabilities designated at fair value through profit and loss	**1,997**	**4,019**

Deposits classified as Financial liabilities designed at fair value through profit and loss represent hybrid (combined) instruments i.e. contain one or more embedded derivatives, which are not separated from those hybrid (combined) instruments.

	Amount of change in fair values attributable to changes in credit risk for the period		Amount of cumulative change in fair values attributable to changes in credit risk	
in CZK million	2016	2015	2016	2015
Financial liabilities - at fair value through profit or loss				
Deposits from banks	-	-	-	-
Deposits from customers	(4)	(25)	3	7
Debt securities issued	-	-		
Other financial liabilities	-	-	-	-

The change in the fair value arising from the changes in the credit profile of the issuer (the Bank) is determined as equal to the difference between the fair values of the liabilities as at the previous and current reporting dates, net of the effect of the change in fair value due to the change in the risk-free interest rate.

30. Financial liabilities measured at amortised costs

in CZK million	2016	2015
Deposits	831,419	729,007
Deposits from banks	120,019	92,313
Deposits from customers	711,400	636,694
Debt securities issued	18,859	28,319
Bonds	18,859	28 319
Other financial liabilities	740	2,119
Financial liabilities measured at amortised costs	851,018	**759,445**

In 2015 Other financial liabilities included mainly payables to creditors in amount of CZK 748 million, payables to employees including social security charges in amount of CZK 515 million and Payables to securities clearing entities CZK 496 million.

In 2016 Other financial liabilities included mainly Payables to securities clearing entities CZK 519 million.

Deposits from banks

in CZK million	2016	2015
Current accounts/Overnight deposits	15,701	11,968
Term deposits	76,444	67,355
Repurchase agreements	27,874	12,990
Deposits from banks	**120,019**	**92,313**

Deposits from customers

in CZK million	2016	2015
Current accounts/Overnight deposits	681,129	597,458
General governments	55,874	44,619
Other financial corporations	20,570	16,651
Non financial corporations	123,545	114,714
Households	481,140	421,474
Term deposits	28,858	33,289
General governments	69	37
Other financial corporations	866	269
Non financial corporations	1,159	1,682
Households	26,764	31,301
Repurchase agreements	1,413	5,947
General governments	1,413	5,947
Deposits from customers	**711,400**	**636,694**
General governments	57,356	50,603
Other financial corporations	21,436	16,920
Non financial corporations	124,704	116,396
Households	507,904	452,775

Debt securities issued – Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	2016	2015
Mortgage bonds	CZ0002000755	February 2006	February 2016	4.80%	-	7,829
Mortgage bonds	CZ0002001134	August 2007	August 2017	floating	3,002	3,002
Mortgage bonds	CZ0002001191	October 2007	October 2022	floating	2,001	2,002
Mortgage bonds	CZ0002001282	November 2007	November 2017	5.90%	2,064	2,095
Mortgage bonds	CZ0002001407	December 2007	December 2022	floating	3,999	3,999
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	1,158	1,181
Mortgage bonds	CZ0002001423	December 2007	December 2017	5.85%	4,986	5,049
Mortgage bonds	CZ0002001647	December 2007	December 2017	3.90%	876	891
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	70	92
Mortgage bonds	CZ0002002330	June 2011	June 2016	0.30%	-	40
Mortgage bonds	CZ0002002744	December 2012	December 2021	2.75%	83	81
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	183	183
Mortgage bonds	CZ0002002769	December 2012	December 2016	1.50%	-	50
Mortgage bonds	CZ0002002777	December 2012	June 2018	1.75%	42	42
Mortgage bonds	CZ0002002785	December 2012	December 2019	2.50%	83	78
Bonds	CZ0003701054	September 2005	September 2017	x)	292	282
Bonds	CZ0003702037	October 2009	October 2016	xx)	-	576
Bonds	CZ0003702078	November 2009	November 2016	xx)	-	612
Cumulative change in carrying amount due to fair value hedging					20	235
Bonds issued					**18,859**	**28,319**

x) Bonds were issued with a combined yield.

xx) Bonds bear no interest, yield is determined as the difference between the rate of issue and the bond value payable at its final maturity date.

Of the aggregate carrying value of the mortgage bonds, CZK 455 million (2015: CZK 8,318 million) was hedged against interest rate risk through interest rate swaps linked to a market floating rate. In accordance with the applicable accounting policies, these mortgage bonds are remeasured at fair value to the extent of the hedged interest rate risk.

The ISIN CZ0003701054 issues was placed with a share index option which is recorded separately and is remeasured at fair value.

The ISINs CZ0002001647, CZ0002001654, CZ0002002330, CZ0002002744, CZ0002002751, CZ0002002769, CZ0002002777, CZ0002002785 mortgage bond issues and the ISINs CZ0003702037, CZ0003702078 bond issues are not traded on any regulated market. Other issues of mortgage bonds and bonds are traded on the official regulated market of the Prague Stock Exchange (‘PSE’). The difference between the nominal values of the issued mortgage bonds and the carrying amounts of the relevant issues in the above table arises from the difference in valuation.

Assets in cover pools used for covered bond issuance amounted to CZK 95,680 million (2015: CZK 82,294 million).

31. Provisions

in CZK million	2016	2015
Restructuring	149	-
Pending legal issues and tax litigation	1,764	1,776
Commitments and guarantees given	716	402
Provisions for guarantees - off balance (defaulted customers)	431	139
Provisions for guarantees - off balance (non defaulted customers)	285	263
Other provisions	167	304
Provisions for onerous contracts	15	16
Other	152	288
Provisions	**2,796**	**2,482**

‘Provisions for guarantees - off balance ’ exposures are recorded to cover losses that result from off-balance sheet exposures.

‘Provisions for legal disputes are explained in detail in Note 44 Contingent assets and liabilities.
Other provisions include an estimated amount for the Bank’s constructive obligation to meet any potential future claims of clients resulting from statute-barred deposits on anonymous passbooks.

The restructuring provision was created at the end of 2016 for the reorganization of the Bank's redundant activities performed by the HQ departments of the Bank and their employees. The restructuring started at the end of 2016 and is expected to be completed by the end of 2018.

Provisions 2016

in CZK million	As of Dec 15	Allocations	Use	Releases	As of Dec 16
Provision for restructuring	-	149	-	-	149
Pending legal issues and tax litigation	1,775	1,421	-	(1,432)	1,764
Commitments and guarantees given	402	506	-	(192)	716
Provisions for guarantees - off balance sheet (defaulted customers)	139	406	-	(114)	431
Provisions for guarantees - off balance sheet (non-defaulted customers)	263	100	-	(78)	285
Other provisions	305	537	(669)	(6)	167
Provisions for onerous contracts	16	7	(2)	(6)	15
Other	289	530	(667)	-	152
Provisions	**2,482**	**2,613**	**(669)**	**(1,630)**	2,796

Due to the completion of significant legal dispute the Bank decided to release provision in amount of CZK 1,432 million,
due to worsen situation in case of other significant legal dispute the Bank decided to create provision in amount of CZK1,421 million.

Provisions 2015

in CZK million	As of Dec 14	Allocations	Use	Releases	As of Dec 15
Pending legal issues and tax litigation	1,751	32	(6)	(2)	1,775
Commitments and guarantees given	245	336	(7)	(172)	402
Provisions for guarantees - off balance sheet (defaulted customers)	67	163	(7)	(84)	139
Provisions for guarantees - off balance sheet (non-defaulted customers)	178	173	-	(88)	263
Other provisions	327	445	(69)	(398)	305
Provisions for onerous contracts	1	16	(1)	-	16
Other	326	429	(68)	(398)	289
Provisions	**2,323**	**813**	**(82)**	**(572)**	**2,482**

32. Other liabilities

in CZK million	2016	2015
Deferred income and accrued expenses	161	321
Sundry liabilities	8,419	3,651
Other liabilities	**8,580**	**3,972**

Sundry liabilities consist mainly of unbilled supplies of CZK 972 million (2015: CZK 908 million), costs of staff bonuses for 2016 amounting to CZK 1,422 million (2015: CZK 1,279 million) and liabilities from payments clearing in amount of CZK 1,177 million (2015: CZK 317 million).
In 2016 Sundry liabilities consist also items from the settlement of internal payment transactions in amount of CZK 2,518 million CZK and payables to creditors in amount of 1,111 CZK.

33. Total equity

in CZK million	2016	2015
Subscribed capital	15,200	15,200
Share capital	15,200	15,200
Additional paid-in capital	12	12
Other capital instruments	8,107	8,107
Retained earnings and other reserves	92,633	92,017
Total equity[1)]	**115,952**	**115,336**

[1)] Details on equity are provided in Section III, Statement of Changes in Total Equity

As of 31 December 2016, subscribed capital consists of 140,788,787 voting ordinary shares and 11,211,213 preference shares. Additional paid-in capital represents the amount by which the issue price of the shares exceeded their par value. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognized in other comprehensive income.

In December 2015 Česká spořitelna, a.s. has launched an issue of Additional Tier 1 Notes (“AT 1”) , denominated in Euro, for a total of EUR 300 million, with characteristics compliant with Article 52 of the CRR (Regulation EU No 575/2013). This issue is reported within the line of Other capital instruments in Equity.

The main reasons for the issuance of AT1 is optimisation of capital structure, stabilisation of EUR long-term funding and preparation for regulatory changes (full implementation of CRR, TLAC/MREL) while using the currently favourable market conditions (interest rates and credit spreads).

Due to the fact, that the AT1 do not represent financial liabilities in terms of IAS 32.11, they should be classified as equity instruments.
Classification of the AT1 within financial liabilities is not met from the following reasons:

- Based on the AT1 features (i.e. conditions of issue) the bank have right to avoid delivering cash or another financial asset to settle a contractual obligation – The Holders of the AT1 do not have a right to demand redemption of the AT1 and distribution from the AT1.
- Based on the AT1 features (i.e. conditions of issue) the AT1 do not have a maturity date.

Number of shares and share capital

Authorised, Issued and Fully Paid Share Capital Is as Follows:

	2016		2015	
	Number of shares	in CZK million	Number of shares	in CZK million
Ordinary shares of CZK 100 each	140,788,787	14,079	140,788,787	14,079
Preference shares of CZK 100 each	11,211,213	1,121	11,211,213	1,121
Share capital	**152,000,000**	**15,200**	**152,000,000**	**15,200**

Preference shareholders are not entitled to vote at the annual shareholders’ meeting. They have a right to receive dividends each year if the Bank is profitable. The amount of the dividend is proposed by the Board of Directors and subject to approval at the annual shareholders’ meeting. In the case of liquidation, preference shareholders have a right to the assets of the Bank before ordinary shareholders but after other creditors. Preference shareholders have a right to purchase shares offered by the Bank when it increases its share capital in the same proportion as the current holding. Preference shares can only be issued to municipalities and local governments in the Czech Republic. The preference shares can only be transferred to entities other than municipalities and local governments of the Czech Republic subject to the approval of the Board of Directors.

34. Segment reporting

The Banks's segment reporting is compliant with IFRS 8 Operating Segments, which adopts the management approach. Segment information is prepared on the basis of internal management reporting that is regularly reviewed by the chief operating decision maker to assess the performance of the segments and make decisions regarding the allocation of resources. Within the Bank the function of the chief operating decision maker is exercised by the Management Board of Česká spořitelna, a.s.
Following a strategic review related to Erste Group operating segments and method used for the capital allocation, from 1st January 2016 there are changes introduced in the segment reporting of the Bank aligned with Erste Group governance. 2015 results were restated accordingly to ensure comparability.

Structure of Business Segments

The segment reporting comprises four operating segments reflecting the Banks's management structure.

Retail

Retail segment comprises the business activities which are in the responsibility of account managers in the Retail network. Targeted customers are mainly privates, micros and free professionals. This business is mainly operated in cooperation with subsidiaries such as Leasing, Asset Management with the focus on simple products ranged from loans, investment products, current accounts and savings products to credit cards and cross selling products such as leasing, insurance, building society products.

Corporates

Corporates segment comprises the business activities done with corporate customers of different turnover size and public sector.

Small and medium-sized enterprises (SME) are clients which are under the responsibility of the corporate commercial center network, mainly consisting of companies with an annual turnover from CZK 60 million to CZK 2 billion.

Local Large Corporates are clients with a consolidated annual turnover threshold above CZK 2 billion which are not defined as Group Large Corporate customers.

Public Sector consists of the following three sets of customers: public sector, public corporations and non-profit sector.
Public sector includes such customers as central ministries and state funded funds and agencies, non-profit entities established by or under control of central government entities, regional governments and organizations funded by them, state capitals, public health and social insurance companies. In general, Public sector excludes banks and non-bank financial institutions (FI), pension funds, bond issuing agencies (incl. government debt agencies), asset management based organizations which are part of the Group Markets segment.
Public corporations includes all non-financial state companies and corporations with more than 50% share of state or regional governments or municipals excluding stock exchange listed companies.
Non-profit sector comprises the following private non-profit companies: central authorities of churches, labor unions and nationally significant foundations, private schools and humanitarian organizations.

Group Large Corporates are large corporate customers/client groups with substantial operations in core markets/extended core markets of Erste Group with an indicative consolidated annual turnover generally of at least EUR 500 million.

Commercial Real Estate covers commercial property projects financed by the Bank.

Asset and Liability Management & Local Corporate Center (ALM & CC)

Asset Liability Management (ALM) comprises the management of bank assets and liabilities in the light of uncertainty of cash flows, cost of funds and return on investments in order to determine the optimal trade-off between risk, return and liquidity. Furthermore it comprises funding transactions, hedging activities, investments into securities other than held for trading purpose, management of own issues and FX positions.

Local Corporate Center (CC) comprises all non-core banking business activities such as non-profit servicing participations (e.g. IT, Procurement, Facility Management), dividends, refinancing costs of participations, all non-banking balance sheet positions (e.g. fixed assets, intangible assets) which cannot be allocated to other business segments as well as the profit and loss positions resulting from these balance sheet items. Apart from that the Corporate Center includes Free Capital of the Bank defined as the difference of the total IFRS equity and the economical equity allocated to all operating segments.

In 2016 Impairment loss of non-financial assets (buildings) is reported in this business segment (see Note 9 Other operating result).

Group Markets

Group Markets segment comprises trading and markets services as well as business with financial institutions.

Trading and Market services includes all activities related to active risk taking and managing in regulatory trading books of the Bank, additional to that the execution of trades against the market using the trading books of the Bank for market making and short-term liquidity management. Specifically revenues and fair value results not directly attributable to client transactions and generally risk premiums and execution fees are taken into account.

Financial institutions are companies that provide financial services for their clients or members and act as professional and active participant on financial markets for the purpose of proprietary trading or on behalf of their clients (banks, central banks, development banks, investment banks, investment funds, brokerages, insurance companies, pension funds, credit unions, building societies, asset management companies, government debt agencies, sovereign wealth funds, exchanges).

Business connected with serving financial institutions as a client including custody, depository services, commercial business (loans, cash management, trade & export finance) and capital markets business belongs to FI.

Business segments

in CZK million	Retail 2016	Retail 2015	Corporates 2016	Corporates 2015	ALM & LCC 2016	ALM & LCC 2015	Group Markets 2016	Group Markets 2015	Total Bank 2016	Total Bank 2015
Net interest income	18,917	18,760	4,534	4,500	285	904	121	140	23,857	24,304
Net fee and commission income	6,272	7,351	1,091	1,127	(174)	(169)	1,065	971	8,254	9,280
Dividend income	-	-	-	-	436	427	-	-	436	427
Net trading and fair value result	1,306	1,143	731	713	(292)	297	946	863	2,691	3,016
Rental income from investment properties & other operating leases	-	-	-	-	87	116	-	-	87	116
General administrative expenses	(13,075)	(13,410)	(2,416)	(2,325)	(553)	(587)	(742)	(682)	(16,786)	(17,004)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	-	-	-	-	1,423	324	-	-	1,423	324
Net impairment loss on financial assets not measured at fair value through profit or loss	(458)	(1,219)	(1,077)	(984)	140	31	(8)	2	(1,403)	(2,170)
Other operating result	31	18	(353)	-	(553)	(764)	-	-	(875)	(746)
Pre-tax result from continuing operations	**12,993**	**12,643**	**2,510**	**3,031**	**799**	**579**	**1,382**	**1,294**	**17,684**	**17,547**
Taxes on income	(2,468)	(2,402)	(477)	(575)	31	(193)	(262)	(233)	(3,176)	(3,403)
Net result for the period	**10,525**	**10,241**	**2,033**	**2,456**	**830**	**386**	**1,120**	**1,061**	**14,508**	**14,144**
Operating income	26,495	27,254	6,356	6,340	342	1,575	2,132	1,974	35,325	37,143
Operating expenses	(13,075)	(13,410)	(2,416)	(2,325)	(553)	(587)	(742)	(682)	(16,786)	(17,004)
Operating result	**13,420**	**13,844**	**3,940**	**4,015**	**(211)**	**988**	**1,390**	**1,292**	**18,539**	**20,139**
Risk-weighted assets (credit risk, eop)	134,107	129,287	222,348	173,785	22,429	44,741	11,787	13,544	390,671	361,357
Average allocated capital	16,366	15,272	16,007	15,699	81,476	80,740	1,619	2,792	115,468	114,503
Cost/income ratio	49.3%	49.2%	38.0%	36.7%	161.7%	37.3%	34.8%	34.5%	47.5%	45.8%
Return on allocated capital	64.3%	67.1%	12.7%	15.6%	1.0%	0.5%	69.2%	38.0%	12.6%	12.4%
Total assets (eop)	**335,048**	**317,773**	**217,474**	**190,567**	**422,313**	**372,349**	**24,176**	**20,589**	**999,011**	**901,278**
Total liabilities excluding equity (eop)	**540,101**	**502,386**	**148,563**	**100,163**	**151,675**	**143,629**	**42,718**	**39,764**	**883,059**	**785,942**

Eop = end of period

The majority of revenue from external customers is generated in the Czech Republic.

35. Leases

a) Finance leases

The Bank does not lease any real estate and moveable property to other parties under finance lease arrangements.

b) Operating leases

Under operating leases, the Bank leases both real estate and moveable property from other parties.

Operating leases from the view of the Bank as lessee

Minimum lease payments from non-cancellable operating leases were as follows:

in CZK million	2016	2015
< 1 year	585	636
1-5 years	515	550
> 5 years	253	241
Total	**1,353**	**1,427**

Lease payments from operating leases recognised as expense in the period amounted to CZK 625 million (2015: CZK 653 million)

36. Related party transactions

Related parties involve connected entities or parties that have a special relationship to the Bank.

Parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other in making financial or operational decisions. The Bank is controlled by Erste Group Bank over which DIE ERSTE österreichische Spar-Casse Privatstiftung exercises significant influence. The remaining investment in Erste Group Bank is held by minority shareholders and institutional investors via publicly traded shares on the stock exchanges in Vienna, Prague and Bucharest.

The parties that have a special relationship to the Bank are considered to be members of the Bank's statutory and supervisory bodies and management, legal entities exercising control over the Bank (including entities with a qualified interest in these entities and management of these entities), persons closely related to the members of the Bank's statutory and supervisory bodies, management, and entities exercising control over the Bank, legal entities in which any of the parties listed above holds a qualified interest, entities with a qualified interest in the Bank and any other legal entity under their control, members of the CNB's Banking Board, and legal entities which the Bank controls.

Pursuant to the definitions outlined above, the categories of the Bank's related parties principally comprise Erste Group Bank, the Bank's subsidiaries, which include both direct and indirect investments with controlling influence, members of its Board of Directors and Supervisory Board, and other related parties, which include companies directly or indirectly controlled by Erste Group Bank.

A number of banking transactions are entered into with related parties in the normal course of business. These principally include loans, deposits and other transactions. These transactions were carried out on an arm's length basis and were settled exclusively in cash. The interest rates charged to and by related parties are at standard commercial rates. Outstanding balances at the year-end are unsecured except for loans to finance investment property and property under construction.

Guarantees received represent payment guarantees related to the Bank's credit exposures. Issued guarantees relate to amounts owed by the Bank's subsidiaries to financial institutions outside of the Group. They are provided under standard market conditions.

Loans and advances to and amounts owed to related parties

	2016				2015			
in CZK million	Erste Group Bank AG	Investments in subsidaries	Other related parties	Members of the Board of Directors and Supervisory Board	Erste Group Bank AG	Investments in subsidaries	Other related parties	Members of the Board of Directors and Supervisory Board
Assets								
Cash and cash balances	657	-	58	-	2,495	-	22	-
Financial assets - held for trading	3,910	103	-	-	4,374	195	-	-
Loans and receivables to credit institutions	15,268	-	-	-	25,610	4	2	-
Loans and receivables to customers	-	16,935	191	15	-	16,767	195	20
Derivatives Hedge Accounting	90	-	-	-	6	-	-	-
Other assets	17	92	36	-	-	130	33	-
Liabilities								
Financial liabilities held for trading	4,308	179	-	-	4,032	64	-	-
Financial liabilities measured at amortised costs	73,329	19,527	841	32	43,736	26,432	1 032	21
Derivatives Hedge Accounting	40	-	-	-	11			
Other Liabilities	110	120	198	-	59	117	41	-
Profit&Loss statement								
Net interest income	606	(25)	21	-	439	(38)	5	-
Net fee and commision income	(4)	182	517	-	10	151	457	-
Dividend income	-	375	4	-	-	379	-	-
Net trading and fair value result	124	(148)	1	-	607	114	(122)	-
Rental income from investment properties & other operating lease	-	27	10	-	-	20	15	-
Other administrative expenses	(259)	(901)	(447)	(79)	(160)	(967)	(385)	(88)
Other operating result	15	84	17	-	20	49	21	-
Loans commitments, financial guarantees and other commitments given	16	5,530	68	-	14	5,253	99	-
Loan commitments, financial guarantees and other commitments received	977	-	-	-	-	-	-	-

‘Other related parties’ include relationships to investments to companies wholly or partly owned by Erste Group Bank.

37. Transfers of financial assets – repurchase transactions and securities lending

in CZK million	2016 Carrying amount of transferred assets	2016 Carrying amount of associated liabilities	2015 Carrying amount of transferred assets	2015 Carrying amount of associated liabilities
Repurchase agreements				
Financial assets – available for sale	-	-	75	75
Financial assets – held to maturity	25,658	29,294	16,429	18,862
Total - repurchase agreements	**25,658**	**29,294**	**16,504**	**18,937**
Securities lendings				
Financial assets – held to maturity	5,292	5,834	-	-
Total - securities lendings	**5,292**	**5,834**	-	-
Total	**30,950**	**35,128**	**16,504**	**18,937**

The transferred financial instruments consist of bonds and other interest-bearing securities.

The following table shows the fair values of the transferred assets and associated liabilities that have recourse only to the transferred assets. In case of the Bank, these assets and liabilities relate to repo transactions.

in CZK million	2016 Fair value of transferred assets	2016 Fair value of associated liabilities	2016 Net position	2015 Fair value of transferred assets	2015 Fair value of associated liabilities	2015 Net position
Financial assets - available for sale	-	-	-	75	75	-
Financial assets - held to maturity	29,376	29,314	**62**	18,930	18,867	63
Total	29,376	29,314	62	**19,005**	**18,942**	**63**

38. Offsetting

Financial assets subject to offsetting and potential offsetting agreements in 2016

				Potential effects of netting agreements not qualifying for balance sheet offsetting			
in CZK million	Gross amounts in balance sheet	Amounts set off against financial liabilities	Net amounts in balance sheet	Financial instruments	Cash collateral received	Non-cash financial collateral received	Net amount after potential offsetting
Derivatives	13,977	-	**13,977**	8,345	3,801	-	**1,831**
Reverse repurchase agreements	4,535	-	**4,535**	-	-	4,606	**(71)**
Total	18,512	-	18,512	8,345	3,801	4,606	1,760

Financial liabilities subject to offsetting and potential offsetting agreements in 2016

				Potential effects of netting agreements not qualifying for balance sheet offsetting			
in CZK million	Gross amounts in balance sheet	Amounts set off against financial assets	Net amounts in balance sheet	Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	Net amount after potential offsetting
Derivatives	14,509	-	14,509	8,345	699	-	**5,465**
Repurchase agreements	33,263	-	33,263	-	-	29,604	**3,659**
Total	47,772	-	47,772	8,345	699	29,604	9,124

Financial assets subject to offsetting and potential offsetting agreements in 2015

in CZK million	Gross amounts in balance sheet	Amounts set off against financial liabilities	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	14,847	-	**14,847**	8,985	1,824	-	**4,038**
Reverse repurchase agreements	560	-	**560**	-	-	655	**(95)**
Total	**15,407**	**-**	**15,407**	**8,985**	**1,824**	**655**	**3,943**

Financial liabilities subject to offsetting and potential offsetting agreements in 2015

in CZK million	Gross amounts in balance sheet	Amounts set off against financial assets	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Derivatives	15,503	-	**15,503**	8,985	171	-	6,347
Repurchase agreements	18,937	-	**18,937**	-	-	16,504	**2,433**
Total	**34,440**	**-**	**34,440**	**8,985**	**171**	**16,504**	**8,780**

The Bank uses repurchase agreements and master netting agreements as a means of reducing credit risk of derivative and financing transactions. They qualify as potential offsetting agreements.

Master netting agreements are relevant for counterparties with multiple derivative contracts. They provide for the net settlement of all the contracts in the event of default of any counterparty. For derivatives transactions the amount of assets and liabilities which would be set off as a result of master netting agreements is presented in the column Financial instruments. If the net position is further secured by cash collateral the effect is disclosed in the respective columns Cash collateral received/pledged.

Repurchase agreements are primarily financing transactions. They are structured as a sale and subsequent repurchase of securities at a pre-agreed price and time. This ensures that the securities stay in hands of lender as collateral in case that borrower defaults in fulfilling any of its obligations. Offsetting effects from repurchase agreements are disclosed in the column Non-cash financial collateral received / pledged. Collateral is presented at fair value of the transferred securities. However, if fair value of collateral exceeds the carrying amount of the receivable/liability from the repo transaction the value is capped at the level of the carrying amount. Remaining position may be secured by cash collateral.

Cash and non-cash financial collateral involved in these transactions is restricted from using it by the transferor during the time of the pledge.

39. Risk management

Risk management strategy

Risk management is a core function of every bank to take risks in a conscious and selective manner and to manage such risks professionally. The Risk management strategy of the Bank aims to achieve an optimal balance of risk and return in order to achieve a sustainable, high return on equity.

The Bank uses a control and risk management system that is proactive and tailored to its business and risk profile. It is based on a clear risk strategy that is consistent with the business strategy and focused on early identification and management of risks and trends. In addition to meeting the internal goal of effective and efficient risk management, the Bank control and risk management systems have been developed to fulfil external and, in particular, regulatory requirements.

Given Česká spořitelna’s business strategy, the key risks are credit risk, market risk, liquidity risk and operational risk. The most significant risk is credit risk. In addition, the investment portfolio of the Bank is exposed to interest rate risk and liquidity risk. The risks attached to the trading portfolio include market risks, specifically foreign exchange, interest rate, commodity and equity risks and other risks relating to trading with complex instruments. All financial transactions and other banking activities also carry operational risk.

Risk management organization and decision bodies

Risk management for the Bank is performed by a division of the Bank managed by a member of the Board of Directors exclusively responsible for risk management - the Chief Risk Officer. This division, which is completely independent of the business divisions of the Bank, centralises all departments tasked with risk management, namely:

- Legal services;
- Strategic Risk Management;
- Credit Risk Management for Corporate Banking;
- Credit Risk Management for Retail Banking;
- Nonfinancial Risk Management and Compliance; and
- IS/IT Security.

The Management board deals with risk issues in its regular board meetings. All types of risks are reported periodically and actions are taken when needed. In addition, the board is concerned with current risk issues and, through the internal risk reporting receives ad hoc reports for all types of risk.

In order to carry out risk management activities and support the Management Board in its risk taking and risk managing decisions, certain committees have been established, including the following:

- Risk Management Committee;
- Credit Risk Committee;
- Asset Liability Committee (ALCO);
- Operational Liquidity Committee;
- Financial Markets Risk Management Committee (FMRMC); and
- Compliance, Operational Risk and Security Committee.

Management and control systems are continuously reviewed by the Internal Audit which prepares a verification report annually.

39.1 Risk and capital management

Overview

The Bank's risk and capital management framework has been continuously strengthened and developed into a comprehensive framework which is part of the Erste Group's enterprise risk management system. The fundamental pillar of this system is the Internal Capital Adequacy Assessment Process (ICAAP), as required under Pillar 2 of the Basel framework.

The risk and capital management and steering system is an integral part of the Bank's overall steering and management system. To ensure all aspects of regulatory requirements and support the Bank's management in pursuing its strategy the main components of this system can be clustered as follows:

- Risk appetite statement;
- Risk materiality assessment including concentration risk management;
- Stress testing;
- Risk-bearing capacity calculation;
- Risk planning & forecasting;
- Capital allocation and risk adjusted performance measurement; and
- Recovery and resolution plans.

Risk appetite statement and Risk Materiality Assessment

The risk appetite statement (RAS) serves as a formalised, high-level steering tool from which top-down targets for the Bank's limit system on lower aggregation levels can be derived. The objective of the Bank's RAS is to contain earnings volatility, avoid net losses and protect external and internal stakeholders. In order to reach these goals, general indicators are defined as well as indicators for credit, market and liquidity risk. To ensure that the RAS is operationally efficient, the indicators are classified as either targets, limits or principles, where the main differences are in the mechanisms triggered in case of a breach of the RAS. Regular reviews are performed and management reports are prepared in order to ensure effective limit oversight and identify any excesses.

For the purpose of systematically and continuously assessing all relevant risk types and identifying risks that are significant for the Bank, the Bank has defined a clear and structured risk materiality assessment approach that is based on defined quantitative and qualitative factors for each risk type and is carried out annually. This process constitutes the basis for the determination of material risk types to be included in the risk-bearing capacity calculation and stress testing. Insights generated by the assessment are also used to improve risk management practices to further mitigate risks within the Bank. The Bank has implemented a framework to identify, measure, control, report and manage concentration risks. Concentration risks also comprise an integral part of stress test analyses. Additionally, the results of concentration risk assessments are used in defining the Risk Appetite Statement, defining stress factors for stress tests, and calibrating the Bank's limit system.

Internal Capital Assessment Process and Stress Testing

With respect to the 'ICAAP',the Bank has been using the Erste Group Bank methodology, which serves as a uniform set of rules for capital management within the Bank.

The Bank methodology is continuously updated in order to reflect the latest trends, best practices and regulatory requirements. The Bank's approach contains minor modifications driven by local regulatory requirements or other local specifics.

Within ICAAP, all major risks are quantified and covered by internal capital. The Bank's economic capital is measured at a confidence level of 99.9% and a 1-year holding period. From a modelling point of view, complex advanced approaches based on VaR methodology are used for market risk, operational and liquidity risks or IRB for credit risk. The Bank also developed models for other risk types (business, strategic, reputational and concentration risk). The overall risk of the Bank is calculated as the sum of individual risk requirements, i.e. no diversification effect is considered among risk types in order to keep a conservative approach. The resulting aggregate risk exposure is compared to internal capital resources derived from Pillar 1 capital resources with some adjustments (mainly profit of the current year is added to capital resources). Finally, the results of the economic capital quantification are allocated to business lines in order to compare their risk adjusted profitability.

Additionally, the Bank performs stress testing which is used as an additional input for internal capital adequacy assessment. The results of stress testing are updated on a quarterly basis and are reflected into both pillars – regulatory Pillar 1 and internal Pillar 2.

The ICAAP results for the Bank are submitted to the Board of Directors on a quarterly basis; the Board decides on any measures to be adopted with respect to ICAAP as well as risks and capital management in general. The Bank meets the internal limits approved by the Board of Directors with a sufficient buffer.

The Bank has also approved a recovery plan in line with the Bank Recovery and Resolution Directive (BRRD) requirements. The aim of the recovery plan is to be well prepared for severe unfavourable market developments and, if appropriate, to take adequate measures in a timely manner.

From the long-time perspective, the Bank manages its capital with the objective of maintaining a strong capital base in order to support its business activities, to comply with all regulatory capital requirements including capital buffers (currently conservation, systemic risk, countercyclical and SREP buffers) and to ensure a stable return for shareholders.

Statement of capital for the Bank's capital adequacy calculation on a standalone basis as reported to the regulator in accordance with applicable rules* as of 31 December 2016 and as of 31 December 2015:

in CZK million	2016	2015
Original capital (Tier 1)	94,203	95,627
Tier 1 + Tier 2 capital	97,217	96,129
Risk exposure to credit risk	411,494	389,127
Risk exposure to market risk	8,361	5,476
Risk exposure to operational risk	64,464	48,451
Total risk exposure	**484,319**	**443,054**
Capital adequacy ratio for the year (Tier 1 ratio)	**19.5%**	**21.6%**
Capital adequacy ratio for the year (Tier 1+Tier 2 ratio)	**20.1%**	**21.7%**

*Reported figures are based on the methodology, where the Bank has used the possibility stated in the Article 26/2 of the CRR to include in the Common Equity Tier 1 capital credit risk adjustments.

The Bank meets all capital adequacy requirements as requested by regulators.

39.2 Credit risk

In the course of its business, the Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay amounts owing in full when due.

Credit Risk Management Methodology

In managing credit risk, the Bank applies a unified methodology which sets out applicable procedures, roles and authorities. The lending policy defines a comprehensive policy for the Bank's credit risk management. It defines the basic principles related to identification, measurement, monitoring, controlling and credit risk management. It contains the basic lending rules including limitations for loan granting and describes individual credit risk management tools, such as the rating system, collateral management, limit setting, setting of approval policy, monitoring, provisioning, reporting, controlling and portfolio management. In addition it defines credit risk management organization and discloses the lending process.

Breakdown of the Portfolio for Credit Risk Management Purposes

For the purpose of determining impairment allowances the loans and advances are segmented into non-default (performing) loans where the principal and interest is not past due for more than 90 days or there are no other indications that would suggest that the repayment of the receivable is unlikely (bankruptcy proceedings, forced restructurings, etc.) and default (non-performing) loans. There are two large sub-portfolios within these receivables, i.e. receivables which are individually significant comprising receivables from corporate entities or receivables where the Bank's credit exposure is higher than CZK 5 million, and receivables which are individually insignificant. Within these two sub-portfolios the Bank also monitors five customer portfolios for individually significant receivables and 17 product portfolios for individually insignificant receivables. The Bank monitors a number of risk parameters within these portfolios (PD - probability of default, LGD - loss given default, CCF - credit conversion factors). PD is further monitored at the level of various internal rating grades.

Receivables with debtor default correspond to individually impaired receivables (rating 'R'). Receivables without debtor default with internal ratings of 1 - 6 are considered to be unimpaired. Receivables with internal ratings of 7 - 8 are collectively impaired.

For credit risk management purposes, the Bank's loan portfolio is broken down as follows:

- Retail receivables are receivables from individuals/households and small enterprises with an annual turnover of up to CZK 60 million and small municipalities ('MSE'). The methods of managing the credit risk of retail receivables are based on statistical models calibrated using historical data.
- Receivables from corporate counterparties include receivables from small and medium sized enterprises with an annual turnover of between CZK 60 to 2,000 million ('SME') , receivables from large businesses (with an annual turnover exceeding CZK 2,000 million) and public sector receivables. While the methods of managing the credit risk of corporate receivables are based on statistical models (particularly for the portfolio of receivables from mid-size enterprises), great emphasis is also put on regular, discrete analysis of individual customers.

With the exception of a limited number of borderline cases, the implemented breakdown of the portfolio corresponds to the asset classes as defined in CNB Regulation 163/2014 Coll. which implements the BASEL III rules.

For the purpose of provisioning, monitoring and predicting losses, the Bank differentiates between individually significant and individually insignificant exposures. The credit risk attached to individually significant exposures is managed on an individual basis with the minor use of portfolio models. The Bank aggregates individually insignificant exposures into portfolios and manages the risk on a portfolio basis.

Individually significant loans predominantly include loans from the Bank's corporate portfolio. These loans are additionally split into the following sub-portfolios:

- Large corporate clients with an annual turnover exceeding CZK 2,000 million (the exposure of which is managed using a unified method throughout Erste Group Bank and its subsidiaries ('the Erste Group') or at the Bank level);
- Project finance and corporate mortgages;
- Small and medium sized enterprises (turnover from CZK 60 to 2,000 million);
- Municipality loans; and
- Loans in the Workout Department.

Corporate loans match the 'corporate' or 'special funding' asset class (segment) under BASEL III.

Individually insignificant loans (below CZK 5 million), including MSE loans, principally encompass the Bank's retail loans. These loans are divided into 17 product portfolios. The key portfolios include mortgage retail loans (with 5 LTV segments), credit card loans, overdraft loans and consumer loans. The Bank's retail loans match the 'Retail' asset class (segment) under BASEL III.

Collection of Key Risk Management Information

In managing credit risk, the Bank refers not only to the Bank's portfolio information but also the portfolio information of other members of the Group. The Bank also uses information obtained from external sources such as credit bureaus or ratings provided by reputable rating agencies. This data provides a basis for modelling credit risk and supports debt recovery, valuation of receivables and the calculation of credit losses.

Internal Rating Tools

The internal ratings of the Bank reflect the ability of counterparties to meet their financial obligations. The degree of risk is reflected in the internal rating and corresponding probability of default of the debtor in the following twelve months. The definition of default is in line with the requirements set out in CRR (Regulation EU No 575/2013).

The Bank allocates internal ratings to all clients with credit exposures. The Bank uses the rating scale with thirteen grades for non-defaulted counterparties and one grade for default counterparties (internal rating 'R'). In the case of private individuals there are only eight rating grades for non-defaulted clients.

To allocate the internal rating grade the Bank uses several rating models for different counterparty segments. All rating models comply with Erste Group Bank standards:

Segment	Rating tool
Government (sovereign) and banking	Unified model for the whole Erste Group. The model places great emphasis on independent external ratings combined with other information
Specialized financing	Unified model for the whole Erste Group, which is primarily based on projected cash flows
Corporate customers	Rating based on financial information and soft factors
MSE	In addition to the financial results of the company, information about the enterprise owner or the entrepreneur himself is also taken into account
Individuals	Behavioural and application scoring
Municipal clients	Model based on budget analysis

The Bank reviews ratings on a regular basis. The ratings of counterparties from the banking, corporate and sovereign segments are reviewed at least annually. For retail customers the Bank has developed a 'behavioural rating' and the client ratings are updated monthly.

The rating instruments are periodically adjusted to reflect changing economic conditions and the Bank's business plans, validation (consistency of results testing) and performance testing undertaken by the Credit Risk Controlling Department.

In the case of counterparties with an external rating provided by an external rating agency, the Bank uses this information as an additional source of information. Based upon its historical experience, the Bank has created a transfer bridge between its own internal ratings and the external ratings.

In addition to the internal ratings outlined above, the Bank allocates each exposure a risk group according to CNB Regulation No. 163/2014 Coll. In accordance with this regulation, the Bank maintains five groups of risk profiles namely, standard, watch, substandard, doubtful and loss.

In compliance with the regulatory requirements arising from BASEL III, rating instruments are subject to annual validations performed by the Credit Risk Controlling Department, Erste Group Bank Competence Centre and Internal Audit.

For the purpose of external reporting, internal rating grades of the Bank are grouped into the following four risk categories:

Low risk: Typically regional customers with well-established and rather long-standing relationships with the Bank or large internationally recognised customers. Strong and good financial position and no foreseeable financial difficulties. Retail clients having long relationships with the Bank, or clients with a wide product pool use. No late payments currently or in the most recent 12 months. New business is generally done with clients in this risk category.

Management attention: Vulnerable non-retail clients that may have overdue payments or defaults in their credit history or may encounter debt repayment difficulties in the medium-term. Retail clients with limited savings or probable payment problems in the past triggering early collection reminders. These clients typically have good recent histories and no current delinquencies.

Substandard: The borrower is vulnerable to negative financial and economic developments. Such loans are managed in specialised risk management departments.

Non-performing: One or more of the default criteria under Basel III are met: full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. For purposes of analysing non-performing positions, the Bank applies the customer view. Accordingly, if a customer defaults on one product then all of that customer's performing products are classified as non-performing.

Exposure Limits

Exposure limits are defined as the maximum exposure that the Bank may accept in respect of a client with a given rating and underlying collateral. In setting the system of limits, the Bank strives to protect its revenues and capital from concentration risk.

The VaR of Wholesale portfolio decreased from 2.49% (or CZK 16,064 million) in 2015 to 1.40% (or CZK 10,411 million) in 2016. In terms of expected loss riskiness portfolio improved from 0.32% in 2015 to 0.24% in 2016. This change can be primarily explained by improvement in rating distribution across the main segments of the portfolio (banks and istitutions, global and local corporates). Secondly there was a slight increase in concentration in low risk segments (CEE countries sovereigns and corporate clients with strong rating). Also in terms of comparison of VaR to Tier 1 capital (on consolidated level) the indicator decreased from 16.16% in 2015 to 10.53% in 2016.

Structure of Approval Authorities

The structure of approval authorities is based on the materiality of the impact of a potential loss from a provided exposure on the Bank's financial performance and the risk profile of the relevant loan transaction. The highest approval authorities rest with the Credit Committee of the Board and/or Statistical Model Committee, with the Risk Committee of the Supervisory Board only having an advisory role for Credit Committee of the Board. Lower approval authorities are categorised taking into account the seniority of the staff of the Corporate Credit Risk Management Department and the Retail Credit Risk Management Department.

Risk Parameters

The Bank uses its own internal models in determining the risk parameters, namely PD, LGD and CCF risk parameters. All of the models are developed according to BASEL III requirements and are subject to regular independent validation and review by the regulator. The monitoring of historical risk parameters and their prediction serve as a basis for the quantitative management of portfolio credit risk.

The Bank currently employs risk parameters for portfolio monitoring, non-performing (defaulted) loan portfolio management, portfolio protection measurement, risk valuation and prediction of the Bank's risk profile development under different scenarios.

All models are back tested at least annually and validated by the Bank's specialists who are independent of the Risk Management Department.

Impairment Allowance for Loan Losses

The Bank recognises impairment allowances for incurred losses. These losses are determined and recognised in accordance with IAS 39. The Bank uses adjusted risk parameters estimated as part of the implementation of the BASEL III rules to assess the amount of loss.

Loan loss impairment allowances are determined for all impaired loans. The impairment methodology is regularly reviewed and adjusted if necessary.

Management of Credit Risk in the Trading Portfolio

The credit risk inherent in the trading portfolio is managed through the limits system applied to all counterparties.

Collateral

The Bank defines collateral as assets that can be realized in case the primary source of repayment fails. Collateralisation of the Bank's receivables represents the Bank's protection as a creditor that may be used as a secondary source of payment. The selection of individual collateral instruments required to secure a specific deal depends on the Bank's loan products, requirements and professional assessment by the Bank's responsible employees. The possibility to pledge the collateral is always assessed before the collateral is accepted by the Bank.

The value of collateral (nominal value of collateral) is determined with reference to the market prices of similar types of collateral. If more than one market price for the collateral is determined using various valuation techniques in a particular business transaction, the lowest market price is used.

If the collateral instrument involves real estate, movable assets, a business or its branch, trademarks, an asset declared as a historical monument, etc., the price has to be determined on the basis of an appraisal made by an expert appraiser contracted by the Bank or an internal appraiser for the purpose of evaluating the loan application. The expert appraisal or price estimate should not be older than six months at the date on which the loan contract is entered into. For real estate valuation purposes a detailed, in-house methodology is used.

The realisable value of collateral is determined by using the valuation rates set in the Collateral Catalogue. In determining the valuation rates, it is necessary to assess individual instruments by their specific features, e.g. real estate by the character of its construction, etc. and always following a physical inspection. The overall setup of maximum valuation rates is reviewed annually.

The expert valuation always has to be reviewed. Other conditions taken into account in determining the realisable value of collateral are, among others, as follows:

- A comprehensive assessment of all available and, with respect to the particular case, significant circumstances and background documentation;
- Any insurance or pledges of receivables from insurance proceeds in favour of the Bank;
- The possibility of realising the collateral at a particular time and place and the amount of realisation costs which, in most cases, needs to be viewed as a sale in distress; and
- Comparison to market trends.

The Collateral Catalogue also includes requirements for the periodic revaluation of collateral. Typically, the collateral value is analysed and updated upon the regular monitoring/credit review of clients. With respect to product portfolios of retail mortgages, the Bank uses portfolio models for updating base collateral values. In addition, the Bank regularly monitors the loan-to-value ratio, mainly in respect of mortgage loans and project financing loans.

Credit risk pricing

The accepted risk is reflected in risk margins used in the pricing of individual types of counterparties and deals. The risk margins are based on estimated risk parameters, the expected development of the macroeconomic environment and changes in the credit process within the Bank, which may have an impact on risk level within the credit portfolio.

Stress testing

The Bank regularly performs stress testing of the sensitivity of its portfolio to the deterioration of the credit quality of receivables. In addition to the sensitivity of the portfolio to stress changes in the PD and LGD risk factors, the Bank performs scenario analyses modelling the impact of adverse developments in macroeconomic factors (such as changes in the economic growth rate, changes in interest rates and changes in inflation). The breakdown of credit risk by industries is shown in Note 39.2 Credit risk.

Forborne exposures

The Bank implemented the new forbearance methodology according to the EBA regulation in 2014. Forborne exposures are exposures where the debtor is considered unable to comply with the contract due to its financial difficulties and the Bank decided to grant a concession to a debtor. Forbearance measure can be either modification of terms and conditions or refinancing of the contract. Modification of terms includes payment schedule changes (deferrals or reductions of regular payments, extended maturities, etc.), interest rate reductions or penalty interest waivers.

Forborne exposure initially receives default rating ‘R’; such exposure is classified as non-performing defaulted forborne exposure. After minimum 12 months and when the pre-defined conditions are fulfilled the exposure can be reclassified into performing forborne exposure. The performing forborne exposure has to be closely monitored during the probation period which takes minimum 2 years. When the exposure within the probation period defaults the exposure is downgraded into the non-performing forborne exposures. If after 2 years’ probation period the stated conditions are met the exposure ceases to be classified as forborne.

Quantitative information in respect of Forbearance is attached in the table below f) Exposures with forbearance.

Write-offs

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered remote. The loan is written-off against the related account ‘Net impairment loss on financial assets not measured at fair value through profit or loss’ in the income statement. If the reason for provisioning is no longer deemed appropriate, the redundant impairment charge is released into income. The relevant amount and recoveries of loans and advances previously written-off are also reflected in the income statement through ‘Net impairment loss on financial assets not measured at fair value through profit or loss’.

a) Structure of Net Credit Risk by On-balance Sheet and Off-balance Sheet Items

The Bank is exposed to credit risk arising from the following items:

In CZK million	2016
Net credit risk exposures relating to on-balance sheet items	
Other demand deposits	1,121
Financial assets held for trading – derivatives	13,458
Financial assets held for trading – debt securities	7,587
Financial assets designated at fair value through profit or loss – debt securities, loans and advances	377
Available-for-sale financial assets – debt securities	79,665
Loans and advances to banks	21,823
Loans and advances to customers	538,359
- General governments	19,113
- Other financial corporations	25,155
- Non-financial corporations	203,143
- Households	290,948
Held-to-maturity investments	159,874
Derivatives – Hedge accounting	519
Credit risk exposure relating to off-balance sheet items	
Irrevocable financial guarantees given	24,950
Irrevocable loan commitments given	99,274
Total	**947,007**

In CZK million	2015
Net credit risk exposures relating to on-balance sheet items	
Other demand deposits	3,300
Financial assets held for trading – derivatives	14,184
Financial assets held for trading – debt securities	719
Financial assets designated at fair value through profit or loss – debt securities	316
Available-for-sale financial assets – debt securities	75,613
Loans and advances to banks	34,120
Loans and advances to customers	494,915
- General governments	19,932
- Other financial corporations	24,963
- Non-financial corporations	184,305
- Households	265,715
Held-to-maturity investments	151,682
Derivatives – Hedge accounting	663
Credit risk exposure relating to off-balance sheet items	
Irrevocable financial guarantees given	27,778
Irrevocable loan commitments given	86,301
Total	**889,593**

In 2015 the Bank started to use new NPL / NPE EBA definition. Based on this definition cash and cash balances at central banks are treated as a separate portfolio, which is excluded from the total credit risk exposure.

The resulting credit exposure as at 31 December 2016 and 2015 represents a worst case scenario, without taking into account any collateral held or other related credit enhancements. For presented assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 59% of the total exposure is derived from loans and advances to financial institutions and customers (2015: 59%); 26% represents investments in debt securities (2015: 26%).

The Bank has no outstanding exposure to the sovereign debt of Greece, Italy, Ireland, Portugal or Spain.

Collateral securing the above receivables is as follows:

In CZK million	2016	2015
Loans and advances to credit institutions	-	2,225
Loans and advances to customers	265,424	224,747
Contingent liabilities	4,042	-
Total	**269,466**	**226,972**

Type of collateral securing the above receivables is as follows:

in CZK million	2016	2015
Guarantees	22,066	17,336
Real estate	226,572	192,867
Other (securities & other financial assets)	20,828	16,769
Total	**269,466**	**222,972**

The value of collateral is the lower of the collateral's nominal value multiplied by a valuation rate and the receivable balance. It is not always certain that the estimated collateral values will be realised. For details of the determination of collateral fair values, refer to the description above.

b) Gross Credit risk exposure by industry and financial instrument

The following tables present Bank's credit risk exposure by industry, broken down by financial instruments, as of each reporting date indicated.

Gross credit risk exposure by industry and financial instrument in 2016

				Debt instruments						
	Balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent liabilities	Credit risk exposure
in CZK million		At amortised cost			Fair value					
Agriculture and forestry	-	-	12,002	-	-	-	-	91	1,758	13,851
Mining	-	-	1,923	-	-	-	-	1	296	2,220
Manufacturing	-	-	52,285	-	-	-	1,531	404	18,107	72,327
Energy and water supply	-	-	20,925	-	-	-	1,305	742	6,579	29,551
Construction	-	-	7,311	-	-	-	-	15	13,056	20,382
Trade	-	-	31,444	-	-	-	-	188	11,704	43,336
Transport and communication	-	-	15,598	-	-	-	3,856	638	9,453	29,545
Hotels and restaurants	-	-	3,102	-	-	-	-	35	379	3,516
Financial and insurance services	1,121	21,835	25,342	12,634	7,441	377	11,236	7,993	9,861	97,840
Real estate and housing	-	-	66,161	3	-	-	-	290	5,781	72,235
Services	-	-	16,321	-	-	-	-	105	5,197	21,623
Public administration	-	-	17,878	147,241	146	-	61,737	3,363	3,934	234,299
Education, health and art	-	-	6,313	-	-	-	-	101	833	7,247
Private households	-	-	275,342	-	-	-	-	11	37,286	312,639
Total	**1,121**	**21,835**	551,947	159,878	7,587	377	79,665	13,977	124,224	960,611

Gross credit risk exposure by industry and financial instrument in 2015

				Debt instruments						
	Balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments	Contingent liabilities	Credit risk exposure
in CZK million		At amortised cost			Fair value					
Agriculture and forestry	-	-	10,360	-	-	-	-	106	1,243	**11,709**
Mining	-	-	1,750	-	-	-	-	-	86	**1,837**
Manufacturing	-	-	45,520	121	-	-	1,142	452	19,509	**66,744**
Energy and water supply	-	-	21,201	-	-	-	810	1,000	7,356	**30,366**
Construction	-	-	6,833	-	-	-	-	12	12,149	**18,994**
Trade	-	-	29,936	-	-	-	-	146	9,604	**39,686**
Transport and communication	-	-	12,726	540	-	-	3,099	902	12,286	**29,553**
Hotels and restaurants	-	-	2,770	-	-	-	-	6	283	**3,059**
Financial and insurance services	3,300	34,134	24,763	20,408	599	316	11,543	8,429	8,395	**111,889**
Real estate and housing	-	-	65,428	3	-	-	-	297	4,691	**70,419**
Services	-	-	10,454	-	-	-	-	36	3,945	**14,434**
Public administration	-	-	34,531	130,616	120	-	59,019	3,362	2,066	**229,716**
Education, health and art	-	-	6,156	-	-	-	-	94	786	**7,036**
Private households	-	-	237,449	-	-	-	-	6	31,679	**269,134**
Total	**3,300**	**34,134**	**509,878**	**151,689**	**719**	**316**	**75,613**	**14,847**	**114,079**	**904,576**

c) Credit risk exposure by risk category

The following table presents the credit risk exposure of the Bank divided by risk category as of 31 December 2016, compared with the credit risk exposure as of 31 December 2015.

Credit risk exposure by risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Total exposure as of 31 Dec 2016	883,073	56,675	2,910	17,953	960,611
Share of credit risk exposure	91.9%	5.9%	0.3%	1.9%	100.0%
Total exposure as of 31 Dec 2015	819,274	58,789	5,097	21,416	904,576
Share of credit risk exposure	90.6%	6.5%	0.6%	2.4%	100.0%
Change in credit risk exposure in 2016	63,799	(2,113)	(2,187)	(3,463)	56,035
Change	7.8%	(3.6%)	(42.9%)	(16,2%)	6,2%

Credit risk exposure by industry and risk category

The following tables present the credit risk exposure of the Bank broken down by industry and risk category as of 31 December 2016 and 31 December 2015, respectively.

Credit risk exposure by industry and risk category in 2016

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	11,548	1,936	125	242	**13,851**
Mining	2,183	26	-	11	**2,220**
Manufacturing	61,396	6,515	345	4,071	**72,327**
Energy and water supply	27,189	1,754	182	426	**29,551**
Construction	15,204	3,644	410	1,124	**20,382**
Trade	35,678	5,263	286	2,109	**43,336**
Transport and communication	25,245	4,092	72	136	**29,545**
Hotels and restaurants	1,910	1,141	64	401	**3,516**
Financial and insurance services	94,122	3,480	1	237	**97,840**
Real estate and housing	58,737	11,368	439	1,691	**72,235**
Services	15,961	4,821	201	640	**21,623**
Public administration	233,909	219	11	160	**234,299**
Education, health and art	5,854	1,249	10	134	**7,247**
Private households	294,137	11,167	764	6,571	**312,639**
Other	-	-	-	-	**-**
Total	**883,073**	**56,675**	**2,910**	**17,953**	**960,611**

Credit risk exposure by industry and risk category in 2015

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	10,030	1,289	121	269	**11,709**
Mining	1,795	36	-	6	**1,837**
Manufacturing	54,053	8,186	953	3,552	**66,744**
Energy and water supply	25,993	3,575	484	314	**30,366**
Construction	13,549	2,897	512	2,036	**18,994**
Trade	31,314	5,317	390	2,665	**39,686**
Transport and communication	27,392	1,569	414	178	**29,553**
Hotels and restaurants	1,339	719	154	847	**3,059**
Financial and insurance services	108,462	2,799	309	319	**111,889**
Real estate and housing	53,199	14,357	674	2,189	**70,419**
Services	9,573	4,261	289	311	**14,434**
Public administration	228,474	1,207	35	-	**229,716**
Education, health and art	5,390	1,508	14	124	**7,036**
Private households	248,711	11,069	748	8,606	**269,134**
Other	-	-	-	-	**-**
Total	**819,274**	**58,789**	**5,097**	**21,416**	**904,576**

d) Financial Assets Past Their Due Dates

As at 31 December 2016 and 2015, the Bank reports the following financial assets which are past their due dates, but not individually impaired:

As at 31 December 2016	Credit risk exposure				
in CZK million	Total	Thereof 31 - 60 days past due	Thereof 61 - 90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
General governments	12	-	-	-	-
Credit institutions	10	-	-	-	-
Other financial corporations	23	-	-	-	-
Non-financial corporations	2,879	63	46	-	-
Households	1,428	412	237	-	-
Total	4,352	475	283	-	-

As at 31 December 2015	Credit risk exposure				
in CZK million	Total	Thereof 31 - 60 days past due	Thereof 61 - 90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
General governments	4	-	-	-	-
Credit institutions	134	-	-	-	-
Other financial corporations	31	98	1	-	-
Non-financial corporations	**4,054**	134	63	**-**	**-**
Households	**1,752**	581	283	**-**	**-**
Total	**5,975**	**813**	**347**	**-**	**-**

e) Analysis of Individually Impaired Financial Assets

in CZK million	2016	2015
General governments	14	6
Credit institutions	11	135
Other financial corporations	168	158
Non-financial corporations	8,971	10,582
Households	6,704	8,448
Total	**15,868**	**19,329**

f) Exposures with forbearance measures – quantitative information

All exposures with forbearance measures relates to financial assest's category loans and advances. There are no exposures with forbearance measure reported by the Bank resulting from debt instruments or loan commitments.

Analysis of performing and non-performing forboborne exposures

2016

in CZK million	Forborne exposures	Performing forborne exposure	Non-perfroming forborne exposure	of which: Defaulted
General governments	7	4	3	2
Non-financial corporations	2,454	489	1,965	1,791
Households	3,011	885	2,125	1,679
Total	**5,472**	**1,378**	**4,093**	**3,472**

2015

in CZK million	Forborne exposures	Performing forborne exposure	Non-perfroming forborne exposure	of which: Defaulted
General governments	5	5	-	-
Non-financial corporations	2,951	308	2,643	2,164
Households	3,444	789	2,655	2,548
Total	**6,400**	**1,102**	**5,298**	**4,712**

All forbearance measures are reported as a modification of the previous terms and conditions.

Analysis of the credit quality of financial assets as required by IFRS 7 including level of impairment and collateral as of 31 December 2016

	Outstanding					
in CZK million	Neither past due nor impaired	Past due but not impaired	Impaired	Total forborne	Provisions	Collateral
General governments	5	-	2	7	-	-
Households	764	579	1,668	3,011	1,076	992
Non-financial corporations	306	357	1,791	2,454	1,056	797
Total	**1,075**	**936**	**3,461**	**5,472**	**2,132**	**1,789**

Analysis of the credit quality of financial assets as required by IFRS 7 including level of impairment and collateral as of 31 December 2015

	Outstanding					
in CZK million	Neither past due nor impaired	Past due but not impaired	Impaired	Total forborne	Provisions	Collateral
General governments	5	-	-	5	-	-
Households	799	96	2,549	3,444	1,163	1,392
Non-financial corporations	717	71	2,163	2,951	970	1,328
Total	**1,521**	**167**	**4,712**	**6,400**	**2,133**	**2,720**

The carrying amount of forborn assets in comparison with other assets remaining the portfolio

	2016			2015		
in CZK million	Total portfolio	Forborne portfolio	Share on total portfolio	Total portfolio	Forborne portfolio	Share on total portfolio
General governments	19,113	7	0.0%	19,932	5	0.0%
Credit institutions	20,518	-	0.0%	34,120	-	0.0%
Other financial corporations	25,155	-	0.0%	24,963	-	0.0%
Non-financial corporations	202,350	1,398	0.7%	184,305	1,981	1.1%
Households	290,949	1,935	0.7%	265,715	2,281	0.9%
Total	**558,084**	**3,340**	**0.6%**	**529,035**	**4,267**	**0.8%**

The Bank does not report data in respect of carrying amount of the newly recognised assets for original forborn assets, which have been derecognised during the reporting period.

Level of the collective and specific impairment allowance held against forborne assets

	2016			2015		
in CZK million	Specific allowances	Collective allowances	Total	Specific allowances	Collective allowances	Total
Households	1,008	68	1,076	1,074	89	1,163
Non-financial corporations	1,004	52	1,056	860	110	970
Total	**2,012**	**120**	**2,132**	**1,934**	**199**	**2,133**

Reconciliation from the opening balance to the closing balance of forborn assets

2016

in CZK million	General governments	Non-financial corporations	Households	Total
Opening balance (1 January 2016)	5	2,952	3,444	6,400
Inflow (+)	2	344	547	893
Outflow (-)	(1)	(124)	(250)	(375)
Changes in outstanding (+/-)	1	(717)	(730)	(1,446)
Closing balance (31 December 2016)	**7**	**2,454**	**3,011**	**5,472**

2015

in CZK million	General governments	Non-financial corporations	Households	Total
Opening balance (1 January 2015)	-	2,318	3 685	6,003
Inflow (+)	5	1,956	1 484	3,445
Outflow (-)	-	(1,188)	(1 585)	(2,773)
Changes in outstanding (+/-)	-	(135)	(140)	(275)
Closing balance (31 December 2015)	**5**	**2,951**	**3,444**	**6,400**

Loss from the forborne exposures

2016

in CZK million	Loss	Direct write-offs
General governments	-	-
Non-financial corporations	36	-
Households	72	-
Total	**108**	**-**

2015

in CZK million	Loss	Direct write-offs
General governments	-	-
Non-financial corporations	92	-
Households	159	-
Total	**251**	**-**

Interest income from the forborne exposures

in CZK million	2016	2015
General governments	-	1
Non-financial corporations	93	113
Households	212	238
Total	**305**	**352**

39.3 Market Risk

The Bank is exposed to the impact of market risks. Market risks arise from open positions in interest rate, currency, equity, commodity financial instruments and even the credit spread included in the relevant positions within the Banking book (i.e. the credit spread is a part of a discounting factor). The value of open positions changes subject to general and specific financial market movements. The Bank is exposed to the market risk arising from open positions in the Trading book. However, a significant component of market risk is also the interest rate risk associated with assets and liabilities and credit spread risk associated with marked-to-market positions included in the Banking book. There are several reasons why the credit spread is included: 1. The requirement in calculating economic capital to include the credit spread and to cover the impact of this risk factor; 2. A more precise calculation of security prices; and 3. To reflect the credit rating of issuers/counterparties.

Trading book transactions in the capital, money, interbank and derivative markets can be segmented as follows:

- Client quotations and client transactions, execution of client orders;
- Interbank and derivative market quotations (market making); and
- Managing open positions in the interbank, derivative and capital markets arising from above mentioned activities.

The Bank trades in the following derivative financial instruments through the OTC market:

- Foreign currency forwards (including non-delivery forwards) and swaps;
- Foreign currency options;
- Interest rate swaps;
- Asset swaps;
- Forward rate agreements;
- Cross-currency swaps;
- Interest rate options such as swaptions, caps and floors;
- Commodity derivatives (swaps and forwards); and
- Credit derivatives.

In the area of exchange traded derivatives, the Bank trades the following instruments:

- Bond futures;
- Equity and equity indices futures;
- Interest rate futures;
- Commodity futures; and
- Options in respect of bond futures.

The Bank also trades, on behalf of its clients, with other less common currency options, such as digital or barrier. Certain option contracts or options on various underlying equity baskets or equity indices form part of other financial instruments as embedded derivatives.

Derivative financial instruments are also entered into to hedge against interest rate risk inherent in the Banking book (interest rate swaps, FRA, swaptions) and to refinance the mismatch between foreign currency assets and liabilities (foreign exchange swaps and cross currency swaps).

The majority of open positions arising from client transactions in the Bank's Trading book are transferred to the Erste Group Bank portfolio through back-to-back transactions. As such, the market risk arising from the Bank's OTC transactions is managed within the Erste Group Bank portfolio. The Bank retains in the trading portfolio the money market risk due to liquidity management (money market), equity risk and partially a residual risk from previously closed transactions. This residual risk is dynamically hedged at a macro level in line with the Bank's limits trading strategy and set for market risk.

In addition to the calculation of sensitivities to individual risk factors, the Bank uses the value at risk (VaR) methodology to estimate and manage the market risk of open positions held and to determine the maximum losses expected on these positions. The VaR values are calculated in a group Market Risk System (MRS) on a confidence level of 99% and one day horizon. The MRS uses historical simulation for the VaR calculation based on two years history. VaR on different probability level and/or different time horizon is derived from the VAR 99% on 1 day horizon using the scaling assuming a normal distribution of profit and losses. For other purposes the VaR is also scaled up to of one month or one year and probability level 99.9%. The Board of Directors establishes VaR limits for the trading and Banking book portfolio as the Bank's maximum acceptable exposure to market risk. For the trading portfolio VaR sub-limits (1 day, 99%) in respect of individual trading desks are established and limits for sensitivity values of the trading portfolio to individual risk factors such as foreign exchange rates, equity prices, interest rates, volatility, commodity and other risk parameters of option contracts facilitate the maintenance of the overall market risk profile. These limits are approved by the Financial Market and Risk Management Committee and are monitored on a daily basis.

The market risk VaR indicator is used for the Banking book too. For the purposes of the VaR calculations the Banking book loans and deposits are represented by equivalent interest rate positions. The Banking book VaR (1 month, 99%) is reported to the Assets and Liabilities Committee ('ALCO') on a monthly basis while compliance with the limit is monitored by Risk Management on a daily basis. The acceptable level of risk is based on the assessment of the capital available to cover risks based on the 'ICAAP' methodology. The overall VaR is subsequently allocated to individual sub-portfolios of the Banking book, taking into account both the perspective of strategic portfolio management and the accounting measurement of securities portfolios.

The table below summarizes the VaR values as at 31 December 2016 and 2015 on the confidence level of 99%.

As at 31 December 2016 in CZK million	Total Market Risk	Correlation Effect	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Commodity Risk	Credit Spread risk
Trading book							
Daily value	9	(2)	9	1	-	1	-
Monthly value	42	(8)	42	3	-	5	1
Average of daily values per year	10	(2)	9	2	-	-	-
Average of monthly values per year	46	(11)	43	10	1	1	1
Banking book							
Daily value	491	(65)	496	-	-	-	60
Monthly value	2,305	(305)	2,327	-	-	-	283
Average of daily values per year	421	(69)	417	-	-	-	73
Average of monthly values per year	1,973	(325)	1,956	-	-	-	342

As at 31 December 2015 in CZK million	Total Market Risk	Correlation Effect	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Commodity Risk	Credit Spread risk
Trading book							
Daily value	11	(4)	11	4	-	-	-
Monthly value	52	(21)	52	19	1	-	-
Average of daily values per year	8	(3)	7	2	-	-	1
Average of monthly values per year	38	(12)	34	10	-	1	4
Banking book							
Daily value	312	(90)	301	4	-	-	96
Monthly value	1,463	(421)	1,413	19	-	-	452
Average of daily values per year	317	(68)	238	1	-	-	140
Average of monthly values per year	1,487	(318)	1,117	4	-	-	656

In addition, the Bank uses stress testing or an analysis of impacts of adverse developments in market risk factors on the market value of the Trading book and on the parts of the Banking book revalued to market values. The Scenarios are based on the historical extremes and experts' opinion of the Macroeconomic Analyses Department. The stress testing is undertaken on a monthly basis and its results are reported to FMRMC. In the Comprehensive Stress testing the complex scenario impact on the Bank is analysed on quarterly basis. The Bank monitors financial news, analyses market movements and prepares for different scenarios with respect to the position of the economy.

INTEREST RATE RISK

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Bank manages the interest rate risk of the Banking book by monitoring the repricing dates of the Bank's assets and liabilities and using models which show the potential impact that changes in interest rates may have on the Bank's net interest income.

For monitoring and measuring the Banking book interest rate exposures, the Bank uses shifts in the yield curves focused on monitoring potential impacts of market interest rate movements on the net interest income. A basic analysis focuses on the sensitivity of the net interest income to one-off changes of market interest rates ('rate shock').

The Banking book interest rate exposures analyses are performed on a monthly basis. The current level of the interest rate risk exposure is assessed by ALCO on a monthly basis in the context of the overall development of financial markets and the Czech banking sector, as well as any structural changes in the Bank's statement of financial position.

In order to measure the interest rate risk exposure within the trading portfolio, the Bank uses the present value of a basis point ('PVBP) defined as a sensitivity to interest rates by currency for individual portfolios of interest rate products. These factors measure the portfolio market value sensitivity with a parallel shift of the yield curve of the relevant currency within the predefined period to maturity. The system of PVBP limits is set in respect of each interest rate product portfolio by currency.

The following table is based on the exposure of the Bank to interest rates for derivative and non-derivative instruments as of the reporting date. The model assumes a fixed structure of the statement of financial position according to interest rate sensitivity. The determined changes which occurred at the beginning of the year are constant during the reported period, i.e. the model is based on the assumption that the funds released as a result of the payment or sale of interest rate assets and liabilities will be re-invested in assets and liabilities with the same interest rate sensitivity and residual maturity. Calculation method used takes credit spreads into account . The following table shows the impact on the income statement and other comprehensive income of the Bank if the CZK or EUR yield curves sharply increased/decreased by 100 points at the beginning of the respective year and other interest rates remained unchanged.

	2017		2016	
in CZK million	Interest rate increase	Interest rate decrease	Interest rate increase	Interest rate decrease
CZK				
Income statement	2,176	(1,386)	1,693	(420)
Other comprehensive income	(1,251)	1,334	(1,580)	879
EUR				
Income statement	11	180	97	(29)
Other comprehensive income	(348)	386	(131)	33

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the value of financial instruments in both the Trading and Banking books will fluctuate due to changes in foreign exchange rates. The Bank manages this risk by establishing and monitoring limits on open positions, also including delta equivalents of currency options. In addition, the Bank monitors special sensitivity limits for foreign currency option contracts known as 'greeks' sensitivity analysis. The foreign currency risk of all financial instruments is transferred via the currency positions which are managed by the Trading Department in accordance with set currency sensitivity limits. In addition to the monitoring of limits, the Bank uses the VaR concept for measuring the risk arising from open positions in all currency instruments.

EQUITY RISK

To monitor and manage the equity risk inherent in the trading and Banking books, the Bank uses VaR methodology and sensitivity analysis which is based on the exposure to the risk of changes in the price of shares as of the reporting date. With respect to the increased volatility of share prices, the equity risk represents a significant component of risks despite smaller volumes of share positions.

COMMODITY RISK

The commodity instruments appear solely in the trading portfolio as supporting instruments for client transactions. The major part of commodity derivatives are secured on a 'back-to-back' basis with a third party.

39.4 Liquidity Risk

Definition and overview

The liquidity risk is defined in the Bank in line with the principles set out by the Basel Committee on Banking Supervision and Czech National Bank. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Bank cannot easily offset or close a position at the market price because of inadequate market depth or market disruption, and funding liquidity risk, which is the risk that the Bank will not be able to meet efficiently both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the Bank members.

Funding liquidity risk is further divided into insolvency risk and structural liquidity risk. The former is the short-term risk that current or future payment obligations cannot be met in full and on time in an economically justified manner, while structural liquidity risk is the long-term risk of losses due to a change in the Bank's own refinancing cost or spread.

Methods and instruments employed

Short-term insolvency risk is monitored by calculating the survival period for significant currencies. This analysis determines the maximum period during which the entity can survive a severe combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time customers' deposits significant outflow. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of the customer, as well as potential outflows from collateralised derivative transactions estimating the effect from collateral outflow in case of adverse market movements.

Since September 2015 the Bank reports to the national regulator LCR according to Delegated Act. At the end of 2016, both LCR and NSFR for the Bank were above 100%.

In 2016, the Bank successfully completed implementation of Additional Liquidity Monitoring Metrics (ALMM) regulatory requirement. ALMM complement already existing Basel III liquidity risk ratios in the form of several detailed liquidity risk reports/measures.

Methods and instruments of risk mitigation

General standards of liquidity risk controlling and management (standards, limits and analysis) have been defined and are continuously reviewed and improved by Erste Group.

The short-term liquidity risk is managed by limits resulting from the survival period model and by internal LCR targets and Intraday liquidity buffer target. Limit breaches are reported to the ALCO. The Comprehensive Contingency Funding Plan ensures the necessary coordination of all parties involved in the liquidity management process in case of crisis and is reviewed on a regular basis.

Analysis of liquidity risk

Liquidity gap

The long-term liquidity position is managed using liquidity gaps on the basis of expected cash flows. This liquidity position is calculated for each significant currency and based on the assumption of ordinary business activity.

Expected cash flows are broken down by contractual maturities in accordance with the amortisation schedule and arranged in maturity ranges. For demand deposits, expected cash flows are calculated based on their liquidity profile which is provided by ALM and also used for FTP.

The following table shows the liquidity gaps as of 31 December 2016 and 31 December 2015

	< 1 month		1 -12 months		1-5 years		> 5 years	
in CZK million	2016	2015	2016	2015	2016	2015	2016	2015
Liquidity GAP	211,164	193,858	(100,550)	(67,314)	1,520	(14,931)	(43,472)	(30,054)

An excess of assets over liabilities is indicated by a positive value, while an excess of liabilities over assets is indicated by a negative value. The cash inflows from liquid securities, which are accepted as collateral by the central banks to which the Bank has access, are shifted to the first time bucket instead of showing them at their contractual maturity.

Counterbalancing capacity

The Bank regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserve at the central banks as well as unencumbered central bank eligible assets and other liquid securities, including changes from repos, reverse repos and securities lending transactions. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation. The term structure of the Bank's counterbalancing capacity as of year-end 2016and year-end 2015are shown in the tables below:

As at 31 December 2016 in CZK million	< 1 week
Cash, excess reserve	136,568
Liquid assets	167,709
Other central bank eligible assets	-
Counterbalancing capacity	**304,277**

As at 31 December 2015 in CZK million	< 1 week
Cash, excess reserve	85,231
Liquid assets	177,200
Other central bank eligible assets	-
Counterbalancing capacity	**262,431**

The figures above show the total amount of potential liquidity available for the Bank in a going concern situation.

Financial liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as of 31 December 2016 and 31 December 2015 respectively, were as follows:

As at 31 December 2016 in CZK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5- years	> 5 years
Non-derivative liabilities	**851,018**	**852,439**	**759,757**	**52,417**	**24,917**	**15,349**
Deposits by banks	120,019	120 ,113	51,386	37,009	23,800	7,918
Customer deposits	711,400	712,122	707,630	3,970	522	-
Debt securities in issue	18,859	19,466	2	11,438	595	7,431
Other financial liabilities	740	740	740	-	-	-
Derivative liabilities	**14,508**	14,508	581	1,424	7,540	4,962
Contingent liabilities	**124,224**	124,224	**1,214**	**81,871**	**26,799**	**14,340**
Financial guarantees	24,950	24,950	1,108	11,038	10,330	2,474
Irrevocable commitments	99,274	99,274	106	70,833	16,469	11,866
Total	989,750	991,171	761,552	135,712	59,256	34,651

As at 31 December 2015 in CZK million	Carrying amounts	Contractual cash flows	< 1 month	1-12 months	1-5- years	> 5 years
Non-derivative liabilities	**763,476**	**766,658**	**675,794**	**28,742**	**40,205**	**21,917**
Deposits by banks	92,313	92,188	37,572	13,328	27,033	14,255
Customer deposits	640,725	643,069	636,103	5,706	1,260	-
Debt securities in issue	28,319	29,281	-	9,708	11,912	7,662
Other financial liabilities	2,119	2,119	2,119	-	-	-
Derivative liabilities	15,503	15,593	88	1,448	6,512	7,545
Contingent liabilities	**114,079**	**114,079**	**1,678**	**69,194**	**29,102**	**14,105**
Financial guarantees	**27,778**	**27,778**	**1,668**	**11,281**	**11,424**	**3,405**
Irrevocable commitments	86,301	86,301	10	57,913	17,678	10,700
Total	893,058	899,789	677,560	99,960	78,256	44,012

39.5 Operational Risk

In accordance with regulatory requirements, the Bank defines operational risk as the risk of losses arising from the inappropriateness or failure of internal processes, human errors or failures of systems or the risk of losses arising from external events, including losses due to the breach of or failure to fulfil legal regulations.

With assistance from Erste Group Bank, the Bank put in place a standardised categorisation of operational risks. This classification became the basis of the 'Book of Risks of The Bank', developed in cooperation with the Risk Management and Internal Audit departments. The Book of Risks is a tool used to achieve unification of risk categorisation in order to ensure consistent risk monitoring and evaluation.

The Bank has cooperated with an external supplier in developing a specialised software application EMUS to collect data about operational risk which conforms to the data collection requirements.. The data is not only used with a view to quantifying operational risks and monitoring trends in the development of these risks but also for the purpose of preventing recurrence of operational risks. The system is also used as a case management tool for all fraud investigations (i.e. final investigation report, list measures and monitoring of its fulfilment, communication exchange with law enforcement authorities,…). In addition to monitoring actual occurrence of operational risk, the Bank also pays attention to how the operational risk is perceived by management. In this respect, the Bank has introduced and is further expanding methods with the aim of identifying severe potential threats in order to implement preventative measures before losses materialise. For this purpose, the following tools are used: Risk and Control Self-Assessment, Key Risk Indicators and Scenario Analysis. The Bank also actively manages risks related to outsourced activities. Depending on the specific method, this type of assessment is done on a continuous, monthly or annual basis.
The Bank successfully passed validation for managing of operational risk according to Advanced Measurement Approaches (AMA). Based on this method a capital charge related to operational risk is properly computed and allocated since 1 July 2009.

An important tool in mitigating losses arising from operational risks is the Bank's insurance programme which was put in place in 2002. This insurance programme involves insurance against property damage as well as risks arising from banking activities and liability risks. Since 2004, the Bank has been a member of the Erste Group insurance programme which enhances the insurance protection specifically with regard to damages that may materially impact the income statement.

Special focus is put on assessment of non-financial risk based on a methodology called Risk Return Decisions (i.e. assessment of reputational, legal and financial impacts put in relation with its expected return). The analysis must be developed for each decision taken by Board of Directors or any Advisory Committee, all material outsourcing projects and all PAP (Product Approval Process) relevant topics. The significant Risk Return Decisions are also evaluated by ROCC Office in Holding which provides its recommendation in order to support local decision process.

Top management of the bank is informed quarterly about the risk profile and the most important operational risk events via the CORS (Compliance, Operational Risk and Security) committee. The chairman of the committee is the Head of Non-financial Risk and Compliance section, who further presents selected topics at the Risk Committee (chairmen - Chief Risk Officer).

40. Hedge accounting

The interest rate and FX risk of the Banking book is managed by the Bank's ALM department. Preference in managing interest rate risk is given to using bonds, loans or derivatives, with hedge accounting for derivatives applied in accordance with IFRS. The main guideline for interest rate risk positioning is the Bank Interest Rate Risk Strategy that is approved by the Bank ALCO for the relevant time period.

Fair value hedges are employed to reduce interest rate risk of issued bonds, purchased securities, loans or deposits on the Bank's statement of financial position. In general, the Bank's policy is to swap substantial fixed or structured issued bonds to floating items and as such to manage the targeted interest rate risk profile by other statement of financial position items. Interest rate swaps are the most common instruments used for fair value hedges.

Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilize net interest income. The most common such hedge in the Bank consists of interest rate swaps hedging variable cash flows of floating assets into fixed cash flows. Floors or caps are used to secure the targeted level of interest income in a changing interest rate.

In the reporting period, CZK 11 million (2015: CZK 31 million) was taken from the cash flow hedge reserve and recognised as expense in the income statement; while CZK 362 million (2015: CZK 105 million) was recognised directly in other comprehensive income.

As at 31 December 2016, the loss on hedging derivatives used for fair value hedging was CZK 115 million (2015: loss CZK 286 million); the gain due to changes in the fair value of hedged items was CZK 108 million (2015: gain CZK 317 million).

Fair values of hedging instruments are disclosed in the following table:

	2016		2015	
in CZK million	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Hedging instrument – fair value hedge	21	12	342	5
Hedging instrument – cash flow hedge	498	440	321	490
Total	**519**	**452**	**663**	**495**

At the end of 2016 the Bank had 67 CF hedge structures with maturity from 2018 to 2024. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor/USD Libor). Summary of total nominal hedged in CF hedge structures according their maturity can be seen in the following table:

Maturity	Nominal hedged In CZK million	Nominal hedged In EUR million	Nominal hedged In USD million
2018	2,000	-	-
2019	2,350	44	-
2020	1,300	20	-
2021	3,610	315	-
2022	9,802	75	-
2023	4,578	295	50
2024	-	20	-
Total	**23,640**	**769**	**50**

At the end of 2015 the Bank had 42 CF hedge structures with maturity from 2018 to 2023. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor). Summary of total nominal hedged in CF hedge structures according their maturity can be seen in the following table:

Maturity	Nominal hedged In CZK million	Nominal hedged In EUR million
2018	2,000	-
2019	2,350	-
2020	1,300	20
2021	3,050	250
2022	9,910	575
2023	-	50
Total	**18,610**	**895**

41. Fair value of assets and liabilities

Determination of fair value

The best indication of fair value is quoted market prices in an active market. Where such prices are available, they are used to measure the fair value (level 1 of the fair value hierarchy).

In case a market quote is used for valuation but due to restricted liquidity the market does not qualify as active (derived from available market liquidity indicators) the instrument is classified as level 2. If no market prices are available the fair value is measured by using valuation models which are based on observable market data. If all the significant inputs in the valuation model are observable the instrument is classified as level 2 of the fair value hierarchy. For level 2 valuations typically yield curves, credit spreads and implied volatilities are used as observable market parameters.

In some cases, the fair value can be determined neither on the basis of sufficiently frequent quoted market prices nor of valuation models that rely entirely on observable market data. In these cases individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions. If any unobservable input in the valuation model is significant or the price quote used is updated infrequently the instrument is classified as level 3 of the fair value hierarchy. For level 3 typically credit spreads derived from internally calculated historical probability of default (PD) and loss given default (LGD) measures are used as unobservable parameters.

Fair values of financial instruments

All financial instruments are measured at fair value on recurring basis.

Financial instruments measured at fair value in the statement of financial position

The measurement of fair value at the Bank is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Financial instruments for which fair value is determined on the basis of quoted market prices are mainly listed securities and derivatives as well as liquid OTC bonds.

Description of the valuation models and inputs

The Bank uses only valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently.

Securities

For plain vanilla (fixed and floating) debt securities the fair value is calculated by discounting the future cash-flows using a discounting curve depending on the interest rate for respective issuance currency and a spread adjustment. The spread adjustment is usually derived from the credit spread curve of the issuer. If no issuer curve is available the spread is derived from a proxy instrument and adjusted for differences in the risk profile of the instruments. If no close proxy is available, the spread adjustment is estimated using other information, including estimation of the credit spread based on internal ratings and PDs or management judgment. For more complex debt securities (e.g. including option-like features as callable, cap/floor, index-linked) the fair value is determined using combinations of discounted cash-flow models and more sophisticated modeling techniques including also methods described for OTC-derivatives. The fair value of financial liabilities designated at Fair Value through Profit and Loss under the fair value option is determined in consistency with similar instruments held as assets. The spread adjustment for the Banks's own credit risk is derived from buy-back levels of Erste Group's own issuances. Techniques for equity securities may also include models based on earnings multiples.

OTC-derivative financial instruments

Derivative instruments traded in liquid markets (e.g. interest rate swaps and options, foreign exchange forward and options, options on listed securities and indices, credit default swaps, commodity swaps) are valued by standard valuation models. These models include discounting cash flow models and option models of Black-Scholes. Models are calibrated on quoted market data (including implied volatilities). Valuation model for more complex instruments also use Monte-Carlo-techniques. For instruments in less liquid markets, data obtained from less frequent transactions or extrapolation techniques are used.

The Bank values derivatives at mid-market levels. Moreover the bank daily calculates, on the portfolio level, bid/ask adjustment for derivatives position.

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC derivatives. For the CVA, the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Bank's credit quality. Modeling of the expected exposure is based on option replication strategies for most of the counterparties and products. For Ministry of Finance of the Czech Republic and for counterparties with Credit Support Annex ('CSA') agreements in place with higher threshold amounts Monte Carlo approach is applied, netting is considered. For CSA counterparties with small threshold amounts no CVA/DVA was taken into account. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices. The Bank's probability of default has been derived from the buy-back levels of the Erste Group's issuances.

According to the described methodology the cumulative CVA-adjustments amounts to CZK (287) million (2015: (472)) and the total DVA-adjustment amounts to CZK 178 million (2015: CZK 304 million).

Description of the valuation process for fair value measurements categorised within Level 3

A level 3 position involves one or more significant inputs that are not directly observable on the market. The responsibility for valuation of a position measured at fair value is independent from trading units.

Fair value hierarchy

The table below details the methods used to determine the fair value with respect to levels of fair value hierarchy.

	Quoted market prices in active markets Level 1		Marked to model based on observable market data Level 2		Marked to model based on non-observable inputs Level 3		Total	
in CZK million	2016	2015	2016	2015	2016	2015	2016	2015
ASSETS								
Financial assets - held for trading	54	89	19,934	13,627	1,057	1,198	**21,045**	**14,914**
Derivatives	-	-	12,401	12,986	1,057	1,198	**13,458**	**14,184**
Other trading assets	54	89	7,533	641	-	-	**7,587**	**730**
Financial assets designated at fair value through profit or loss	-	-	314	316	80	38	**394**	**354**
Financial assets - available for sale	67,396	65,843	10,710	10,272	2,873	1,681	**80,979**	**77,796**
Debt securities	67,322	65,341	10,710	10,272	1,633	-	**79,665**	**75,613**
Equity instruments	74	502	-		1,240	1,681	**1,314**	**2,183**
Derivatives Hedge Accounting	-	-	519	663		-	**519**	**663**
Total assets	**67,450**	**65,932**	**31,477**	**24,878**	**4,010**	**2,917**	**102,937**	**93,727**
LIABILITIES								
Financial liabilities held for trading	-	(1)	18,147	14,991	14	30	**18,161**	**15,020**
Derivatives	-	-	14,042	14,978	14	30	**14,056**	**15,008**
Other trading liabilities	-	(1)	4,105	13	-	-	**4,105**	**12**
Financial liabilities designated at fair value through profit or loss	-	-	1,997	4,019	-	-	**1,997**	**4,019**
Deposits from customers	-	-	1,997	4,019	-	-	**1,997**	**4,019**
Debt securities issued	-	-	-	-	-	-	**-**	**-**
Derivatives Hedge Accounting	-	-	452	495	-	-	**452**	**495**
Total liabilities	**-**	**(1)**	**20,596**	19,505	14	30	**20,610**	19,534

The allocation of positions to levels and any changes between the levels are reflected at the end of the reporting period.

Changes in volumes of Level 1 and Level 2

This paragraph describes the changes in Volumes of Level 1 and Level 2 of financial instruments measured at fair value in the statement of financial position.

	2016		2015	
In CZK million	**Level 1**	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	-	-	(1,612)	(1,058)
Net transfer from Level 2	-	-	1,058	1,612
Net transfer from Level 3	(442)	269	-	-
Purchases/sales/expiries	1,960	7,059	1,369	(27,987)
Changes in derivatives	-	(729)	-	(4,921)
Total year-to-date change	**1,518**	**6,599**	**815**	**(32,354)**

The reclassification from Level 1 to Level 3 resulted from the fact that quoted prices for equity securities does not exists as of 31 December 2016.

Unquoted bonds were reclassified from Level 2 to Level 3 as a result that quoted prices (observable inputs) were not available as at 31 December 2016.

Movements in Level 3 of financial instruments measured at fair value

The following tables show the development of fair value of securities for which valuation models are based on non-observable inputs:

in CZK million	Dec 2015	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purchases	Sales/ Settle-ments	Additions to the group	Disposal of group	Transfer into Level 3	Transfers out of Level 3	Currency translation	2016
ASSETS											
Financial assets - held for trading	1,198	39	-	28	(31)	-	-	(1)	(176)	-	1,057
Derivatives	1,198	39	-	28	(31)	-	-	(1)	(176)	-	1,057
Financial assets designated at fair value through profit or loss	38	(21)	-	63	-	-	-	-	-	-	80
Financial assets - available for sale	1,681	-	317	49	(1,587)	-	-	2,413	-	-	2,873
Total assets	**2,917**	**18**	**317**	**140**	**(1,618)**	**-**	**-**	**2,412**	**(176)**	**-**	**4,010**

in CZK million	Dec 2014	Gain/loss in profit or loss	Gain/loss in other compre-hensive income	Purchases	Sales/ Settle-ments	Additions to the group	Disposal of group	Transfer into Level 3	Transfers out of Level 3	Currency translation	2015
ASSETS											
Financial assets - held for trading	1,129	172	-	118	-	-	-	168	(389)	-	1,198
Derivatives	1,129	172	-	118	-	-	-	168	(389)	-	1,198
Financial assets designated at fair value through profit or loss	50	(11)	-	-	-	-	-	-	-	(1)	38
Financial assets - available for sale	374	-	1,343	22	(58)	-	-	-	-	-	1,681
Total assets	**1,553**	**161**	**1,343**	**140**	**(58)**	**-**	**-**	**168**	**(389)**	**(1)**	**2,917**

A part of the OTC derivatives was categorized as Level 3 / was recategorized into Level 3 as Level 3 because credit valuation adjustment (CVA) has a material impact in market value for these derivatives and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs). Part of Level 3 derivatives was recategorized into Level 2 because CVA has not a material impact in market value of these derivatives any more. In 2016 Available for sale financial assets (equities and bonds) for which valuation models are based on non- observable inputs were transferred into Level 3.

Gains or losses on Level 3 instruments held at the reporting period's end and which are included in profit or loss are as follow:

in CZK million	2016 Unrealized gain/loss in profit or loss	2015 Unrealized gain/loss in profit or loss
ASSETS		
Financial assets - held for trading	39	172
Financial assets designated at fair value through profit or loss	(21)	(11)
Total	**18**	**161**

The volume of Level 3 financial assets can be allocated to the following two categories:

- Market values of derivatives where the credit value adjustment (CVA) has a material impact and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs).
- Illiquid bonds, shares and funds not quoted in an active market where either valuation models with non-observable parameters have been used (e.g. credit spreads) or broker quotes have been used that cannot be allocated to Level 1 or Level 2.

Sensitivity analysis for Level 3 measurements

The following table shows the sensitivity analysis using reasonably possible alternatives per product type:

	Positive fair value changes when applying alternative valuation parameters		Negative fair value changes when applying alternative valuation parameters	
in CZK million	**Dec 2016**	**Dec 2015**	**Dec 2016**	**Dec 2015**
Derivatives	25	66	(25)	(92)
Income statement	25	66	(25)	(92)
Debt securities	51	-	(68)	-
Other comprehensive income	51	-	(68)	-
Equity instruments	60	99	(120)	(166)
Income statement	1	2	(2)	(4)
Other comprehensive income	59	97	(118)	(162)
Total	**185**	**165**	**(316)**	**(258)**
Income statement	**110**	**68**	**(186)**	**(96)**
Other comprehensive income	**75**	**97**	**(130)**	**(162)**

In estimating these impacts, mainly changes in credit spreads (for bonds), PDs, LGDs (for CVA of derivatives) and market values of comparable equities were considered. An increase (decrease) of spreads, PDs and LGDs result in a decrease (increase) of the corresponding market values.

Following ranges of reasonably possible alternatives of the unobservable inputs were considered in the sensitivity analysis table:

- for debt securities range of credit spreads between +100 basis points and – 75 basis points,
- for equity related instruments the price range between -10% and +5%,
- for CVA on derivatives PDs rating upgrade/downgrade by one notch, the range for LGD between -5% and +10%.

The bank has considered the impact of the revaluation of Visa Europe Ltd. equity instrument and recalculated the fair value of its holding in Visa Europe Ltd. to reflect the market conditions (the movement is reported in the line Equity instruments Other comprehensive income of the above mentioned sensitivity analysis).

Financial instruments whose fair value is disclosed in the notes

The following table shows fair values and fair value hierarchy of financial instruments whose fair value is disclosed in the notes for the year-end 2016 and for the year-end 2015 .

2016 in CZK million ASSETS	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
Cash and cash balances	151,877	151,877	-	-	-
Financial assets - held to maturity	159,874	177,957	162,707	15,240	10
Loans and receivables to credit institutions	21,823	21,882	-	1,311	20,571
Loans and receivables to customers	538,359	558,653	-	-	558,653
LIABILITIES					
Financial liabilities measured at amortised costs	851,018	850,089	-	18,071	832,018
Deposits from banks	120,019	118,519	-	-	118,519
Deposits from customers	711,400	711,381	-	-	711 381
Debt securities issued	18,859	19,449	-	18 071	1 378
Other financial liabilities	740	740	-	-	740
FINANCIAL GUARANTEES AND COMMETMENTS					
Financial guarantees	24,950	24,950	-	-	24,950
Irrevocable commitments	99,274	99,274	-	-	99,274

2015 in CZK million ASSETS	Carrying amount	Fair value	Quoted market prices in active markets Level 1	Marked to model based on observable market data Level 2	Marked to model based on non-observable inputs Level 3
Cash and cash balances	100,895	100,895	-	-	-
Financial assets - held to maturity	151,682	172,076	157,009	15,068	-
Loans and receivables to credit institutions	34,120	34,585	-	-	34,585
Loans and receivables to customers	494,915	515,097	-	576	514,521
LIABILITIES					
Financial liabilities measured at amortised costs	759,445	759,417	-	29,086	730,331
Deposits from banks	92,313	91,519	-	-	91,519
Deposits from customers	636,694	636,694	-	-	636,694
Debt securities issued	28,319	29,086	-	29,086	-
Other financial liabilities	2,119	2,118	-	-	2,118
FINANCIAL GUARANTEES AND COMMETMENTS					
Financial guarantees	27,778	27,778	-	-	27,778
Irrevocable commitments	86,301	86,301	-	-	86,301

The fair value of loans and advances to customers and credit institutions has been calculated by discounting future cash flows while taking into consideration interest and credit spread effects. The interest rate impact is based on the movements of market rates, while credit spread changes are derived from PD's used for internal risk calculations. For the calculation of fair value loans and advances were grouped into homogeneous portfolios based on rating method, rating grade, maturity and the country where they were granted.

The fair values of financial assets held to maturity are either taken directly from the market or they are determined by directly observable input parameters (i.e. yield curves).

For liabilities without contractual maturities (e.g. demand deposits), the carrying amount represents the minimum of their fair value.

The fair value of issued securities and subordinated liabilities measured at amortized cost is based on market prices or on observable market parameters, if these are available, otherwise it is estimated by taking into consideration the actual interest rate environment and in this case they are allocated to Level 3.

The fair value of other liabilities measured at amortized cost is estimated by taking into consideration the actual interest rate environment and own credit spreads, and these are allocated to Level 3.

The fair value of off-balance sheet liabilities (i.e. financial guarantees and unused loan commitments) is estimated with the help of regulatory credit conversion factors. The resulting loan equivalents are treated like other on-balance sheet assets. The difference between the calculated market value and the notional amount of the hypothetical loan equivalents represents the fair value of these contingent liabilities.

42. Financial instruments per category according to IAS 39

The Bank classifies financial instruments into trading and banking (investment) portfolios in accordance with BASEL II rules as per CNB Regulation No. 163/2014 Coll., on the performance of the activity of banks, savings and lending associates and securities traders (henceforth 'Regulation 163/2014'). The Bank applies various techniques to the management of the risk within the banking and trading books (refer to Note 39).

The table below shows the classes of financial assets and liabilities reported by the Bank according to IFRS 7 requirements.

	As of 31 December 2016							
	Category of financial instruments							
in CZK million	Loans and receivables	Held to maturity	Trading	Designa-ted at fair value	Available for sale	Financial liabilities at amortised cost	Deriva-tives desig-nated as hedging instruments	Total
ASSETS								
Cash and balances with central banks	151,877	-	-	-	-	-	-	**151,877**
Loans and advances to credit institutions	21,823	-	-	-	-	-	-	**21,823**
Loans and advances to customers	538,359	-	-	-	-	-	-	**538,359**
Derivative financial instruments	-	-	13,458	-	-	-	519	**13,977**
Trading assets	-	-	7,587	-	-	-	-	**7,587**
Financial assets - at fair value through profit or loss	-	-	-	394	-	-	-	**394**
Financial assets - available for sale	-	-	-	-	80,979	-	-	**80,979**
Financial assets - held to maturity	-	159,874	-	-	-	-	-	**159,874**
Total financial assets	**712,059**	**159,874**	**21,045**	**394**	**80,979**	**-**	**519**	**974,870**
LIABILITIES								
Deposits by banks	-	-	-	-		120,019	-	**120,019**
Customer deposits	-	-	-	1,997	-	711,400	-	**713,397**
Debt securities in issue	-	-	-	-	-	18,859	-	**18,859**
Other financial liabilities	-	-	-	-	-	740	-	**740**
Derivative financial instruments	-	-	14,056	-	-	-	452	**14,509**
Trading liabilities	-	-	4,105	-	-	-	-	**4,105**
Subordinated liabilities	-	-	-	-	-	-	-	**-**
Total financial liabilities	**-**	**-**	**18,161**	**1,997**	**-**	**851,018**	**452**	**871, 629**

	As of 31 December 2015							
	Category of financial instruments							
in CZK million	Loans and receivables	Held to maturity	Trading	Designated at fair value	Available for sale	Financial liabilities at amortised cost	Derivatives designated as hedging instruments	Total
ASSETS								
Cash and balances with central banks	100,895	-	-	-	-	-	-	**100,895**
Loans and advances to credit institutions	34,120	-	-	-	-	-	-	**34,120**
Loans and advances to customers	494,915	-	-	-	-	-	-	**494,915**
Derivative financial instruments	-	-	14,184	-	-	-	663	**14,847**
Trading assets	-	-	730	-	-	-	-	**730**
Financial assets - at fair value through profit or loss	-	-	-	354	-	-	-	**354**
Financial assets - available for sale	-	-	-	-	77,796	-	-	**77,796**
Financial assets - held to maturity	-	151,682	-	-	-	-	-	**151,682**
Total financial assets	**629,931**	**151,682**	**14,914**	**354**	**77,796**	**-**	**663**	**875,341**
LIABILITIES								
Deposits by banks	-	-	-	-		92,313	-	**92,313**
Customer deposits	-	-	-	4,019	-	636,694	-	**640,713**
Debt securities in issue	-	-	-	-	-	28,319	-	**28,319**
Other financial liabilities	-	-	-	-	-	2,119	-	**2,119**
Derivative financial instruments	-	-	15,008	-	-	-	495	**15,503**
Trading liabilities	-	-	12	-	-	-	-	**12**
Subordinated liabilities	-	-	-	-	-	-	-	**-**
Total financial liabilities	**-**	**-**	**15,020**	**4,019**	**-**	**759,445**	**495**	**778,979**

43. Audit fees and other consultancy fees

The following table contains fundamental audit fees and other fees charged by the auditors (Ernst & Young Audit, s.r.o.) in the financial years 2016 and 2015:

in CZK million	2016	2015
Audit fees	36	28
Tax and Other consultancy fees	158	2
Total	**194**	**30**

44. Contingent assets and liabilities

In the ordinary course of business, the Bank becomes party to various financial transactions that are not reflected in the statement of financial position and are referred to as off-balance sheet financial instruments. The table below presents the notional amounts of these off-balance sheet financial instruments, unless stated otherwise.

It is not practicable to disclose the information about uncertainties relating to the amounts or timing of any outflows related to contingent liabilities or the possibility of any related reimbursements.

Legal Disputes

At the reporting date the Bank was involved in various claims and legal proceedings of a nature considered normal to its business. The Czech legal environment is still evolving, legal disputes are costly and their outcome unpredictable. Many parts of the legislation remain untested and there is uncertainty about the interpretation that courts may apply in a number of areas. The impact of these uncertainties cannot be quantified and will only be known as the specific legal disputes in which the Bank is named are resolved.

The Bank is involved in various claims and legal proceedings of a special nature. The Bank also acts as a defendant in a number of legal disputes filed with the arbitration court. The Bank does not disclose the details underlying the disputes as the disclosure may have an impact on the outcome of the disputes and may seriously harm the Bank's interests. Based upon historical experience and expert opinion, the Bank assesses the developments in these cases, and the probability and the amount of potential financial outcome which are appropriately provided for.

Whilst no assurance can be given with respect to the ultimate outcome of any such claim or litigation, the Bank believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows.

If, in connection with the litigation, the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation, the Bank recognises a provision for legal disputes (refer to Note 31).

Commitments to Extend Credit and Commitments from Guarantees and Letters of Credit

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.
Commitments to extend credit represent unused portions of clients' authorisations to extend credit in the form of loans, guarantees or letters of credit. The credit risk attached to commitments to extend credit represents a potential loss for the Bank. The Bank estimates the potential loss on the basis of historical developments of CCFs, PDs and LGDs. CCFs indicate the likelihood of the Bank paying out on a guarantee or having to grant a loan on the basis of an issued commitment to extend credit.

Guarantees, irrevocable letters of credit and undrawn loan commitments are subject to similar credit risk monitoring and credit policies as utilised in the extension of loans. Management of the Bank believes that the market risk associated with guarantees, irrevocable letters of credit and undrawn loan commitments is minimal.

In 2016, the Bank recorded impairment allowances for off-balance sheet risks to cover potential losses that may be incurred in connection with these off-balance sheet transactions. As at 31 December 2016 the aggregate balance of these allowances was CZK 716 million (2015: CZK 402 million). Refer to Note 31 Provisions.

in CZK million	2016	2015
Amounts owed under guarantees and letters of credit	24,950	27,778
Undrawn loan commitments	99,274	86,301

45. Analysis of remaining maturities

The breakdown of the Banks's assets and liabilities based on contractual maturities as at 31 December 2016 and 2015 was as follows:

in CZK million	2016		2015	
	< 1 Year	> 1 Year	< 1 Year	> 1 Year
Cash and cash balances at central banks	151,877	-	100,895	-
Financial assets held for trading	20,753	292	14,559	355
Financial assets designated at fair value through profit or loss	-	394	-	354
Available-for-sale financial assets	9,021	71,958	2,618	75,178
Loans and receivables	115,118	445,064	125,018	404,017
Held-to-maturity investments	12,478	147,396	6,210	145,472
Derivatives – Hedge accounting	519	-	663	-
Tangible assets	-	10,070	-	11,947
Intangible assets	-	3,994	-	3,675
Investments in subsidaries, joint ventures and associates	-	8,200	-	8,432
Tax assets	578	-	689	-
Other assets	1,176	-	1,196	-
Non current assets held for sale	123	**-**	**-**	**-**
TOTAL ASSETS	**311,643**	**687,368**	**251,848**	**649,430**
Financial liabilities held for trading	18,161	-	15,020	-
Financial liabilities designated at fair value through profit or loss	1,997	-	3,610	409
Financial liabilities measured at amortised cost	384,203	466,815	299,419	460,026
Derivatives – Hedge accounting	452	-	495	-
Provisions	-	1,913	-	1,776
Commitments and guarantees given	-	716	-	402
Other provisions	-	167	-	304
Tax liabilities	-	55	-	509
Other liabilities	8,580	-	3,972	-
TOTAL LIABILITIES	**413,393**	**469,666**	**322,516**	**463,426**

46. Events after the balance sheet date

There are no events after the balance sheet date.