ČESKÁ SPOŘITELNA

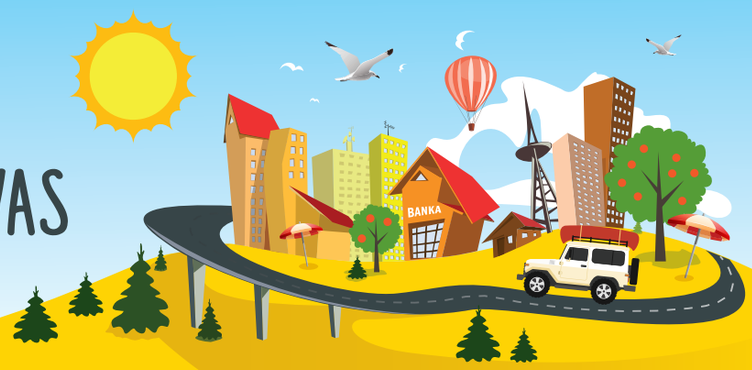
Half-Year Report 2017

International Financial Reporting Standards,
Consolidated & Unaudited

2017

Financial results

HOW SUCCESSFUL ČS WAS
IN THE FIRST HALF OF 2017



FINANCIAL RESULTS
YEAR-ON-YEAR COMPARISON

We help people fulfil their dreams about housing

31.7 BN CZK
VOLUME OF NEW MORTGAGES

WITH THIS SUM WE WOULD BUY 6 679 AVERAGE 60-M² FLATSIN PRAGUE

+22.2%

We help people fulfil their dreams and wishes

17.4 BN CZK
NEWLY GRANTED CASH LOANS

THOSE WERE THE RECORD REVENUES OF ALZA.CZ LAST YEAR

+10.6%

We help companies in their development and innovations

244.1 BN CZK
LOANS TO COMPANIES AND CORPORATE CLIENTS

+12.3%

IN 2009, WITH THIS SUM WE WOULD PAY THE PENSIONS TO ALL CZ PENSIONERS. LAST YEAR WE WOULD HAVE HAD TO ADD ALMOST 100 BN.

We help our clients invest
Total volume of deposits at 30. 6. 2017

117.3 BN CZK
MUTUAL FUNDS

DO YOU RECALL THE LAST YEAR'S EARTHQUAKE IN ITALY? THIS WAS THE COST OF REMOVING ITS EFFECTS

+17.1%

77.9 BN CZK
ASSET MANAGEMENT

+6.7%

PARENT COMPANY GOOGLE ALPHABET INC. MADE APPROXIMATELYTHE SAME AMOUNT IN THE 2ND QUARTER

73.8 BN CZK
PENSION FUNDS

BASED ON THE TRANSPORT MINISTRY PRICELIST, FOR THIS SUM WE WOULD BUILT ALMOST 1 000 KM OF NEW MOTORWAYS

+8.7%

SOCIETY TRUSTS US

75.6 BN CZK
PUBLIC SECTOR DEPOSITS

THIS IS ALMOST THE SEVENFOLD OF ALL THE SUBSIDIES THAT WE HAVE RECEIVED FROM EUROPEAN FUNDS THIS YEAR

602.7 BN CZK
DEPOSITS FROM HOUSEHOLDS

157.5 BN CZK
CORPORATE DEPOSITS

10.197
HEADCOUNT

4.7 MN
CLIENTS

1.35 MN
FOLLOWERS IN MASS MARKET

Net fee and commission income
-3.7%

Net interest income
-3.4%

Operating expenses
+2.7%

Net profit
-6.9%

7.7 BN CZK

Gross loans to clients
+8.8%

Total deposits from clients
+9.5%

Total assets
+20.3 %

ČESKÁ SPOŘITELNA

Content

Macroeconomic Development in the Czech Republic

in the First Half of 2017

Economic development in the Czech Republic improved again during the first half of 2017. This was particularly due to the economic recovery in the Eurozone which not only increased the foreign demand for Czech exports, but was also reflected in the further strengthening of the labour market and hence, the development of domestic demand. Favourable economic development was also influenced by price growth, where for a large part of the first half of 2017 inflation hovered above the 2% inflation target of the Czech National Bank (CNB). The CNB terminated its exchange rate commitment in April and this event was followed by appreciation of the CZK/EUR exchange rate.

In the first half of this year, the annual growth of the gross domestic product (the GDP) in the Czech economy reached a level of 3%*, whereas the GDP grew by an average of 2.5%* last year. Improved development of real economic activity was driven by an increase in foreign demand for Czech exports; with a slight delay, this was reflected in high staffing demand in companies and hence in the development of domestic consumption. At the start of the year, the exchange rate commitment of CNB further contributed to the higher GDP growth.

In H1 2017, the annual price growth reached an average value of 2.3 %*. Higher prices were mostly influenced by strong domestic demand and the wage growth which was partially translated into the price growth. In addition, food prices significantly increased at the start of the year and fuel prices contributed to the higher inflation, too. Appreciation of the CZK/EUR exchange rate, which occurred after the termination of the exchange rate commitment in April, influenced inflation in the opposite direction.

The development of labour market followed last year's trend and is experiencing growth. Economic recovery was transposed into the strong staffing demand of companies that resulted in a drop in unemployment to 3%*. This is the lowest unemployment rate within the EU. In addition to the decreased unemployment, favourable economic development was also reflected in the wage growth that exceeded 5%* in Q1 2017.

During April, the CNB terminated its exchange rate commitment which gave rise to the stricter currency conditions in the Czech economy. During Q2 2017, the CZK exchange rate gradually appreciated and moved towards the level of 26 CZK/EUR** by the end of this period. This development was backed by favourable development of Czech economy as well as by the communication of the CNB that indicated the possibility of an interest rate increase in the second half of this year.

In H1 2017, the yields from Czech government bonds increased. This increase was supported by higher inflation in the Czech economy and in the Eurozone by termination of the exchange rate commitment, due to which from April, the yields increased and by the CNB statement on the potential rate growth.

* Source: Czech Statistical Office
** Source: Czech National Bank

Česká spořitelna Consolidated Results of Operations

for the First Half of 2017

Income Statement

For H1 2017, Česká spořitelna posted an unaudited consolidated **net profit after non-controlling interests of CZK 7.7 billion** under International Financial Reporting Standards. **The size of the realised net profit is notably influenced in the positive direction by the growth of lending business**, by the improving quality of loan portfolio, and an increase in the net profit from trading. However, compared to H1 2016, the net profit decreased by 7%. The half year profit of 2016 was significantly influenced by the one-off gain from sale of VISA Europe shares; without this influence the net profit would have increased by 8% in the year-on-year comparison.

Due to a decrease in the net profit, the **return on equity (ROE)* ratio decreased** from 13.5% **to 12.5%** Significant increase in the average volume of assets contributed to the decrease of the return on assets (ROA)** ratio from 1.7% to 1.2%.

Operating profit, calculated as the difference between the operating income and expenses, **reached a level of CZK 9.4 billion**, which represents an 8% decrease compared to the previous half-year. Operating income that comprises the net interest income, net fee and commission income, dividend income, net trading result, net loss from financial assets measured at fair value, gain or loss from equity method investments and rental income, decreased by 3% to CZK 18.4 billion. Compared to the previous half-year, operating expenses increased by 3% to CZK 9.0 billion and they are comprised of personnel expenses, other administrative expenses, and depreciation and amortisation. **The Cost/Income ratio increased** from 46.3% **to 49.0%**.

Traditionally representing the highest proportion of the operating income, the net interest income, provides the full two-thirds of the operating income. **The current favourable economic situation is reflected in the strong increase in loans**; in the year-on-year comparison the net volume of client loans increased by the notable 10%. The interest income from loans and debt securities continues to fall due to the maturity of loans and bonds with a higher interest yield. **Continuing pressure for low interest rates was therefore reflected in the year-on-year decrease of the net interest margin** in relation to interest-earning assets t**o 2.74%** from the 3.18% in the previous half-year. A decrease in the net interest margin was also significantly driven by the high volume of interbank deposits during H1 2017 connected with the termination of foreign exchange interventions applied by the CNB. Without the impact of an extraordinary increase in the average volume of these assets, the net interest margin would have easily exceeded 3%. **Reduced interest income was partially compensated by the lowering of interest expenses** from **the Bank´s own bonds**, due to a decrease in their volume.

The net interest income totalled CZK 12.3 billion. For the above-mentioned reasons, it represents the decrease by 3% compared to the same period of the last year.

In the year-on-year comparison, the net income from fees and commissions decreased by 4% to CZK 4.5 billion due to the decreasing income from financial services as the clients increasingly use cheaper forms of servicing as well as discounted programmes and products. On the other hand, **income from fees for securities transactions, for asset management and custody, increased**. There was also a rise in the income from the sale of insurance products.

Compared with the same period last year, the net trading result rose by 10% to CZK 1.4 billion. In particular, Česká spořitelna increased its profit from foreign currency transactions and from the sale of foreign currency derivatives to clients.

Rental income from investment properties and other operating leases decreased to CZK 0.2 billion. **This development is the outcome of the planned reduction in Česká spořitelna investment in real estate funds**.

Personnel expenses representing one half of the operating expenses were increased by 3% to CZK 4.5 billion. This increase was primarily caused by the growth in salaries and variable bonuses. Other administrative expenses increased by 3% and represent CZK 3.5 billion. **Česká spořitelna has successfully reduced the expenses for office space, office operating expenses and marketing.** Additional increases included the IT expenses incurred due to the continuing digitalisation of the Bank and the growing regulatory costs. In addition, the contribution to the Deposits Insurance Fund was increased because of the growing quantity of insured deposits. In view of the Bank digitalization, depreciation of tangible and intangible assets increased as well, by 2% to CZK 1.0 billion compared to the previous half-year.

Net gains on financial assets and liabilities not measured at fair value through profit or loss totalled CZK 0.3 billion. **Česká spořitelna sold, in particular, government bonds held in the portfolio of available-for-sale financial assets.** A significant year-on-year decrease occurred due to the above-mentioned sale of Visa Europe shares amounting to CZK 1.4 billion before tax that was executed last year.

* ROE is calculated as a proportion of the net profit for the financial year to the average monthly volume of equity (CZK 123 008 million for H1 2017 and CZK 121 629 million for H1 2016)

** ROA is calculated as a proportion of the net profit for the financial year to average monthly volume of assets (CZK 1 248 433 million for H1 2017 and CZK 996 554 million for H1 2016)

Net impairment loss on financial assets not measured at fair value through profit or loss (i.e. the balance of recognised allowances against the balance sheet credit risks) **amounted to a positive value of CZK 0.3 billion. It represents a significant improvement** compared to the same period in 2016. **This good result can be attributed to the ever-improving quality of the loan portfolio**, without an increase in risk loans connected with releasing of impairment allowances at some large corporate clients.

There are numerous contributing factors to other operating result of CZK -0.4 billion, such as gains and losses from the revaluation and sale of investment property, appreciation or impairment of tangible assets, and the provisions or reversal of provisions. **Another component of other operating profit/loss is the annual mandatory contribution to the Resolution Fund** (a joint fund for resolving banking crises) in the amount of CZK 0.4 billion.

Statement of Financial Position

Consolidated total assets reached a record level of CZK 1,247.6 billion. Compared to H1 2016 it demonstrated significant increase by 20 %. Thus, the total assets have increased by 17% for the year to date. The structure of assets has changed in the year-on-year comparison; the volume of loans and receivables to customers increased and so did the volume of deposits with the Czech National Bank. The volume of available-for-sale financial assets decreased. On the liability side, there was an increase in client deposits, interbank deposits, and financial liabilities held for trading.

The expanding Czech economy and the active approach of Česká spořitelna contributed to a significant 10% increase in the aggregate net portfolio of client loans for the last twelve months, **to the level of CZK 606.8 billion**. In absolute terms, this represents CZK 53.7 billion. For the year to date, the total net portfolio of client loans increased by 5%. Mortgage loans, loans to large corporate clients and consumer loans were those mostly contributing to the increase in lending.

Mortgage loans clearly have the greatest merit for the growth in the loans for households. Compared to the previous half-year, the **increase** in the gross volume of the **portfolio for mortgage loans** to natural persons **accelerated again and reached significant up 13%**. The absolute volume amounts to CZK 25.1 billion. Mortgage loans thus totalled CZK 221.0 billion as at 30 June 2017. Growth in mortgage loans is tied to very low interest rates, a rise in household income and, no less importantly, the attractive mortgage loans offered by Česká spořitelna. **An important indicator of loan to value ratio is shown by the comfortable level of 61.9% for the aggregate portfolio.**

Client interest in property renovations and refurbishment was also reflected in the 3% rise in the lending transactions at Stavební Spořitelna ČS. The gross loan portfolio of SSČS reached the level of CZK 36.6 billion. **Growth was also reported for cash consumer loans**, which in relation to the growing household consumption increased by 4% to CZK 54.6 billion in the year-on-year comparison.

In the year-on-year comparison gross loans to corporate clients and public-sector clients increased by 12% to CZK 244.1 billion (without the influence of internal re-segmentation by 8%). **The success was recorded namely for large corporate clients, loans provided for commercial real estate and to clients from the small and medium enterprise (SME) sector.**

The nonperforming loan share attests to the quality of the Česká spořitelna loan portfolio. This indicator keeps improving; it was 2.3% as at 30 June 2017. In the same period of the last year, the indicator amounted to 3.6% and at the end of 2016 it reached the level of 3.2%.

In H1 2017 the aggregate volume of portfolios of financial assets held-for-trading, financial assets designated at fair value through profit or loss, financial assets available-for-sale and securities held to maturity totalled CZK 248.5 billion, representing a year-on-year decrease by 2% and a decrease by 3% compared to the end of 2016. **The greatest reduction occurred in the volume of bonds in the portfolio of financial assets available-for-sale.** On the other hand, the **volume of trading loans increased to CZK 25.4 billion**. More than 89% of the securities portfolio are comprised of bonds, in particular, government bonds. Shares, loans measured at fair value and other financial assets account for 11% of the total volume. In the cash and cash balances with central banks caption, deposits with the CNB significantly increased compared to H1 2016, i.e. to CZK 303.0 billion. **Česká spořitelna deposits its surplus liquidity with the CNB in the form of short-term deposits.**

Compared to the previous half-year, the value of tangible and intangible fixed assets decreased by 3% to CZK 14.3 billion. Volume of tangible assets represents CZK 10.0 billion, of which land and buildings account for 86%. Intangible assets amounted to CZK 4.2 billion.

Deposits from customers, including deposits measured at fair value, rose by 10% in the year-on-year comparison and **reached a value of CZK 835.8 billion**. Since the beginning of the year, they have grown by 6%. Household deposits alone increased by 9.0% year-on-year to CZK 602.7 billion, **in particular due to additions related to deposits on personal accounts and savings products**, such as "Spoření ČS". In the past 12 months, corporate client deposits grew by 14% to CZK 157.5 billion. Public sector deposits saw an increase by 5% to CZK 75.6 billion. The corporate clients as well as the public-sector deposit their surplus liquidity in Česká spořitelna.

Compared to H1 2016, the deposits from banks doubled to CZK 213.3 billion. This development was mostly influenced by the increase in short-term deposits of financial institutions and loans received within the repo transactions.

The volume of payables from debt securities reported in the consolidated balance sheet decreased by 19% to CZK 9.1 billion, about the maturity of certain mortgage bonds and other bonds issues.

Total equity attributable to owners of the parent amounted to CZK 115.8 billion, which means a 2% increase compared to the previous half-year. Compared to the end of 2016, the volume of equity decreased by 5% because of the dividends paid out in June 2017.

Capital adequacy Tier I and II for the regulatory consolidated (CRR) group of Česká spořitelna under BASEL III rules amounted to 19.3% as at 30 June 2017 and **thus reached a high comfortable level**. In mid-20016 the value of Tier I and II achieved 19.6% and amounted to 20.1% at the end of 2016. Total Tier I and II capital under BASEL III used for calculation of the capital adequacy ratio amounted to CZK 10,2.5 billion, whereas the total risk exposure is CZK 532.6 billion. In the previous half-year, these figures were CZK 99.1 billion and CZK 506.1 billion, respectively.

Significant Events and Business Operations

in the First Half of 2017

My Healthy Finance (Moje zdravé finance)

Česká spořitelna presented the concept of My Healthy Finance that helps the clients to achieve financial prosperity. This concept is based on the advisory principle and guides the clients towards savings and good management of their finance. Almost half a million clients set up the My Healthy Finance service by the first half of this year. On the basis of available client data, the advisors can utilise personalised "good advice" and consequently the communication with a client is focused on his/her specific life circumstances. The Bank continues to optimise the communication with the clients and the selection of suitable distribution channels through which the Bank will maintain relations with the clients and build mutual trust. More and more frequently the clients will receive good advice from Česká spořitelna also in other ways than just from the advisors at the branches. The Bank intends to provide hints and advice for better management of finance also via other distribution channels or even online, i.e. in relation to the place where the client is located.

The new advisory concept of Česká spořitelna takes the digital form in the My Healthy Finance application. The application is very comprehensive and user-friendly. It was developed in such a way that it can be utilised by the advisors as well as the clients. Internally, the application is utilised by the advisors at the branches to prepare for meetings with the clients. The advisors can display, in the application, a comprehensive overview of the client´s financial situation in all areas of finance management, even with specific recommendations for clients to manage their finance in a better way. The application has a great potential and therefore Česká spořitelna continues its further development and complements it with new functionalities.

Branches as the Healthy Finance Centres

As part of the My Healthy Finance concept, Česká spořitelna decided to channel investments also to the changes in the branch appearance. The purpose of modifications primarily involves changing the look and layout of the branches so that the venue for meeting with the clients fully complies with the intention imbedded in the new advisory concept. The layout of branches is more welcoming, they are better equipped with self-service devices, and places for advisory talks are more comfortable.

To reduce the waiting time at all its branches, Česká spořitelna utilised the Meeting Scheduler (Schůzkovník) application. The application enables the clients to agree to a meeting with an advisor and set the specific date and time. The application is also available through Internet banking.

The Video-banker (Videobankéř) service is a novelty which the clients highly appreciate. This service offers meetings with product specialists, without the necessity for travelling to meet them. At the moment, the videoconference option is already offered by 154 branches and this successful service will be expanded further. An advisor can comfortably arrange for client a meeting with a video-banker also via the Meeting Scheduler application.

Digital world of Česká spořitelna

Česká spořitelna has a long-term ambition to create a reliable, modern and secure digital ecosystem that will enable the clients to utilise the bank and its services without limitations, at the time and place convenient for the clients. Of course, Internet banking represents the linchpin of the digital world. Česká spořitelna pursues its long-term goal to be the trendsetter in the Internet banking area. For this reason, the Bank gradually is moving towards a new level of Internet banking, under the name of George. George is a system which is very comprehensible, intuitive, personalisable and able to learn. During its use, the system keeps improving to offer the client a relevant overview of their finance management, and lavishes useful advice on how the client shall save up or increase the value of his or her financial means. George passed through the pilot stage and already now it is available to all the clients. The clients can also utilise the mobile version of the new Internet banking called George Go.

Moreover, the Česká spořitelna website will be also considerably modified. Česká spořitelna is currently adjusting the Erste Group concept, under the title Emil. The new website offers attractive image and will ensure that the website is comprehensively displayed in all browsing facilities. The new website is now available to employees in the test mode, whilst the official launch is planned for autumn.

The Bank continues with numerous projects, with the goal to simplify them and reduce the time that the clients have to spend while dealing with the banking documentation. Some examples involve the process of current accounts and loans distribution and the "Remote Signature" project is the project aims to put the maximum possible number of documents due for signing into Internet banking. It means that in case of tens of documents the client will be spared the necessity to visit the branch and can sign the documents directly from home. In addition, the Bank successfully reduces time required and simplifies the distribution process for current accounts and loans. Česká spořitelna also endorses the concept of a paper-free bank. More and more documents are being transformed into digital form.

Online Mortgage

In H1 2017, Česká spořitelna again succeeded in the mortgage market. During the first six months of this year, ČS provided new mortgages worth CZK 31.7 billion.* The success of Česká spořitelna is also supported by its innovative approach and by setting the new trends in granting mortgages. In August of last year, the Bank launched a new option for the modern technology followers – method to handle financing of mortgage with a simple web application, only within 15 minutes, online, from the comfort of client´s home.

Online mortgage refinancing that does not require visits to a branch has been so successful that Česká spořitelna has decided to take it one step further. Mortgage refinancing is now complemented with an option to negotiate a new mortgage online. Therefore, the Bank completely re-designed the website of Mortgage Centre which is visited by more than 50 thousand people every month. Almost one half of the visits are made through a mobile phone. The digitalisation trend is rapid and Česká spořitelna strives to find immediate response. Online mortgage specialists can provide expert advice, they are fast and reliable. Throughout the mortgage negotiation period, the client maintains phone and e-mail contact with one online mortgage specialist. From start to finish, the client can resolve everything regarding the mortgage without any visit to a branch – and this makes Česká spořitelna unique on the mortgage market. To arrange for the final contract signing, the advisor visits the client at the place which fits the client best, thus even at home.

Erste Private Banking

Erste Private Banking (hereafter EPB) represents the ultimate banking offer for private clients; for the first time, the EPB services were offered to the more affluent clients ten years ago, on 1 June 2007. EPB gradually expanded from Prague to all regions of the Czech Republic and the scope of provided services has been significantly enhanced. The newly offered services include, inter alia, legal & tax advisory and lending strategy. Wealth management for clients with sizeable assets represents another new service. The service aims to care for the wealth over several generations. EPB avails outstanding knowledge of the client´s finance and can provide excellent financial recommendations that will be subsequently appreciated also by the generations to come.

In addition, Erste Private Banking started to offer its clients a truly specific class of assets, in the form of the ČS PRIVATE EQUITY 1 fund. Private equity represents predominantly long-term financing provided to the small and medium enterprises in return for acquiring a stake in their equity. Private equity thus presents an alternative source for financing innovation projects and companies with the rapid growth potential. Therefore, it is accompanied by higher risk, very limited liquidity and long investment horizon. Erste Asset Management, Czech Republic branch, acts as the manager of the closed-end mutual fund of qualified investors ČS PRIVATE EQUITY 1.

Erste Corporate Banking

Česká spořitelna facilitates access to financing for the SME (small and medium enterprises) clients through the package of simple products, with fast approval process, called “Easy Loan”. Easy Loan guarantees both the period for loan approval as well as the time limit for delivering money to the client´s account. The package is provided under favourable conditions, without extreme demands regarding the background data from a potential client. By the end of H1, the Bank granted the Easy Loan in the volume of almost CZK 1 billion. Easy Loan is the first outcome of the SME change programme that represents the backbone of the Česká spořitelna corporate strategy.

Česká spořitelna continues its further enhancement of its successful cooperation with the European Investment Bank (hereafter the EIB). In March, Česká spořitelna as the first bank in Central and South-Eastern Europe became engaged in the European Commission’s Investment Plan. Thanks to the new guarantee facility from the EIB, Česká spořitelna can now offer preferential investment loans with the total value of EUR 100 million. The new guarantee is primarily designated to enhance the availability of financing for medium-size companies with up to 3 000 employees. However, when complying with the conditions, this guarantee can be also utilised by larger enterprises or municipalities. The EIB will cover 50% of risks related to the granted loans. Companies can draw the loans primarily for the energy saving projects, for innovations as well as other investment priorities. Due to further enhancement of existing cooperation with the EIB, Česká spořitelna reinforced its position of the most significant partner of the EIB in Central Europe as ČS facilitated preferential loans with the total value of EUR 1.15 billion to the Czech companies.

Thanks to the TOP Energy Effect programme, Česká spořitelna helps the corporate clients to reduce their energy cost in the order of tens of percent. Numerous companies can reduce large amount of costs because of modern technologies and measures that bring about energy savings and as a result the companies can strengthen their market position. Energy specialists of Erste Corporate Banking can identify suitable measures, and, of course, to facilitate their financing.

From 1 March 2017 to 31 March 2018, the commercial clients of Erste Corporate Banking can make use of the new programme TOP EU+. The Bank hence responds to a new wave of subsidy calls which started in November 2016. Within this programme, the client can obtain an investment loan, in the maximum amount of CZK 20 million for financing of investment projects with application for subsidy. The loan is subject to utilising advisory services provided by

* according to the statistics of the Ministry of Regional Development

the subsidiary Erste Grantika Advisory or by other consultancy firm accepted by the Bank for all phases of the subsidy cycle.

Česká spořitelna together with the Council of Europe Development Bank (the CEB) started to offer new preferential loans for public corporations, municipalities and other clients in the public sectors. The clients can utilise the preferential financing for environmental projects and projects that improve living conditions in urban and rural areas. By March 2019, the Bank together with the CEB plans to provide for clients financing worth EUR 50 million.

Smart City

Česká spořitelna managed to reduce the stress related to last-minute payments of bills which the Brno residents used to suffer. In May, the Bank together with the Brno Municipality launched a new e-shop that enables payments of communal waste handling. Instead of making payments at terminals or at the post office, Brno inhabitants can pay electronically, with their payment card at the portal of Brno Public Transport Authority (www.brnopas.cz). Brno became the first city in our country which can boast the real e-shop for municipal fees. In addition to the communal waste fees, people can use the e-shop to purchase pre-paid cards for municipal transport.

Thanks to the E-invoice service Česká spořitelna clients can now newly obtain electronic calls to pay local fees for pet dog owners or for communal waste in their internet banking SERVIS 24 where they can also pay it fast and simply. In January, the Bank together with the city of Tábor introduced this novelty in its pilot mode. Because it was so well received, Česká spořitelna plans to offer this novelty to additional 30 cities. E-invoice can be now utilised in more than half of the cities which use the GINIS system from Gordic, a company that implemented the E-invoice into the system.

In March 2017, Česká spořitelna helped to launch the almost revolutionary novelty in the North Bohemian city of Děčín. Together with Visa, the Bank participated in the development of a new smart payment card for the municipal transport company. The card allows for contactless payments of fare and it also enables assigning prepaid tickets to the card even for the people who do not have a bank account. This is the very first project of its kind in the Czech Republic through which the prepaid bank card can be used as a classic payment card and simultaneously it can be complemented with fare, both the single-use as well as tickets valid for defined time. Following in the footsteps of London and Ostrava, Děčín has become only the third city in Europe that has a fully electronic fare system, without the necessity to print a paper ticket.

Social Banking

Following the successful launch of Social Banking, Česká spořitelna moved into the corporate sector where it utilises the synergy of interconnection to the sustainably functioning and important sphere of the public and non-profit sector. Social banking continues the increasing trend of helping with financing and development of organisations with social outreach. Social banking now effectively covers the entire Czech Republic. During this year, social banking assisted with financing of 63 projects worth more than CZK 190 million, whereas one third of the clients continue to use development activities, ranging from acceleration programmes up to the individual mentoring. Česká spořitelna in the measurable manner consequently contributes to increasing the quality of the way in which the social enterprises and organisations involved in social services operate.

Mutual Funds

Investments into mutual funds in the Czech Republic continue rising and Česká spořitelna, with its volume of clients´ assets under management worth CZK 113.4 billion, remains the leader on the markets for providers of mutual funds. Česká spořitelna holds more than a one-quarter market share (based on the AKAT CZ data as at 31 March 2017) and continues to enhance its market leader position. The majority of mutual funds offered by Česká spořitelna are the products of the Group´s management investment company Erste Asset Management, Czech Republic branch.

In February, one of the most popular mutual funds and at the same time the largest stock fund in the Czech Republic – the open-ended mutual stock fund Top Stocks – exceeded a volume of CZK 10 billion in clients´ assets under management. More than 50 thousand investors make their investments in the Top Stocks fund.

In June, another mutual fund – the Open-ended mixed mutual fund Conservative Mix (Konzervativní mix) – surpassed a significant point when it reached the volume of CZK 20 billion in the clients´ assets under management and has thus strengthened its position of the largest mutual fund in the Czech Republic. Over 176 thousand clients already invest in the Conservative Mix fund.

In addition, Česká spořitelna launched new funds via Erste Asset Management. In May, the Bank prepared, for its clients, a new stock fund Stock Small Caps. This fund offers the opportunity to invest into smaller companies operating in mature Western markets, whereas their potential is not fully included in their valuation. Between May and the end of June, clients invested more than CZK 0.3 billion to the fund. The fund is designated for experienced and dynamic investors and it is suitable for long-term investments lasting five years or more.

REICO investiční společnost České spořitelny

At the end of January 2017, ČS nemovitostní fond, which is managed by REICO investiční společnost České spořitelny, a. s., purchased the Park One office building in Bratislava. The new acquisition made by the ČS nemovitostní fond is worth CZK 960

million. Through this acquisition, the ČS nemovitostní fond enlarged its portfolio to 11 buildings. In June, the value of the ČS fund capital reached the level of CZK 15.4 billion and it represents increase in the last 12 months – by significant 45%.

General Meeting

Česká spořitelna shareholders attending the Annual General Meeting on 25 April 2017 in Prague approved, inter alia, the distribution of 2016 profit and the payment of a gross dividend of 76 CZK per preference as well as ordinary share. The total dividend payment was thus CZK 11.6 billion. Česká spořitelna posted a non-consolidated profit after taxes of CZK 14.5 billion for 2016. Česká spořitelna will use the remaining profit that was not distributed as dividends to pay the additional capital distributions (CZK 0.6 billion) and to strengthen the Bank´s equity.

Bohuslav Šolta Becomes the Sixth Board of Directors Member

With effect from 13 March 2017, Bohuslav Šolta was elected a member of the Česká spořitelna Board of Directors, with the responsibility for management of operations and information technology. Bohuslav Šolta thus fills the so far vacant sixth position of the Board of Directors member. For almost five years, Bohuslav Šolta worked in Slovenská Sporiteľňa where he managed changes of information technologies and operations during the migration to a new information system, project of retail back office centralisation and the SME project. Under his leadership, the bank successfully handled the transformation process of IT systems.

Awards Received

Česká spořitelna Financial Group celebrated its six-fold success in the Zlatá koruna competition, which evaluates financial products available on the Czech market. The Bank received award for social responsibility and for mortgage loans, Stavební spořitelna České spořitelny, a. s. and Česká spořitelna – penzijní společnost, a. s.

The social responsibility prize has been awarded as part of the competition for three years only. This victory is even more valuable for Česká spořitelna, as the Bank defended it for the third consecutive time. Social responsibility of the Bank was thus once again appreciated by the jury as well as the public.

Česká spořitelna also won the mortgage category. Stavební spořitelna České spořitelny celebrated the double victory. Its "Úvěr od Buřinky" loan scored once again and was awarded the first prize in the building savings category and SSČS also received the bronze crown for online building savings. Česká spořitelna - penzijní společnost also won the bronze award for its supplementary pension insurance; moreover, this subsidiary has continued winning medals since 2009.

Česká spořitelna won the silver prize in the TOP Employer 2017 competition, in the banking and investments category. This year more than 10 thousand university students appreciated the Bank and compared to the previous year the Bank improved its position by one place. Česká spořitelna offers numerous opportunities to students and graduates to succeed and try out working in the largest Czech bank. Young, capable and educated people are the key for the Bank´s future, as evidenced by the annual Graduate Programme. Thanks to its project "My Potential" the Česká spořitelna enables secondary school students to become familiar with the bank environment. The project offers a number of internships, student jobs and also supervision of their assignments.

Trusting Good Things Happen

Česká spořitelna Foundation granted the annual Floccus Award to six organizations and three individuals for supporting people on the edge of the society. Česká spořitelna Foundation together with its younger sister Depositum Bonum Foundation focuses mainly on development and support of system innovations in social entrepreneurship and education, not only through their three acceleration programmes.

For example, non-profit organizations can use Impact First to test viability and financial sustainability of their business project. Each year there are three rounds of the competition. In each round, ten finalists can improve themselves. In March, the third round of the competition was won by project NášUp from Ostravian organization Spirála, which integrates people with mental illness. In the fourth round, the winner was the Pferda organization and its Bakery „Na Plechu" from Kvasiny, East Bohemia, which employs handicapped people and people with mental disabilities.

At the beginning of 2016 Česká spořitelna launched Melinda donation application. Thanks to this mobile application Česká Spořitelna makes donation easier. Our clients already donated over CZK 600,000 through it and supported more than three dozen non-profit organization' projects. Through the application the clients donate on average total of CZK 10,000 a week.

Česká spořitelna believes in good things that lead to the prosperity of the entire Czech society.

Česká spořitelna Anticipated Development

in the Second Half of 2017

In the second half of this year, Česká spořitelna will continue to fulfil its mission of leading the clients towards financial prosperity and thus contribute to the development of the entire Czech society.

This strategic aim forms the basis of the My Healthy Finance project. Its guiding principle is to help the clients through high quality advisory to meet their needs and to strive for increasing the client satisfaction with the services provided and to help them better understand their finance and ultimately to cut on their expenses.

As a result of continuing positive development of the Czech economy, stabilised progress of Česká spořitelna towards the growth of the client base satisfaction and loyalty is anticipated also in H2 2017.

In respect to the asset and liability balances, the Bank expects a continuing increase in the volume of loans granted to clients. Nevertheless, in the context of impacts caused by the stricter CNB measures in the mortgage lending area we cannot exclude certain slowdown as compared to the first half-year. Primary deposits are also expected to continue growing. Following these assumptions, the Bank expects only slight variations in the existing loan to deposit ratio.

In H2 2017, the Bank in principle expects similar development regarding the performance as in H1 2017. Volume of the net interest income will be influenced by the expected development of the interest rates and by changes to the assets and liabilities structure. The net income from fees and commissions will be favourably influenced by the increasing activity of clients in the sphere of investments in mutual funds and securities, at the same time the growing competitive pressure from new banks on the Czech market together with limitations imposed by European Union regulatory requirements will have a continuing negative impact. Net trading income will also continue to be influenced by the expected strengthening of the CZK exchange rate after the end of the CNB exchange rate interventions. The generation of planned profits will be also influenced by the expected development of allowances against credit risks. Benefits resulting from the implementation of selected Group and local projects as well as an effort to reduce operating expenses will also play a significant role.

Selected Financial Indicators

Key Ratios

in CZK million	H1 2017	H1 2016
Return on equity (ROE)	12.5%	13.5%
Return on assets (ROA)	1.2%	1.7%
Cost / income	49.0%	46.3%
Net interest margin in relation to interest-earning assets	2.74%	3.18%
Non-interest income / operating income	32.7%	35.1%
Loans and advances to customers / amounts owed to customers	72.6%	72.5%
Consolidated capital adequacy (BASEL III. Tier I and II)	19.2%	19.6%

Selected Operating Figures

in CZK million	H1 2017	H1 2016
Average headcount of Česká spořitelna Financial Group	10,197	10,329
Total number of clients	4,684,033	4,740,633
Number of SERVIS 24 and BUSINESS 24 direct banking active clients	1,789,254	1,707,044
Number of cards	2,915,106	3,020,751
of which: credit cards	194,696	241,573
Number of ATMs and payment machines	1,652	1,595
Number of Česká spořitelna branches	532	606

Net Profit of Selected Subsidiaries of Česká spořitelna
under International Financial Reporting Standards

in CZK million	H1 2017	H1 2016
Česká spořitelna – penzijní společnost, a. s.	104	40
Erste Leasing, a. s.	34	43
Factoring České spořitelny, a. s.	36	17
REICO investiční společnost České spořitelny, a. s.	39	33
s Autoleasing, a. s.	54	53
Stavební spořitelna České spořitelny, a. s.	384	354

Affidavit

The signatories of this document represent that according to their best knowledge the consolidated interim report provides a true and fair view of the financial position, business operations and financial results of Česká spořitelna and its consolidated group for the six months just ended and on the future prospects of its financial position, business operations and financial results.

Tomáš Salomon
Chairman of the Board of Directors

Wolfgang Schopf
Vice-Chairman of the Board of Directors

Interim Consolidated Financial Statements

for the Period Ended 30 June 2017

Prepared in Accordance with International Accounting Standard IAS 34: Interim Financial Reporting (Unaudited)

I. Consolidated Condensed Statement of Comprehensive Income

Income statement

in CZK million	Notes	1–6 2017	1–6 2016
Net interest income	1	12,345	12,773
Net fee and commission income	2	4,473	4,646
Dividend income	3	46	54
Net trading result	4	1,420	1,290
Result from financial assets and liabilities designated at fair value through profit or loss	4	(18)	(53)
Net result from equity method investments		(12)	3
Rental income from investment properties & other operating leases	5	159	258
Personnel expenses	6	(4,517)	(4,395)
Other administrative expenses	6	(3,473)	(3,375)
Depreciation and amortisation	6	(1,031)	(1,011)
Gains / losses from financial assets and liabilities not measured at fair value through profit or loss, net	7	269	1,423
Net impairment loss on financial assets not measured at fair value through profit or loss	8	265	(695)
Other operating result	9	(368)	(543)
Pre-tax result from continuing operations		**9,558**	**10,375**
Taxes on income	10	(1,891)	(2,136)
Post-tax result from continuing operations		7,667	8,239
Net result for the period		**7,667**	**8,239**
Net result attributable to non-controlling interests		(6)	1
Net result attributable to owners of the parent		**7,673**	**8,238**

Statement of Comprehensive Income

in CZK million	Notes	1–6 2017	1–6 2016
Net result for the period		**7,667**	**8,239**
Items that may be reclassified to profit or loss			
Available for sale reserve			
Gain / (loss) during the period		(1,176)	(1,721)
Cash flow hedge reserve			
Gain / (loss) during the period		(690)	384
Currency translation			
Gain / (loss) during the period		(16)	15
Deferred taxes relating to items that may be reclassified			
Gain / (loss) during the period		354	255
Total		**(1,528)**	**(1,067)**
Total other comprehensive income		**(1,528)**	**(1,067)**
Total comprehensive income		**6,139**	**7,172**
Total comprehensive income attributable to non-controlling interests		(6)	1
Total comprehensive income attributable to owners of the parent		**6,145**	**7,171**

II. Consolidated Condensed Statement of Financial Position

in CZK million	Notes	Jun 2017	Dec 2016
Assets			
Cash and cash balances	11	331,303	173,100
Financial assets - held for trading		37,721	20,944
Derivatives	12	12,059	13,357
Other trading assets	13	25,662	7,587
Financial assets – designated at fair value through profit or loss	14	383	423
Financial assets – available for sale	15	59,837	81,274
Financial assets – held to maturity	16	162,653	167,899
Loans and receivables to credit institutions	17	27,200	22,328
Loans and receivables to customers	18	606,787	577,453
Derivatives – hedge accounting	19	594	519
Property and equipment		10,071	10,456
Investment properties		2,372	2,390
Intangible assets		4,197	4,284
Investment in joint ventures and associates		741	753
Current tax assets		858	611
Deferred tax assets		453	136
Assets held for sale		25	320
Other assets	20	2,376	3,636
Total assets		**1,247,571**	**1,066,526**
Liabilities and equity			
Financial liabilities – held for trading		56,287	17,982
Derivatives	12	12,704	13,877
Other trading liabilities	21	43,583	4,105
Financial liabilities – designated at fair value through profit or loss	22	1,337	1,997
Deposits from customers		1,337	1,997
Financial liabilities measured at amortised cost	23	1,058,830	911,350
Deposits from banks		213,287	114,282
Deposits from customers		834,432	786,876
Debt securities issued		9,141	9,173
Other financial liabilities		1,970	1,019
Derivatives – hedge accounting	19	638	452
Provisions	24	2,694	2,909
Current tax liabilities		405	109
Liabilities associated with assets held for sale		–	125
Deferred tax liabilities		133	188
Other liabilities	25	11,249	9,684
Total equity		**115,998**	**121,730**
Equity attributable to non-controlling interests		157	166
Equity attributable to owners of the parent		115,841	121,564
Total liabilities and equity		**1,247,571**	**1,066,526**

These interim consolidated financial statements were prepared by the Financial Group of Ceska sporitelna, a. s. and authorized for issue by the Board of Directors on **17 August 2017**.

Tomáš Salomon
Chairman of the Board of Directors

Wolfgang Schopf
Vice-chairman of the Board of Directors

III. Consolidated Condensed Statement of Changes in Total Equity

in CZK million	Subscribed capital	Additional paid-in-capital	Retained earnings	Other capital instruments	Cash flow hedge reserve	Available for sale reserve	Currency translation	Equity attributable to owners of the parent	Equity attributable to non-controlling interests	Total equity
As of 1 January 2016	**15,200**	**11**	**93,532**	**8,107**	**28**	**3,275**	**(167)**	**119,986**	**(23)**	**119,963**
Dividends paid	–	–	(13,110)	–	–	–	–	(13,110)	–	(13,110)
Other changes	–	–	(3)	–	–	–	–	(3)	4	1
Total comprehensive income	–	–	8,238	–	312	(1,394)	15	7,171	1	7,172
Net result for the period	–	–	8,238	–	–	–	–	8,238	1	8,239
Other comprehensive income	–	–	–	–	312	(1,394)	15	(1,067)	–	(1,067)
As of 30 June 2016	**15,200**	**11**	**88,657**	**8,107**	**340**	**1,881**	**(152)**	**114,044**	**(18)**	**114,026**
As of 1 January 2017	**15,200**	**11**	**95,555**	**8,107**	**268**	**2,594**	**(171)**	**121,564**	**166**	**121,730**
Dividends paid	–	–	(11,856)	–	–	–	–	(11,856)	(4)	(11,860)
Other changes	–	–	(13)	–	1	–	–	(12)	1	(11)
Total comprehensive income	–	–	7,673	–	(559)	(953)	(16)	6,145	(6)	6,139
Net result for the period	–	–	7,673	–	–	–	–	7,673	(6)	7,667
Other comprehensive income	–	–	–	–	(559)	(953)	(16)	(1,528)	–	(1,528)
As of 30 June 2017	**15,200**	**11**	**91,359**	**8,107**	**(290)**	**1,641**	**(187)**	**115,841**	**157**	**115,998**

IV. Consolidated Statement of Cash Flows

in CZK million	Notes	1–6 2017	1–6 2016 Reclassified
Pre-tax result from continuing operations		**9,558**	**10,375**
Non-cash adjustments for items in net profit / loss for the year			
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets		1,030	1,097
Allocation to and release of provisions (including credit risk provisions)		(86)	1,208
Gains / (losses) from the sale of assets		31	(1,148)
Change in fair values of derivatives		(456)	456
Accrued interest, amortisation of discount and premium		(1,775)	(1,731)
Other adjustments		342	824
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Deposits with the CNB		(7,258)	238
Loans and receivables to credit institutions		(3,389)	683
Loans and receivables to customers		(28,836)	(21,410)
Financial assets – held for trading		(18,062)	(12,276)
Financial assets – designated at fair value through profit or loss		56	(53)
Financial assets – available for sale: debt instruments		22,187	(5,918)
Financial assets – held to maturity		5,834	(2,407)
Other assets from operating activities		1,498	731
Deposits from banks		55,841	(20,841)
Deposits from customers		48,049	50,774
Financial liabilities – held for trading		38,816	11,831
Increase in non-controlling interests		–	–
Payments for taxes on income		(1,860)	(1,849)
Other liabilities from operating activities		1,714	4,049
Cash flow from operating activities		**123,234**	**15,532**
Financial assets – available for sale: equity instruments		127	899
Proceeds of disposal			
Associated companies			1,148
Property and equipment, intangible assets and investment properties		119	(100)
Equity investments			
Acquisition of			
Property and equipment, intangible assets and investment properties		(525)	(230)
Disposal of subsidiaries		39	–
Cash flow from investing activities		**(240)**	**1,717**
Dividends paid to equity holders of the parent		(11,856)	(13,110)
Dividends paid to non-controlling interests		(4)	–
Other financing activities (mainly changes of subordinated liabilities)		–	9
Proceeds from bonds issued		48	698
Repurchase of bonds in issue		–	(4,910)
Cash flow from financing activities		**(11,812)**	**(17,313)**
Cash and cash equivalents at beginning of period		**149,884**	**92,278**
Cash flow from operating activities		123,234	15,532
Cash flow from investing activities		(240)	1,717
Cash flow from financing activities		(11,812)	(17,313)
Cash and cash equivalents at end of period	**11**	**261,066**	**92,214**
Cash flows related to taxes, interest and dividends			
Payments for taxes on income (included in cash flow from operating activities)		(1,860)	(1,849)
Interest received		13,296	13,973
Dividends received		47	54
Interest paid		(2,126)	(2,231)
Dividends paid to equity holders of the parent		(11,860)	(13,110)

V. Consolidated Condensed Notes to the Group Financial Statements of Česká spořitelna a. s.

for the Period from 1 January to 30 June 2017

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 an universal bank offering retail, corporate and investment banking services within the Czech Republic.

The Bank's majority shareholder is Erste Group Bank AG ('Erste Group Bank'). The Bank together with subsidiaries and associated companies forms the Group.

The Group 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 Group, liquidity, interest rate risk, foreign currency positions and other risks.

In addition to the banking entities, other Group companies are subject to regulatory requirements, specifically in relation to retirement, collective investment and brokerage services.

The Group 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.

Basis of preparation

The condensed consolidated interim financial statements ('interim financial statements') of the Group for the period from 1 January to 30 June 2017 were prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union ('EU') and are presented in accordance with the requirements of IAS 34 'Interim Financial Reporting'. The Group's application of IFRSs results in no differences between IFRSs as issued by the IASB and IFRSs as endorsed by the EU.

These interim financial statements were neither audited nor reviewed by an auditor.

Basis of consolidation

Subsidiaries are consolidated from the date upon which control is transferred to the bank. Control is achieved when the bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The number of legal entities and funds included in Česká spořitelna Group's IFRS consolidation scope evolved during the first six months of 2017 was not changed significantly compared to 31 December 2016.

Accounting and measurement methods

The interim financial statements do not include all the information and disclosures required in the annual consolidated financial statements. Therefore, the interim financial statements should be read in conjunction with Česká spořitelna Group's consolidated financial statements as of 31 December 2016.

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group's last annual consolidated financial statements for the year ended 31 December 2016.

Cash flow statement reclassification

In 2016 the Group 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 statement of financial position 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 Group.

in CZK million	30–06 16 Published	Restatement	30–06 16 Restated
Pre-tax result from continuing operations	10,375	–	10,375
Financial assets – available for sale: debt instruments	(5,019)	(899)	(5,918)
Financial assets – held to maturity	–	(2,407)	(2,407)
Not restated items	13,482	–	13,482
Cash flow from operating activities	**18,838**	**(3,306)**	**15,532**
Financial assets – available for sale: equity instruments	–	899	899
Proceeds of disposal / redemption			
Financial assets – held to maturity and associated companies	5,174	(4,026)	1,148
Acquisition of			
Financial assets – held to maturity and associated companies	(6,433)	6,433	–
Not restated items	(330)	–	(330)
Cash flow from investing activities	**(1,589)**	**3,306**	**1,717**
Cash flow from financing activities	**(17,313)**	**–**	**(17,313)**
Cash and cash equivalents at beginning of period	92,278	–	92,278
Cash and cash equivalents at end of period	92,214	–	92,214

Application of amended of new IFRS/IAS

Following standards, interpretations and their amendments which are relevant for the business of the Group are applicable for the first time in 2017 but are not yet endorsed by EU:

- Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses
- Amendments to IAS 7: Disclosure Initiative
- Amendments to IFRS 12 as a part of Annual Improvements to IFRSs 2014-2016

In comparison with the annual financial statements, there were no other material changes in accounting policies resulting from the new or amended standards.

Current status and expected quantitative impact of IFRS 9

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.

Regarding the description of IFRS 9 requirements please refer to the IFRS 9 impact part of Group's consolidated financial statements as of 31 December 2016.

The Group started the preparation for the transition to IFRS 9 in early 2015, when the IFRS 9 Implementation Project was officially set up, notably in terms of resources, budget, timeline, business streams and project steering, at both Erste Group Bank and the Group.

The year 2015 and much of the year 2016 were mainly dedicated to the development of master business concepts and detailed business requirements for the key streams of the project: classification and measurement, fair valuation, impairment and disclosures / reporting – i.e. preparation activities needed for transition to IFRS 9 as of 1. 1. 2018.

Since late 2016, both at the Erste Group Bank and at the Group, most efforts within the project have been refocused on implementation topics, in consideration of the wide range of the impacted internal policies, procedures, working instructions, processes, IT systems and applications.

Throughout the implementation work, but also in the light of the developing market practice and of the guidance issued by the relevant authoritative bodies and the global accounting consultancies, a limited number of business requirements have been revisited and/or subject to further refinement and additional clarification. This refinement process is expected to continue throughout the second half of 2017, without however significantly interfering with the implementation milestones and the scheduled "go live" dates of the related system functionalities. The framework of internal policies and procedures is in process of being updated and formally approved accordingly.

The second half of 2017 will also be used for running the newly implemented IFRS 9 functionalities (as they get tested and accepted at user level across Erste Group Bank and the Group) in parallel to the outgoing IAS 39 production processes. Such a "parallel run" is primarily meant to ensure the technical readiness for transiting to IFRS9 on 1 January 2018, but also the plausibility and the traceability of the transition impact, both on the date of initial application and subsequently. Hence, we see the "parallel run" as an additional source (and opportunity) for further refinement and calibration of the business requirements, notably in the area of impairment.

The current status of IFRS 9 implementation project at the Group enables that quantitative estimates of IFRS 9 financial impacts at an aggregated level are provided in the area of classification and measurement. In the area of impairment the proposed methodology is currently subject to internal reviews and adjustments drawing on experiences during the parallel run phase affecting both assessment of significant increases in credit risk and estimates of expected credit losses. As a result, no quantitative estimates for impairment of financial instrument are provided in the interim report as of 30 June 2017.

In respect to classification and measurement, the presented data can differ to the impacts which will be recorded upon transition to IFRS 9 as at 1 January 2018 due to market developments, changes in financial assets resulting from acquisitions, origination and derecognitions of financial assets as well as further refinement of valuation methods in the period till 31 December 2017.

As stated above the estimated impact resulting from valuation change due to implementation of IFRS 9 for financial assets of the Group as 30 June 2017 is following:

Reclassification of debt instrument from available for sale portfolio valued at fair value according to IAS 39 in amount of CZK 1,072 million to amortised cost measurement category according to IFRS 9 due to meeting the criteria of held to collect business model according to IFRS 9.

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	1–6 2017	1–6 2016
Interest income		
Financial assets held for trading	675	527
Financial assets designated at fair value through profit or loss	8	6
Available-for-sale financial assets	349	351
Loans and receivables	10,386	11,013
Held-to-maturity investments	2,102	2,245
Derivatives – Hedge accounting, interest rate risk	85	54
Other assets	126	35
Total interest income	**13,731**	**14,231**
Interest expenses		
Financial liabilities held for trading	(506)	(484)
Financial liabilities measured at amortised cost	(870)	(1,044)
Derivatives – Hedge accounting, interest rate risk	2	70
Other liabilities	(12)	–
Total interest expenses	**(1,386)**	**(1,458)**
Net interest income	**12,345**	**12,773**

2. Net fee and commission income

in CZK million	1–6 2017	1–6 2016
Securities	545	424
Clearing and settlement	90	108
Asset management	408	317
Custody	93	66
Payment services	2,196	2,474
Customer resources distributed but not managed	398	354
Lending business	697	863
Other	46	40
Net fee and commission income	**4,473**	**4,646**
Fee and commission income	**5,931**	**6,340**
Fee and commission expenses	**(1,458)**	**(1,694)**

3. Dividend income

in CZK million	1–6 2017	1–6 2016
Financial assets – designated at fair value through profit or loss	4	14
Financial assets – available for sale	42	40
Dividend income	**46**	**54**

4. Net trading and result from financial assets and liabilities designated at fair value through profit or loss

Net trading result

in CZK million	1–6 2017	1–6 2016
Securities and derivatives trading	557	601
Foreign exchange transactions	1,009	671
Gains or losses from hedge accounting	(146)	18
Net trading result	**1,420**	**1,290**

Result from financial assets and liabilities designated at fair value through profit or loss

in CZK million	1–6 2017	1–6 2016
Result from measurement/sale of financial assets designated at fair value through profit or loss	(9)	(45)
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(9)	(8)
Result from financial assets and liabilities designated at fair value through profit or loss	**(18)**	**(53)**

5. Rental income from investment properties & other operating leases

in CZK million	1–6 2017	1–6 2016
Investment properties	129	226
Other operating leases	30	32
Rental income from investment properties & other operating leases	**159**	**258**

6. General administrative expenses

in CZK million	1–6 2017	1–6 2016
Personnel expenses	**(4,517)**	**(4,395)**
Wages and salaries	(3,219)	(3,112)
Compulsory social security	(1,017)	(1,007)
Other personnel expenses	(281)	(276)
Other administrative expenses	**(3,473)**	**(3,375)**
Deposit insurance contribution	(217)	(200)
IT expenses	(1,323)	(1,229)
Expenses for office space	(640)	(681)
Office operating expenses	(369)	(382)
Advertising/marketing	(393)	(454)
Legal and consulting costs	(143)	(143)
Sundry administrative expenses	(388)	(286)
Depreciation and amortization	**(1,031)**	**(1,011)**
Software and other intangible assets	(489)	(417)
Owner occupied real estate	(318)	(345)
Investment property	(33)	(71)
Office furniture and equipment and sundry property and equipment	(191)	(178)
General administrative expenses	**(9,021)**	**(8,781)**

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

in CZK million	1–6 2017	1–6 2016
From sale of financial assets available for sale	210	1,423
From sale of financial assets held to maturity	65	–
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	**269**	**1,423**

Gain from the sale of the stake in VISA Europe Ltd. in amount of 1,423 million CZK was reported as of 30 June 2016.

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

in CZK million	1–6 2017	1–6 2016
Financial assets – measured at cost	(14)	–
Financial assets – available for sale	1	2
Loans and receivables	280	(698)
Allocation to risk provisions	(5,015)	(1,808)
Release of risk provisions	5,047	934
Direct write-offs	(139)	(100)
Recoveries recorded directly to the income statement	387	276
Financial assets – held to maturity	(2)	1
Net impairment loss on financial assets not measured at fair value through profit or loss	**265**	**(695)**

Starting January 2017 the bank reports the net allocation (release) of risk provisions based on the level of each transaction separately. In 2016 the balances of risk provisions (i.e. the net allocation / release of risk provisions) were based on the level of portfolio segments (defined by type of clients and type of risk provisions). Such change has no impact on the volume of risk provisions.

9. Other operating result

in CZK million	1–6 2017	1–6 2016
Result from properties / movables / other intangible assets other than goodwill	181	245
Allocation to / release of other provision	122	(53)
Allocation to / release of provisions for commitments and guarantees given	51	(335)
Other taxes	(8)	(34)
Result from other operating expenses / income	(714)	(366)
Other operating result	**(368)**	**(543)**

In June 2016 the final annual contribution paid to resolution fund in amount of CZK 398 million was reported within the line “Result from other operating expenses / income”. The gain from the sale of stake (51%) in merchant acquiring business in amount of CZK 1,148 million and the impairment loss of non-financial assets (buildings) in amount of CZK 1,040 million were presented in the line “Result from properties / movables / other intangible assets other than goodwill” as of 30th June 2016. In June 2017 the final annual contribution paid to resolution fund in amount of CZK 427 million was reported within the line “Result from other operating expenses / income”.

10. Taxes on income

Group’s consolidated net tax expense for the first six months of 2017 amounted to CZK 1,891 million (Jun 2016: CZK 2,136 million), thereof CZK 18 million net deferred tax income (Jun 2016: expense CZK 402 million).

11. Cash and cash balances

in CZK million	Jun 2017	Dec 2016
Cash on hand	24,486	24,144
Cash balances at central banks	303,038	146,720
Other demand deposits	3,779	2,236
Cash and cash balances	**331,303**	**173,100**

A portion of 'Cash balances at central banks' includes mandatory reserve deposits in amount of CZK 12,134 million (2016: CZK 6,419 million). Mandatory reserve deposits accrue interest at the CNB's two week repo rate. The Group 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.

Cash and cash equivalents

in CZK million	Jun 2017	Dec 2016
Cash on hand	24,486	24,144
Nostro accounts at central banks	290,904	140,301
Treasury bills and treasury bonds with maturity of less than three months	1,939	–
Nostro accounts with financial institutions	2,615	1,121
Loro accounts with financial institutions	(58,878)	(15,682)
Total cash and cash equivalents	**261,066**	**149,884**

12. Derivatives – held for trading

in CZK million	As of 30 June 2017			As of 31 December 2016		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**655,952**	**10,703**	**(10,585)**	**578,244**	**11,548**	**(11,271)**
Interest rate	311,660	6,817	(6,779)	315,612	8,976	(8,684)
Equity	150	–	(8)	550	24	(7)
Foreign Exchange	342,960	3,849	(3,750)	260,778	2,458	(2,492)
Credit	–	–	–	–	–	–
Commodity	1,182	37	(48)	1,304	90	(88)
Derivatives held in the banking book	**58,444**	**1,356**	**(2,119)**	**62,537**	**1,809**	**(2,606)**
Interest rate	14,498	846	(16)	14,708	1,155	(19)
Equity	–	–	–	–	–	–
Foreign exchange	43,946	510	(2,103)	47,829	654	(2,587)
Credit	–	–	–	–	–	–
Commodity	–	–	–	–	–	–
Total	**714,396**	**12,059**	**(12,704)**	**640,781**	**13,357**	**(13,877)**

13. Other trading assets

in CZK million	Jun 2017	Dec 2016
Equity instruments	4	–
Debt securities	282	351
General governments	107	97
Credit institutions	175	254
Loans and advances	25,376	7,236
Other trading assets	**25,662**	**7,587**

Money-market instruments classified as trading assets amounted to CZK 25,376 million (2016: CZK 7,236 million).

14. Financial assets – at fair value through profit and loss

in CZK million	Jun 2017	Dec 2016
Equity instruments	24	29
Debt securities	295	331
General governments	–	17
Credit institutions	295	314
Loans and advances	64	63
Financial assets – at fair value through profit and loss	**383**	**423**

15. Financial assets – available for sale

in CZK million	Jun 2017	Dec 2016
Equity instruments	1,228	1,355
Debt securities	58,609	79,919
General governments	40,088	61,992
Credit institutions	8,447	8,978
Other financial corporations	2,207	2,257
Non-financial corporations	7,867	6,692
Financial assets – available for sale	**59,837**	**81,274**

16. Financial assets – held to maturity

in CZK million	Gross carrying amount		Collective allowances		Net carrying amount	
	Jun 2017	Dec 2016	Jun 2017	Dec 2016	Jun 2017	Dec 2016
General governments	149,154	155,267	–	–	149,154	155,267
Credit institutions	13,019	11,783	(5)	(4)	13,014	11,779
Other financial corporations	483	851	(1)	–	482	851
Non-financial corporations	3	3	–	(1)	3	2
Financial assets – held to maturity	**162,659**	**167,904**	**(6)**	**(5)**	**162,653**	**167,899**

17. Loans and receivables to credit institutions

Loans and receivables to credit institutions

As of 30 June 2017 in CZK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
Debt securities	1,276	–	(7)	1,269
Credit institutions	1,276	–	(7)	1,269
Loans and receivables	25,938	(4)	(3)	25,931
Central banks	5,000	–	–	5,000
Credit institutions	20,938	(4)	(3)	20,931
Total	**27,214**	**(4)**	**(10)**	**27,200**

As of 31 December 2016 in CZK million	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
Debt securities	1,312	–	(7)	1,305
Credit institutions	1,312	–	(7)	1,305
Loans and receivables	21,027	(1)	(3)	21,023
Credit institutions	21,027	(1)	(3)	21,023
Total	**22,339**	**(1)**	**(10)**	**22,328**

Allowances for loans and receivables to credit institutions

in CZK million	As of Dec 16	Allocations	Release	Transfer between allowances	As of Jun 17
Specific allowances	**(1)**	**(4)**	**1**	**–**	**(4)**
Loans and receivables	(1)	(4)	1	–	(4)
Credit institutions	(1)	(4)	1	–	(4)
Collective allowances	**(10)**	**(18)**	**18**	**–**	**(10)**
Debt securities	(7)	(7)	7	–	(7)
Credit institutions	(7)	(7)	7	–	(7)
Loans and receivables	(3)	(11)	11	–	(3)
Credit institutions	(3)	(11)	11	–	(3)
Total	**(11)**	**(22)**	**19**	**–**	**(14)**

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

18. 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 30 June 2017				
Debt securities with customers	795	–	(4)	791
Non-financial corporations	795	–	(4)	791
Loans and receivables to customers	618,399	(9,701)	(2,702)	605,996
General governments	17,750	(4)	(12)	17,734
Other financial corporations	14,440	(138)	(34)	14,268
Non-financial corporations	236,115	(5,593)	(1,823)	228,699
Households	350,094	(3,966)	(833)	345,295
Total	**619,194**	**(9,701)**	**(2,706)**	**606,787**
As of 31 December 2016				
Debt securities with customers	795	–	(2)	793
Non-financial corporations	795	–	(2)	793
Loans and receivables to customers	592,197	(13,015)	(2,522)	576,660
General governments	19,128	(1)	(10)	19,117
Other financial corporations	10,464	(145)	(33)	10,286
Non-financial corporations	225,151	(6,861)	(1,673)	216,617
Households	337,454	(6,008)	(806)	330,640
Total	**592,992**	**(13,015)**	**(2,524)**	**577 ,453**

Allowances for loans and receivables to customers

in CZK million	As of 31 Dec 16	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/–)	As of 30 Jun 17	Amounts written off	Recoveries of amounts previously written off
Specific allowances	**(13,015)**	**(3,665)**	**2,979**	**3,767**	**64**	**126**	**43**	**(9,701)**	**139**	**(387)**
Loans and receivables to customers	(13,015)	(3,665)	2,979	3,767	64	126	43	(9,701)	139	(387)
General governments	(1)	(4)	–	1	–	–	–	(4)	–	–
Other financial corporations	(145)	(69)	69	5	–	1	1	(138)	–	–
Non-financial corporations	(6,861)	(1,774)	595	2,250	41	114	42	(5,593)	111	(89)
Households	(6,008)	(1,818)	2,315	1,511	23	11	0	(3,966)	28	(298)
Collective allowances	**(2,524)**	**(1,328)**	**2**	**1,260**	**–**	**(124)**	**8**	**(2,706)**	**–**	**–**
Debt securities with customers	(2)	(4)	2	–	–	–	–	(4)	–	–
Non-financial corporations	(2)	(4)	2	–	–	–	–	(4)	–	–
Loans and receivables to customers	(2,522)	(1,324)	–	1,260	–	(124)	8	(2,702)	–	–
General governments	(11)	(7)	–	6	–	–	–	(12)	–	–
Other financial corporations	(32)	(33)	–	31	–	–	–	(34)	–	–
Non-financial corporations	(1,671)	(834)	–	779	–	(104)	7	(1,823)	–	–
Households	(808)	(450)	–	444	–	(20)	1	(833)	–	–
Total	**(15,539)**	**(4,993)**	**2,981**	**5,027**	**64**	**2**	**51**	**(12,407)**	**139**	**(387)**

in CZK million	As of 31 Dec 15	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/–)	As of 30 Jun 16	Amounts written off	Recoveries of amounts previously written off
Specific allowances	**(14,307)**	**(1,643)**	**1,239**	**742**	**160**	**285**	**(4)**	**(13,528)**	**100**	**(276)**
Loans and receivables to customers	(14,307)	(1,643)	1,239	742	160	285	(4)	(13,528)	100	(276)
General governments	(1)	–	–	–	–	–	–	(1)	–	–
Other financial corporations	(127)	(38)	–	1	–	–	–	(164)	–	–
Non-financial corporations	(6,874)	(996)	431	422	72	308	(4)	(6,641)	73	(23)
Households	(7,305)	(609)	808	319	88	(23)	–	(6,722)	27	(253)
Collective allowances	**(2,005)**	**(162)**	**1**	**188**	**–**	**(285)**	**–**	**(2,263)**	**–**	**–**
Debt securities with customers	(2)	(1)	1	–	–	–	–	(2)	–	–
Non-financial corporations	(2)	(1)	1	–	–	–	–	(2)	–	–
Loans and receivables to customers	(2,003)	(161)	–	188	–	(285)	–	(2,261)	–	–
General governments	(1)	(3)	–	–	–	–	–	(4)	–	–
Other financial corporations	(17)	(6)	–	2	–	–	–	(21)	–	–
Non-financial corporations	(1,254)	(104)	–	158	–	(286)	–	(1,486)	–	–
Households	(731)	(48)	–	28	–	1	–	(750)	–	–
Total	**(16,312)**	**(1,805)**	**1,240**	**930**	**160**	**–**	**(4)**	**(15,791)**	**100**	**(276)**

19. Derivatives – hedge accounting

in CZK million	As of 30 June 2017			As of 31 December 2016		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Fair value hedges	**4,329**	**15**	**(14)**	**4 453**	**21**	**(12)**
Interest rate	4,329	15	(14)	4 453	21	(12)
Cash flow hedge	**68,284**	**579**	**(624)**	**45 997**	**498**	**(440)**
Interest rate	40,762	189	(417)	29 898	455	(54)
Foreign exchange	27,522	390	(207)	16 099	43	(386)
Total	**72,613**	**594**	**(638)**	**50 450**	**519**	**(452)**

20. Other assets

in CZK million	Jun 2017	Dec 2016
Prepayments and accrued income	99	1,213
Assets under construction / unfinished goods / inventory	134	95
Sundry assets	2,143	2,328
Other assets	**2,376**	**3,636**

21. Other trading liabilities

in CZK million	Jun 2017	Dec 2016
Short positions	2	–
Equity instruments	2	–
Deposits	43,581	4,105
Credit institutions	29,777	–
Other financial corporations	9,416	4,009
Non financial corporations	4,388	96
Other trading liabilities	**43,583**	**4,105**

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

in CZK million	Jun 2017	Dec 2016
Deposits	1,337	1,997
General governments	–	–
Non financial corporations	–	2
Households	1,337	1,995
Financial liabilities designated at fair value through profit and loss	**1,337**	**1,997**

23. Financial liabilities measured at amortised costs

in CZK million	Jun 2017	Dec 2016
Deposits	1,047,719	901,158
Deposits from banks	213,287	114,282
Deposits from customers	834,432	786,876
Debt securities issued	9,141	9,173
Bonds	9,141	9,173
Other financial liabilities	1,970	1,019
Financial liabilities measured at amortised costs	**1,058,830**	**911,350**

Deposits from banks

in CZK million	Jun 2017	Dec 2016
Overnight deposits	58,878	15,695
Term deposits	54,461	70,713
Repurchase agreements	99,948	27,874
Deposits from banks	**213,287**	**114,282**

Deposits from customers

in CZK million	Jun 2017	Dec 2016
Current accounts / Overnight deposits	734,089	679,889
General governments	71,500	55,874
Other financial corporations	34,120	19,402
Non financial corporations	119,256	123,163
Households	509,213	481,450
Term deposits	96,296	105,574
General governments	71	70
Other financial corporations	340	7,926
Non financial corporations	3,768	1,170
Households	92,117	96,408
Repurchase agreements	4,047	1,413
General governments	4,047	1,413
Other financial corporations	–	–
Non financial corporations	–	–
Deposits from customers	**834,432**	**786,876**
General governments	75,618	57,357
Other financial corporations	34,460	27,328
Non financial corporations	123,024	124,333
Households	601,330	577,858

Debt securities issued – Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	Jun 2017	Dec 2016
Mortgage bonds	CZ0002001282	November 2007	November 2017	5.90%	2,033	2,064
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	482	474
Mortgage bonds	CZ0002001423	December 2007	December 2017	5.85%	5,065	4,986
Mortgage bonds	CZ0002001647	December 2007	December 2017	3.90%	810	876
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	61	70
Mortgage bonds	CZ0002002744	December 2012	December 2021	2.75%	83	83
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	176	183
Mortgage bonds	CZ0002002777	December 2012	June 2018	1.75%	41	42
Mortgage bonds	CZ0002002785	December 2012	December 2019	2.50%	81	83
Bonds	CZ0003701054	September 2005	September 2017	x)	298	292
Cumulative change in carrying amount due to fair value hedging					11	20
Bonds issued					**9,141**	**9,173**

x) Bonds were issued with a combined yield.

24. Provisions

in CZK million	Jun 2017	Dec 2016
Restructuring	119	149
Pending legal issues and tax litigation	1,849	1,857
Commitments and guarantees given	671	725
Provisions for guarantees – off balance (defaulted customers)	375	431
Provisions for guarantees – off balance (non defaulted customers)	296	294
Other provisions	55	178
Provisions for onerous contracts	14	15
Other	41	163
Provisions	**2,694**	**2,909**

In 2016 Other provisions included an estimated amount for the Group's constructive obligation to meet any potential future claims of clients resulting from statute-barred deposits on anonymous passbooks.

25. Other liabilities

in CZK million	Jun 2017	Dec 2016
Deferred income and accrued expenses	272	220
Sundry liabilities	10,977	9,464
Other liabilities	**11,249**	**9,684**

26. Segment reporting

The Group'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 Group the function of the chief operating decision maker is exercised by the Management Board of Česká spořitelna, a. s.

Structure of Business Segments

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

Bussiness segments

Retail	Corporates	ALM & CC	Group Markets

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.

In addition, the retail segment contains the capital results of the subsidiaries Stavební spořitelna České spořitelny, a. s., Česká spořitelna – penzijní společnost, a. s., ČS do domu, a.s, Věrnostní program iBod, a.s, Energie ČS, a. s., Holding Card Service, s.r.o. and MOPET CZ, a. s.

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 i**ncludes 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 Group.

In addition, the segment Corporates contains the capital results of the subsidiaries Factoring České spořitelny, a. s., Erste Leasing, a. s., REICO investiční společnost České spořitelny, a.s, Euro Dotacie, a. s., s Autoleasing, a. s., s Autoleasing SK, s.r.o. and Erste Grantika Advisory, a. s.

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), intragroup eliminations within the Group, 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 Group defined as the difference of the total IFRS equity and the economical equity allocated to all operating segments.

Corporate center also includes results of the subsidiaries Brokerjet České spořitelny, a. s., Czech TOP Venture Fund B.V. and s IT Solutions CZ, s.r.o.

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 Group, additional to that the execution of trades against the market using the trading books of the Group 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		Corporates		ALM & LCC		Group Markets		Total Group	
	1–6 2017	**1–6 2016**	**1–6 2017**	**1–6 2016**	**1–6 2017**	**1–6 2016**	**1–6 2017**	**1–6 2016**	**1–6 2017**	**1–6 2016**
Net interest income	9,569	10,001	2,707	2,349	(31)	376	100	47	12,345	12,773
Net fee and commission income	3,417	3,506	667	692	(231)	25	620	423	4,473	4,646
Dividend income	–	13	7	–	39	41	–	–	46	54
Net trading and fair value result	694	551	419	323	(281)	(1)	570	364	1,402	1,237
Net result from equity method investments	–	–	–	–	(12)	3	–	–	(12)	3
Rental income from investment properties & other operating leases	3	3	129	226	27	29	–	–	159	258
General administrative expenses	(6,964)	(6,846)	(1,430)	(1,346)	(320)	(260)	(307)	(329)	(9,021)	(8,781)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	(1)	–	–	–	270	1,423	–	–	269	1,423
Net impairment loss on financial assets not measured at fair value through profit or loss	(159)	(163)	152	(166)	272	(366)	–	–	265	(695)
Other operating result	38	100	(137)	(128)	(173)	(468)	(96)	(47)	(368)	(543)
Pre-tax result from continuing operations	**6,597**	**7,165**	**2,514**	**1,950**	**(440)**	**802**	**887**	**458**	**9,558**	**10,375**
Taxes on income	(1,247)	(1,342)	(459)	(348)	(16)	(359)	(169)	(87)	(1,891)	(2,136)
Net result for the period	**5,350**	**5,823**	**2,055**	**1,602**	**(456)**	**443**	**718**	**371**	**7,667**	**8,239**
Net result attributable to non-controlling interests	–	–	–	–	(6)	1	–	–	(6)	1
Net result attributable to owners of the parent	5,350	5,823	2,055	1,602	(450)	442	718	371	7,673	8,238
Operating income	13,683	14,074	3,929	3,590	(489)	473	1,290	834	18,413	18,971
Operating expenses	(6,964)	(6,846)	(1,430)	(1,346)	(320)	(260)	(307)	(329)	(9,021)	(8,781)
Operating result	**6,719**	**7,228**	**2,499**	**2,244**	**(809)**	**213**	**983**	**505**	**9,392**	**10,190**
Risk-weighted assets (credit risk, eop)	151,031	156,753	232,374	218,236	22,212	32,369	13,154	7,007	418,771	414,365
Average allocated capital	18,989	19,101	18,198	17,021	83,241	84,183	3,102	1,600	123,530	121,905
Cost / income ratio	50.9%	48.6%	36.4%	37.5%	(65.4%)	55.0%	23.8%	39.4%	49.0%	46.3%
Return on allocated capital	56.3%	61.0%	22.6%	18.8%	(1.1%)	1.1%	46.3%	46.4%	12.4%	13.5%
Total assets (eop)	**423,764**	**413,032**	**253,277**	**225,618**	**528,705**	**365,394**	**41,825**	**33,302**	**1,247,571**	**1,037,346**
Total liabilities excluding equity (eop)	**632,136**	**612,642**	**192,207**	**139,337**	**210,300**	**102,886**	**96,931**	**68,455**	**1,131,574**	**923,320**

eop = end of period

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

27. Related party transactions

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

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 Group is controlled by Erste Group Bank AG.

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

Pursuant to the definitions outlined above, the categories of the Group's related parties principally comprise Erste Group Bank, 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 normal commercial rates. Outstanding balances at the year-end are unsecured.

For the year ended 30 June 2017 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2016: CZK 0 million).

Loans and advances to and amounts owed to related parties

in CZK million	Jun 2017			Dec 2016		
	Erste Group Bank AG	Other related parties	Members of the Board of Directors and Supervisory Board	Erste Group Bank AG	Other related parties	Members of the Board of Directors and Supervisory Board
Assets						
Cash and cash balances	2,251	45	–	657	59	–
Financial assets – held for trading	5,004	–	–	3,705	1	–
Financial assets designated at fair value through profit or loss	–	–	–	–	–	–
Financial assets – available for sale	–	–	–	–	–	–
Financial assets – held to maturity	–	–		–	–	
Loans and receivables to credit institutions	14,194	–	–	15,268	–	–
Loans and receivables to customers	–	234	15	–	191	15
Derivatives Hedge Accounting	412	–	–	90	–	–
Other assets	529	40	–	22	39	–
Liabilities						
Financial liabilities held for trading	23,401	–	–	4,308	–	–
Financial liabilities measured at amortised costs	167,208	925	45	73,329	1,334	32
Derivatives Hedge Accounting	23		–	40	–	–
Other Liabilities	90	183	–	110	201	–
Profit&Loss statement	**–**			**–**		
Net interest income	195	2	–	607	18	–
Net fee and commision income	16	336	–	(2)	544	–
Dividend income	–	42	–	–	6	–
Net trading and fair value result	3,287	–	–	145	1	–
Rental income from investment properties & other operating lease	–	10	–	–	10	–
Other administrative expenses	(150)	(276)	–	(259)	(687)	(79)
Other operating result	10	9	–	53	42	–
Loans commitments, financial guarantees and other commitments given	**22**	**51**	**–**	**16**	**68**	**–**
Loan commitments, financial guarantees and other commitments received	**26**	**3**	**–**	**977**	**–**	**–**

28. Risk management

Risk management strategy

It is a core function of every bank to take risks in a conscious and selective manner and to manage such risks professionally. The Group's proactive risk policy and strategy aims at achieving balanced risk and return in order to generate a sustainable and adequate return on equity.

Concerning risk policy and strategy as well as regarding risk management organization, reference is made to the chapter of the same name in the annual consolidated financial statements as of 31 December 2016.

Credit risk

The classification of credit assets into risk grades is based on the Group's internal ratings.

For the purpose of external reporting, internal rating grades of the Group are clustered into the following four risk categories, applied uniformly with parent company reporting standards:

Low risk: Typically regional customers with well-established and rather long-standing relationships with the Group 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 3 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 Group applies a 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 Group may accept in respect of a client with a given rating and underlying collateral. In setting the system of limits, the Group strives to protect its revenues and capital from concentration risk.

The VaR of Wholesale portfolio increased from 1.40% (or CZK 10,411 million) at the end of 2016 to 1.51% (or CZK 15,278 million) in mid-2017. In terms of expected loss riskiness portfolio improved from 0.24% at the end of 2016 to 0.18% in mid-2017. Increase in VaR was driven mainly by an increase in exposure in CEE countries sovereigns, banks and institutions. At the same time continuing improvement in rating leads to a decrease in EL riskiness.

In terms of comparison of VaR to Tier 1 capital (on individual basis) the indicator increased from 11.05 % at the end of 2016 to 16.22 % in 2017. This is caused by the above mentioned growth in exposure in CEE countries sovereigns, banks and institutions.

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

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

in CZK million	Jun 2017	Dec 2016
Credit risk NET exposures relating to on-balance sheet items		
Other demand deposits	3,779	2,236
Financial assets held for trading – derivatives	12,059	13,357
Financial assets held for trading – debt securities, loans and receivables	25,658	7,587
Financial assets designated at fair value through profit or loss – debt securities, loans and receivables	359	394
Available-for-sale financial assets – debt securities	58,609	79,919
Loans and receivables to credit institutions	27,200	22,328
Loans and receivables to customers	606,787	577,453
General governments	17,734	19,117
Other financial corporations	14,268	10,286
Non-financial corporations	229,490	217,410
Households	345,295	330,640
Held-to-maturity investments	162,653	167,899
Derivatives – Hedge accounting	594	519
Credit risk exposure relating to off-balance sheet items		
Irrevocable financial guarantees given	19,406	19,465
Irrevocable loan commitments given	108,517	100,971
Total	**1,025,621**	**992,128**

Collateral securing the above receivables is as follows:

in CZK million	Jun 2017	Dec 2016
Loans and advances to credit institutions	4,906	–
Loans and advances to customers	284,633	274,305
Trading assets	25,338	4,042
Total	**314,877**	**278,347**

b) Credit risk exposure by industry and financial instrument

The following tables present Group'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 June 2017

in CZK million	Balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Debt instruments					Contingent liabilities	Credit risk exposure
				Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments		
				At amortised cost				Fair value		
Agriculture and forestry	–	–	15,136	–	–	–	–	47	2,361	17,544
Mining	–	–	2,115	–	–	–	–	1	187	2,303
Manufacturing	–	–	58,659	–	–	–	2,266	166	19,484	80,575
Energy and water supply	–	–	20,571	–	–	–	1,670	502	4,943	27,686
Construction	–	–	9,172	–	–	–	–	8	13,756	22,936
Trade	–	–	40,813	–	2,418	–	–	81	8,985	52,297
Transport and communication	–	–	17,162	–	–	–	3,930	554	10,459	32,105
Hotels and restaurants	–	–	4,714	–	–	–	–	35	523	5,272
Financial and insurance services	3,779	27,214	14,842	13,502	22,907	359	10,655	8,235	4,206	105,699
Real estate and housing	–	–	72,006	3	226	–	–	161	6,522	78,918
Services	–	–	19,651	–	–	–	–	39	4,101	23,791
Public administration	–	–	16,698	149,154	107	–	40,088	2,752	6,125	214,924
Education, health and art	–	–	6,076	–	–	–	–	72	872	7,020
Private households	–	–	321,579	–	–	–	–	–	45,399	366,978
Total	**3,779**	**27,214**	**619,194**	**162,659**	**25,658**	**359**	**58,609**	**12,653**	**127,923**	**1,038,048**

Gross credit risk exposure by industry and financial instrument in December 2016

in CZK million	Balances at central banks and other demand deposits	Loans and advances to credit institutions	Loans and advances to customers	Debt instruments					Contingent liabilities	Credit risk exposure
				Held to maturity	Trading assets	At fair value through profit or loss	Available for sale	Positive fair value of derivative financial instruments		
				At amortised cost				Fair value		
Agriculture and forestry	–	–	15,652	–	–	–	–	91	1,758	17,501
Mining	–	–	1,939	–	–	–	–	1	296	2,236
Manufacturing	–	–	55,923	–	–	–	1,531	404	18,107	75,965
Energy and water supply	–	–	21,210	–	–	–	1,305	642	6,364	29,521
Construction	–	–	8,033	–	–	–	–	15	13,056	21,104
Trade	–	–	38,517	–	–	–	–	188	11,704	50,409
Transport and communication	–	–	16,587	–	–	–	3,856	638	9,453	30,534
Hotels and restaurants	–	–	3,264	–	–	–	–	35	379	3,678
Financial and insurance services	2,236	22,339	10,475	12,634	7,441	377	11,236	7,992	4,572	79,302
Real estate and housing	–	–	69,795	3	–	–	–	290	6,750	76,838
Services	–	–	17,416	–	–	–	–	105	5,171	22,692
Public administration	–	–	17,886	155,267	146	17	61,991	3,363	3,934	242,604
Education, health and art	–	–	6,415	–	–	–	–	101	833	7,349
Private households	–		309,880	–	–	–	–	11	38,059	347,950
Total	**2,236**	**22,339**	**592,992**	**167,904**	**7,587**	**394**	**79,919**	**13,876**	**120,436**	**1,007,683**

c) Credit risk exposure by risk category

The following table presents the credit risk exposure of Group divided by risk category as of 30 June 2017, compared with the credit risk exposure as of 31 December 2016.

Gross credit risk exposure by risk category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Total exposure as of 30 Jun 2017	947,413	71,512	3,370	15,753	1,038,048
Share of credit risk exposure	91.3%	6.9%	0.3%	1.5%	100.0%
Total exposure as of 31 Dec 2016	915,736	67,814	3,941	20,192	1,007,683
Share of credit risk exposure	90.9%	6.7%	0,4%	2.0%	100.0%
Change in credit risk exposure in 2017	31,677	3,698	(571)	(4,439)	30,365
Change	3.5%	5.5%	(14.5%)	(22.0%)	3.0%

Credit risk exposure by industry and risk category

The following tables present the credit risk exposure of the Group broken down by industry and risk category as of 30 June 2017 and 31 December 2016, respectively.

Gross credit risk exposure by industry and risk category in June 2017

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	13,362	3,735	167	280	**17,544**
Mining	2,022	278	–	3	**2,303**
Manufacturing	68,589	7,903	407	3,676	**80,575**
Energy and water supply	25,195	2,011	235	245	**27,686**
Construction	16,832	4,141	453	1,510	**22,936**
Trade	41,641	8,242	452	1,962	**52,297**
Transport and communication	27,266	4,583	66	190	**32,105**
Hotels and restaurants	2,245	2,600	76	351	**5,272**
Financial and insurance services	101,813	3,606	34	246	**105,699**
Real estate and housing	66,078	11,376	290	1,174	**78,918**
Services	15,425	7,393	253	720	**23,791**
Public administration	214,491	414	11	8	**214,924**
Education, health and art	5,760	1,128	10	122	**7,020**
Private households	346,694	14,102	916	5,266	**366,978**
Total	**947,413**	**71,512**	**3,370**	**15,753**	**1,038,048**

Gross credit risk exposure by industry and risk category in December 2016

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	13,730	3,218	192	361	**17,501**
Mining	2,192	32	–	12	**2,236**
Manufacturing	63,631	7,670	370	4,294	**75,965**
Energy and water supply	27,046	1,865	183	427	**29,521**
Construction	15,637	3,885	433	1,149	**21,104**
Trade	39,074	8,203	371	2,761	**50,409**
Transport and communication	25,911	4,361	79	183	**30,534**
Hotels and restaurants	1,990	1,204	74	410	**3,678**
Financial and insurance services	75,066	3,997	1	238	**79,302**
Real estate and housing	61,808	12,721	574	1,735	**76,838**
Services	16,457	5,254	234	747	**22,692**
Public administration	242,158	275	11	160	**242,604**
Education, health and art	5,912	1,288	13	136	**7,349**
Private households	325,124	13,841	1,406	7,579	**347,950**
Total	**915,736**	**67,814**	**3,941**	**20,192**	**1,007,683**

Market Risk

The Group is exposed to the impact of market risks. Market risks arise from open positions in interest rate, currency, equity, commodity and credit spread risk types. The value of open positions changes subject to general and specific financial market movements. Generally the group business can be split to Trading book (financial instruments positions bank intends to trade) and Banking book (the rest of the bank, i.e. retail and corporate loans and deposits, investment to bonds, hedging derivatives).

Trading book

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 Group 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; and
- Credit derivatives.

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

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

The Group 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 Group's trading book are transferred to the Erste Group Bank portfolio through back-to-back transactions. As such, the market risk arising from the Group's OTC transactions is managed within the Erste Group Bank portfolio. The Group 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 Group's limits trading strategy and set for market risk.

In addition to the calculation of sensitivities to individual risk factors, the Group uses the value at risk 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 on a confidence level of 99% for a period of one trading day. To calculate the values, the KvaR+ system is used along with historical simulations based on the last 520 trading days. Assuming a normal distribution of losses, VaR is also determined for a period of one month, or possibly one year and for higher probability levels (99.9%, 99.98%). The Board of Directors establishes VaR limits for the trading and banking book portfolio as the Group'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.

Banking book

The same methods for calculations of VaR (1 month, 99%) are conducted also for Banking book portfolios. Except of VaR standardized yield curve shocks (Basel II ratio) and interest rate sensitivity of net interest income (NII) are used as a measure of banking book interest rate risk (IRRBB). Standardized shocks are based on economic value compared to VaR which is based on market value. In the IRRBB calculations behavioural models are used for current accounts and other liabilities without specified maturity. The VaR (1 month, 99%) of the banking book 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. Earning risk is monitored through sensitivities (i.e. NII change) under different scenarios for yield curve movements which is regularly performed by Asset Liabilities management unit. Results of this analysis are reported on a monthly basis to ALCO as well to support strategical decision related to the structure of the bank's balance sheet.

The table below summarizes the VaR values as at 31 December 2016 and 30 June 2017 on the confidence level of 99%. The table shows only the Bank's amounts:

As at 30 June 2017 in CZK million	Total Market Risk	Correlation Effect	Interest Rate Risk	Foreign Currency Risk	Equity Risk	Volatility Risk	Commodity Risk	Credit Spread risk
Trading book								
Daily value	11	(1)	11	1	–	–	–	–
Monthly value	51	(5)	51	3	1	–	1	–
Average of daily values per year	12	(1)	12	1	–	–	–	–
Average of monthly values per year	58	(6)	59	3	2	–	1	–
Banking book								
Daily value	501	(48)	499	6	–	3	–	41
Monthly value	2,350	(225)	2,339	28	1	16	–	191
Average of daily values per year	499	(58)	499	3	–	4	–	52
Average of monthly values per year	2,340	(272)	2,340	12	–	18	–	242

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

In addition, the Group 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. Scenarios are developed on the basis of historical experience and expert opinions of the Macroeconomic Analyses Department. The stress testing is undertaken on a monthly basis and its results are reported to FMRMC.

Commodity Risk

For Trading Book commodity risk was added, due to positions in electricity.

Liquidity Risk

The liquidity risk is defined in the Group in line with the principles set out by the Basel Committee on Banking Supervision and the CNB. Accordingly, a distinction is made between market liquidity risk, which is the risk that the Group entities 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 credit institutions in the Group 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 Group 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 Group's own refinancing cost or spread.

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 the potential outflows from collateralised derivative transactions estimating the effect from collateral outflow in case of adverse market movements.

Bank also reports liquidity indicators LCR and NSFR to the national regulator according to Delegated Act on regular basis. Both LCR and NSFR for the Bank are currently significantly above 100% of regulatory minimum. Besides these two main indicators, Bank also reports Additional Liquidity Monitoring Metrics (ALMM). ALMM complement already existing Basel III liquidity risk ratios in the form of several detailed liquidity risk measures.

ICAAP (Internal capital adequacy assessment process)

The acceptable level of risk (risk capacity) is based on the assessment of the capital available to cover risks based on the 'ICAAP' methodology. The overall risk is measured via economic capital quantifications for individual types of risks: market, credit, operational, liquidity, business and reputation risks. Economic capital is subsequently allocated to individual sub-portfolios or client's segments to perform risk adjusted performance measurement and economic value added (EVA) analysis which support strategic management of the bank.

The capital adequacy, i.e. the ratio between total economic capital and available capital resources, is a basis for Risk appetite statement (RAS) which define the overall acceptable risks taken by the bank's group by means of quantitative indicators and qualitative statements. The whole ICAAP is supplemented by stress testing of a negative market and economic development on earning and capital adequacy on net profit a capital adequacy. The comprehensive picture of the banking risks and ability of the bank to absorb their risks in going concern regime are regularly reported to the Board.

Hedge accounting

The interest rate and foreign exchange risk of the banking book are managed by the ALM department using hedge accounting. Under the hedge accounting changes in the value of hedged item are compensated by the changes in the value of hedging derivatives. Hedge accounting principles are in accordance with IAS39. The main internal guideline for hedge accounting is the Group hedge accounting policy that is approved by the Group ALCO.

In March 2016, ČS Group started to calculate efficiency of hedge accounting using regression analysis. Regression analysis is used for retrospective as well as prospective efficiency test.

29. Fair value of financial instruments

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 market participants at the measurement date.

The best indication of an asset's or liability's fair value is provided by quoted market prices in an active market. Where quoted market prices in an active market are available, they are used to measure the asset's or liability's value (level 1 of the fair value hierarchy). The measurement of fair value by the Group is based primarily on external sources of data (stock market prices or broker quotes in highly liquid market segments). Where no market prices are available, fair value is determined on the basis of valuation models that are based on observable market information (level 2 of the fair value hierarchy). In some cases, the fair value of an asset or liability can be determined neither on the basis of market prices nor of valuation models that rely entirely on observable market data. In such cases, individual valuation parameters not observable in the market are estimated on the basis of reasonable assumptions (level 3 of the fair value hierarchy). For level 3 valuations typically market PDs determined from historical PDs mapped to a basket of liquid bonds / CDS are used as unobservable parameters.

If any unobservable input in the valuation model is significant and the price quote used is updated infrequently the instrument is classified as level 3 of the fair value hierarchy.

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 Group's measurement of fair value 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 Group 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 modelling techniques including also methods de-

scribed 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 Erste Group's own credit risk is derived from buy-back levels of 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 Group values derivatives at mid-market levels. The derivatives position value is adjusted of close-out adjustment to take into account impact of bid / ask spread to the valuation.

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 Group's credit quality. Modelling of the expected exposure is based on option replication strategies for the most of the counterparties and the 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 Group'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 (165) million and the total DVA-adjustment amounts to CZK 87 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 of 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.

in CZK million	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	
	Jun 2017	Dec 2016	Jun 2017	Dec 2016	Jun 2017	Dec 2016	Jun 2017	Dec 2016
Assets								
Financial assets – held for trading	67	53	37,256	19,834	398	1,057	37,721	20,944
Derivatives	–	–	11,661	12,300	398	1,057	12,059	13,357
Other trading assets	67	53	25,595	7,534	–	–	25,662	7,587
Financial assets designated at fair value through profit or loss	12	29	295	314	76	80	383	423
Financial assets – available for sale	44,743	67,650	11,356	10,710	3,738	2,914	59,837	81,274
Equity instruments	–	74	–	–	1,228	1,281	1,228	1,355
Debt securities	44,743	67,576	11,356	10,710	2,510	1,633	58,609	77,919
Derivatives Hedge Accounting	–	–	594	519	–	–	594	519
Total assets	**44,822**	**67,732**	**49,501**	**31,377**	**4,212**	**4,051**	**98,535**	**103,160**
Liabilities								
Financial liabilities held for trading	2	–	56,281	17,967	4	15	56,287	17,982
Derivatives	–	–	12,700	13,862	4	15	12,704	13,877
Other trading liabilities	2	–	43,581	4,105	–	–	43,583	4,105
Financial liabilities designated at fair value through profit or loss	–	–	1,337	1,997	–	–	1,337	1,997
Deposits from customers	–	–	1,337	1,997	–	–	1,337	1,997
Debt securities issued	–	–	–	–	–	–	–	–
Derivatives Hedge Accounting	–	–	634	452	4	–	638	452
Total liabilities	**2**	**–**	**58,252**	**20,416**	**8**	**15**	**58,262**	**20,431**

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.

in CZK million	1–6 2017		1–12 2016	
	Level 1	Level 2	Level 1	Level 2
Securities				
Net transfer from Level 1	–	–	–	–
Net transfer from Level 2	(851)	851	–	–
Net transfer from Level 3	(78)	–	(442)	269
Purchases / sales / expiries	(21,981)	17,837	1,526	7,057
Changes in derivatives	–	(564)	–	(641)
Total year-to-date change	**(22,910)**	**18,124**	**1,084**	**6,685**

In 2017 the relevant unquoted bonds were reclassified from Level 1 to Level 2 due to lower market activity. The reclassification from Level 1 to Level 3 resulted from the fact that quoted prices for equity securities does not exists as of 30 June 2017 (and as of 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 2016	Gain / loss in profit or loss	Gain / loss in other comprehen-sive income	Purchases	Sales / Settlements	Transfer into Level 3	Transfer out of Level 3	Currency translation	Jun 2017
Assets									
Financial assets – held for trading	1,057	(23)	–		(13)		(623)	–	398
Derivatives	1,057	(23)	–		(13)		(623)	–	398
Financial assets designated at fair value through profit or loss	80	(3)	–		–	–	–	(1)	76
Financial assets – available for sale	2,914	–	(147)	915	1	78	–	(23)	3,738
Total assets	**4,051**	**(26)**	**(147)**	**915**	**(12)**	**78**	**(623)**	**(24)**	**4,212**

in CZK million	Dec 2015	Gain / loss in profit or loss	Gain / loss in other comprehen-sive income	Purchases	Sales / Settlements	Transfer into Level 3	Transfer out of Level 3	Currency translation	Jun 2016
Assets									
Financial assets – held for trading	1,198	72	–	39	(21)	117	(70)	–	1,335
Derivatives	1,198	72	–	39	(21)	117	(70)	–	1,335
Financial assets designated at fair value through profit or loss	90	(25)	–	101	–	–	–	–	166
Financial assets – available for sale	1,720	–	217	356	(1,439)	2,186	–	–	3,040
Total assets	**3,008**	**47**	**217**	**496**	**(1,460)**	**2,303**	**(70)**	**–**	**4,541**

A part of the OTC derivatives was categorized as Level 3 / was recategorized into 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.

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	1–6 2017 Unrealized gain / loss in profit or loss	1–6 2016 Unrealized gain / loss in profit or loss
Assets		
Financial assets – held for trading	(23)	72
Derivatives	(23)	72
Financial assets designated at fair value through profit or loss	(3)	(25)
Total	**(26)**	**47**

Sensitivity analysis for Level 3 measurements

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

in CZK million	Positive fair value changes when applying alternative valuation parameters		Negative fair value changes when applying alternative valuation parameters	
	Jun 2017	Dec 2016	Jun 2017	Dec 2016
Derivatives	21	25	(20)	(25)
Income statement	20	25	(19)	(25)
Other comprehensive income	1	–	(1)	–
Equity instruments and Debt securities	58	111	(116)	(188)
Income statement	1	1	(1)	(2)
Other comprehensive income	57	110	(115)	(186)
Total	**79**	**136**	**(136)**	**(213)**
Income statement	**21**	**26**	**(20)**	**(27)**
Other comprehensive income	**58**	**110**	**(116)**	**(186)**

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%.

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 30 June 2017 and for the year-end 2016.

June 2017 in CZK million	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
Assets					
Cash and cash balances	331,303	331,303	–	–	–
Financial assets – held to maturity	162,653	193,444	161,502	31,932	10
Loans and receivables to credit institutions	27,200	27,528	–	–	27,528
Loans and receivables to customers	606,787	614,686	–	–	614,686
Liabilities					
Financial liabilities measured at amortised costs	1,058,830	1,076,496	–	24,644	1,051,852
Deposits from banks	213,287	213,134	–	–	213,134
Deposits from customers	834,432	836,748	–	–	836,748
Debt securities issued	9,141	24,644	–	24,644	–
Other financial liabilities	1,970	1,970	–	–	1,970
Financial guarantees and commetments					
Financial guarantees	19,406	432	–	–	432
Irrevocable commitments	108,517	773	–	–	773

December 2016 in CZK million	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
Assets					
Cash and cash balances	173,100	173,100	–	–	–
Financial assets – held to maturity	167,899	202,628	171,750	30,868	10
Loans and receivables to credit institutions	22,328	22,816	–	1,311	21,505
Loans and receivables to customers	577,453	583,845	–	–	583,845
Liabilities					
Financial liabilities measured at amortised costs	911,350	927,576	–	23,558	904,018
Deposits from banks	114,282	113,714	–	–	113,714
Deposits from customers	786,876	787,261	–	–	787,261
Debt securities issued	9,173	24,936	–	23,558	1,378
Other financial liabilities	1,019	1,019	–	–	1,019
Financial guarantees and commetments					
Financial guarantees	19,465	611	–	–	611
Irrevocable commitments	100,971	1,014	–	–	1,014

30. Contingent assets and liabilities

in CZK million	Jun 2017	Dec 2016
Amounts owed under guarantees and letters of credit	19,406	19,465
Undrawn loan commitments	108,517	100,971
Total	**127,923**	**120,436**

Contingent liabilities – litigations

There have not been any material changes since year-end 2016 in the assessment of the influence of the outcome of the litigation cases in which Česká spořitelna, a. s. and some of its subsidiaries are involved with respect of the financial and / or earnings situation of the Group.

31. Events after the balance sheet date

There are no significant events after the balance sheet date.

Česká spořitelna, a. s.
Olbrachtova 1929/62, 140 00 Prague 4, Czech Republic
IČ: 45244782
Telephone: 956 711 111
Telex: 121010 SPDB C,
121624 SPDB C,
121605 SPDB C
Swift: GIBA CZ PX
Information line: 800 207 207
E-mail: csas@csas.cz
Internet: www.csas.cz

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