Česká spořitelna

Annual Report 2017

ČESKÁ spořitelna

Key Consolidated Figures

in accordance with International Financial Reporting Standards (IFRS) [1]

Financial Position Indicators

CZK million	2017	2016	2015	2014	2013
Total assets	1,329,223	1,066,526	959,584	902,589	968,723
Loans and receivables to credit institutions	157,525	22,328	34,717	38,533	75,348
Loans and advances to clients, net	638,694	577,453	532,524	500,039	489,194
Securities and other financial assets	219,501	257,183	240,678	256,565	267,788
Amounts owed to financial institutions	295,232	114,282	83,915	54,570	73,036
Amounts owed to clients	881,997	786,876	709,817	671,565	713,977
Equity attributable to owners of the parent	120,810	121,564	119,986	107,809	100,660

Income Statement Indicators

CZK million	2017	2016	2015	2014	2013
Net interest income	25,350	25,512	25,864	26,673	27,252
Net fee and commission income	8,803	9,308	10,254	11,306	11,294
Operating income	37,227	38,227	39,743	41,139	41,609
Operating expenses	(18,240)	(18,146)	(18,586)	(18,234)	(18,743)
Operating profit	18,987	20,081	21,157	22,905	22,866
Net profit attributable to owners of the parent	14,610	15,457	14,293	15,071	15,588

Basic Ratios

	2017	2016	2015	2014	2013
ROE	12.1%	12.9%	13.0%	14.5%	16.2%
ROA	1.1%	1.5%	1.5%	1.7%	1.6%
Cost/income ratio	49.0%	47.5%	46.8%	44.3%	45.0%
Non-interest income/operating income	31.9%	33.3%	34.9%	35.2%	34.5%
Net interest margin on interest-bearing assets	2.6%	3.1%	3.3%	3.5%	3.6%
Loan/deposit ratio	72.3%	73.2%	74.6%	73.5%	67.3%
Capital adequacy (unconsolidated) [2]	18.6%	20.1%	21.7%	18.8%	17.7%

Key Operating Indicators

Number of:	2017	2016	2015	2014	2013
staff (average headcount)	10,248	10,371	10,536	10,471	10,651
branches	517	561	621	644	653
clients	4,674,173	4,707,094	4,786,644	4,920,744	5,258,892
private accounts	2,679,015	2,670,719	2,713,012	2,534,094	2,379,625
active cards	2,828,439	2,946,449	3,118,624	3,144,314	3,233,725
of which: credit cards	185,242	209,948	268,615	289,722	319,271
active SERVIS 24 and BUSINESS 24 users	1,845,993	1,739,437	1,661,415	1,629,336	1,591,355
ATMs and payment machines	1,704	1,642	1,589	1,561	1,530

Rating

Rating agency	Long-term rating	Short-term rating	Outlook
Fitch	A–	F1	stable
Moody's	A2	Prime–1	stable
Standard & Poor's	A	A–1	positive

(1) Definitions of below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 264
(2) Detailed calculation of Capital adequacy is stated in the chapter Capital adequacy, on the page 43

Content

Profile of Česká spořitelna

Česká spořitelna is a bank with the longest tradition in the Czech market. It has been one of the fundamental pillars of the Czech banking system over 192 years. Currently, the Bank provides services to 4.67 million clients. Since 2000, Česká spořitelna has been part of the Erste Group Bank, a multinational financial group.

Česká spořitelna is a modern bank focused on retail clients, small and medium-sized enterprises, large corporations, and also on municipalities.

Thanks to the largest network of branches as well as ATMs and payment machines Česká spořitelna is the most accessible bank on the domestic market from the retail clients' perspective. It holds a leading position in the market for mortgage loans, consumer loans including credit cards and overdrafts and in deposits in overall. Česká spořitelna is also the leader in distribution of mutual funds and life insurance.

Under the Česká spořitelna – Korporátní bankovnictví brand the Bank provides a comprehensive solution for entrepreneurs and companies. It is the market leader in the area of providing financial services to municipalities and public sector. Thanks to a wide range of foreign exchange, interest rate, commodity and money market products, Česká spořitelna occupies dominant position also in treasury and products for large, small and medium-sized businesses. The Bank also emphasises support of management and analysis of financial risks. Česká spořitelna participated in almost every successful issue of shares on the Prague Stock Exchange, whether primary (IPO) or secondary (SPO) issue. Thanks to the strong backing of Erste Group Bank, the Bank is able to provide services to clients also on foreign markets.

Building the Prosperity of the Country

Česká spořitelna has been historically involved in building and strengthening the country's prosperity. Traditionally, the Bank is ranked among the largest and most awarded employers in the domestic market. At the same time, it belongs to the largest taxpayers in the Czech Republic.

The Bank's social exposure is also reflected in its services. In its offering for retail clients, Česká spořitelna takes into consideration the needs of people with different types of handicap. More than 760 ATMs are adapted for the blind and 29 offices offer a simultaneous transcription service for the deaf; and moreover, 239 branches are barrier-free. Traditionally, attention is also paid to non-profit sector and, within the framework of the new social banking, to companies offering socially responsible services. into consideration the needs of people with different types of handicap. More than 760 ATMs are adapted for the blind and 29 offices offer a simultaneous transcription service for the deaf; and moreover, 239 branches are barrier-free. Traditionally, attention is also paid to non-profit sector and, within the framework of the new social banking, to companies offering socially responsible services.

Significant is also the Bank's role in education. Česká spořitelna is engaged in strengthening the population's financial literacy on a long-term basis. The Bank endeavours to improve teaching sciences and engineering at primary and secondary schools through the Depositum Bonum Foundation.

Česká spořitelna cooperates with universities across the country and is involved in increasing quality and competitiveness of the Czech universities.

The Bank is also active in promoting innovation. Česká spořitelna is setting a trend in the introduction of modern technologies in the local market. It is a partner of many business talent pools aimed at innovation and supports corporate and public sector co-operation in the field of innovation.

The Year 2017 in Review

January 2017

Česká spořitelna (ČS) launched **Easy Loan** – a package of simple products and a quick approval process for SME clients

ČS received **the Mastercard award** for its new transparent credit card and campaign

In January 2017 were added **three new branches** built on the new concept focused on advisory service

People no longer need to go to the bank to set up a direct debit; ČS launched **e-Inkaso** with Allianz

February 2017

ČS nemovitostní fond (real estate fund) purchased the Park One administrative building in Bratislava, worth approximately CZK 960 mil.

The Top Stocks open-end mutual fund became the largest equity fund in the country, exceeding CZK 10 billion of assets under management

ČS was ranked as second in the banking sector in the **TOP Zaměstnavatelé 2017 (TOP Employers)** survey, awarded by more than 10,000 university students

Smart City: ČS helped the Brno public transit company introduce a contactless tramway card

March 2017

Bohuslav Šolta filled the vacant position on the Board of Directors of Česká spořitelna; he is responsible for Operations and IT management

The Paleček family packed their bags, and ČS introduced its **new communication concept**, "You can do more when someone believes in you", and its image spot featuring Professor Vojta

The Česká spořitelna Foundation has been led by a new director since March – **Ondřej Zapletal**

In cooperation with the European Investment Bank, ČS began to offer Czech companies further advantageous investment loans, worth EUR 100 million in aggregate

ČS announced the **Smart Town Hall competition**, designed to introduce modern technologies in municipalities

April 2017

ČS launched a campaign in support of its **My Healthy Finances** (MHF) service, presenting the story of the pentathlete Kateřina and her mother

ČS launched a pilot of its **new credit application for SME clients** that will lead to gradual digitisation of the lending process

George celebrated its **1st anniversary**, ČS expanded its pilot operation

Nová krev pro české podnikání

ČS lent nearly half a billion to start-up companies in its **MSE** financing programme

May 2017

Škoda Electric will deliver **125 new trolleybuses** to Riga, Latvia, thanks in part to ČS

ČS opened its first **medium branch** in Prague-Letňany

15

The first insurance specialists offer **non-life insurance products** at pilot branches

ČS introduced the new **TOP Energy Effect** programme to help companies reduce their energy costs

June 2017

The number of clients who have ČS as their **main bank** began to grow

5

ČS celebrated five successes in the Zlatá koruna (Gold Crown) competition – points were scored by its mortgage, the Buřinka Loan, CSR, online building saving schene, and Česká spořitelna – penzijní společnost

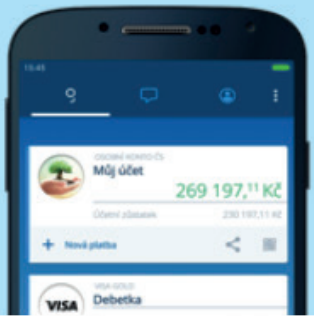
Ostrava will be cleaner – ČS helped to **finance technologies** for the remediation of the largest slag heap in Ostrava-Heřmanice

All Regional Corporate Centres have begun to use the **new credit application**

July 2017

ČS was first on the market to introduce a **mortgage that does not require the client to visit a branch**

George opened, it is available to nearly everyone, and its mobile version **George Go** was introduced



ČS again won the **Euromoney Awards for Excellence** in the category Best Bank in the Czech Republic

ČS opened a **medium branch** built in line with its new concept, at a prestigious address at Wenceslas Square

16,000

ČS was again a partner for **Colours of Ostrava**; over 16,000 people visited the ČS zone

August 2017

As the General Partner of the Czech Athletics Federation, ČS was present at the **London athletics world championship**

ČS nemovitostní fond (real estate fund) expanded its portfolio, going to Poland for the first time

500,000

clients were using the My Healthy Finance service

September 2017

ČS called an international architectural competition for its **new head office** at Prague-Smíchov

ČS was again a partner of the popular **Bike for Life races**, having ridden 800,000 km with it

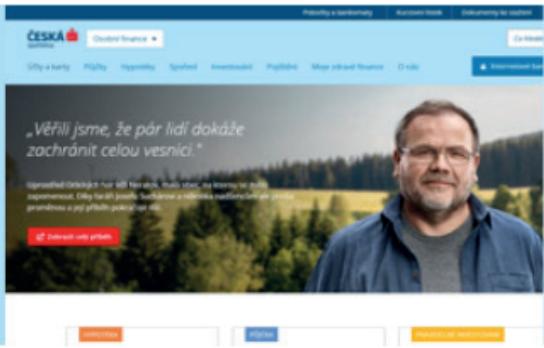
ČS financed the **construction of a new plant producing parts** for Miele

6,350 visitors

ČS was present at the **Kefír baby-punk festival**, this year for the first time with a ČS tent village

October 2017

ČS introduced its **new website** at www.csas.cz



Logos of Česká spořitelna and Erste Corporate Banking underwent a change

ČESKÁ spořitelna

ČESKÁ spořitelna | Korporátní bankovnictví

ČS became **one of the main banks** of the world's third largest tyre manufacturer, the Swedish Trelleborg Group

The Sokolovská Branch was opened in Prague – the first "**flagship**" branch built along the new concept

November 2017

The public chose ČS as the Most Trustworthy **Bank of the Year**

The Brno Regional Corporate Centre (RCC) successfully drew in the laboratory equipment producer **BioVendor**, and the České Budějovice RCC acquired the machinery producer **RICHMONT CZ**

George celebrated its

100,000th

user and scored points with payment order templates

ČS held the largest Open banking & WebAPI festival in the country, **Apinauts 2017**, focusing on the theme 'Opening up for third parties'

December 2017

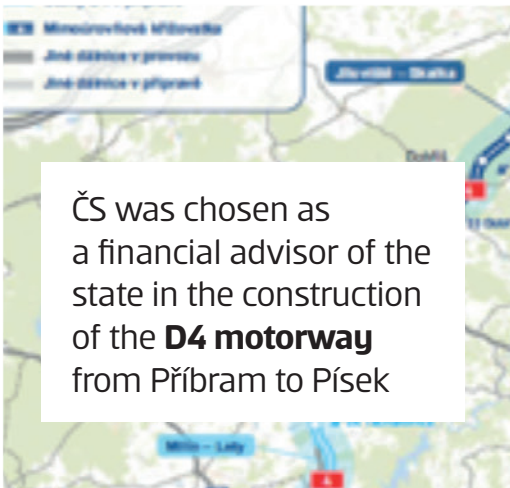
720,000

A year after its launch, 720,000 clients use the MHF service

ČS took part in **syndicated financing** for AmRest, the largest Central-European operator of the fast food chains KFC, Burger King, Pizza Hut, and Starbucks

ČS won the title **Best Payment Card Issuer**, bestowed by VISA

According to the WebTop100 competition, the **ČS Online Mortgage** was the best on-line tool in the financial sector



ČS was chosen as a financial advisor of the state in the construction of the **D4 motorway** from Příbram to Písek

Foreword by the Chairman of the Board of Directors

Tomáš Salomon
Chairman of the Board
of Directors of Česká spořitelna

Dear Ladies and Gentlemen,

Last year was a successful one for our country. It was marked by conjuncture and economic growth, which had a positive impact on Czech households, small enterprises, and large corporations.

And we at Česká spořitelna also did well. Last year, thanks to our clients' confidence in us, we granted mortgages in a record volume – financing housing for our clients worth CZK 62.1 billion, which is 8.3% more than in 2016. Corporate banking had excellent results too.

Our clients' confidence was key, not only in the provision of loans, but also in our effort to help households manage their finances. 720,000 clients used our advisory service My Healthy Finances. Individual financial advice, which, in the past, had been a privilege of only select clients, has now become available to everyone at Česká spořitelna. And clients appreciate this – the number of clients who referred to Česká spořitelna as their primary bank was up by a full 10% last year.

As for the years to come, it is necessary not only that we successfully attain excellent sales and financial results, but also that we successfully implement our transformation programmes. We have focused on further expansion of our client offer of digital solutions and have introduced innovations in the client service model at branches. We have placed emphasis on identifying and fulfilling our clients' needs, and also on their protection. For all these endeavours, I would like to thank our employees.

As has already become the tradition, Česká spořitelna supported dozens of educational, sports, and cultural projects last year. Our community gatherings, which we organised across the country, were very successful. At our branches, we provided financial education for school children, and linked up local enthusiasts, entrepreneurs, and representatives of local government. Thanks to our employees and local residents in locales throughout the land, our branches have thus become places that serve the community and its development.

In concluding, I would like to thank our clients for their confidence, which is the greatest reward for our work. We wish to continue providing financial services in a manner that would avoid any disappointment and be of the greatest use.

Tomáš Salomon
Chairman of the Board of Directors of Česká spořitelna

Board of Directors of Česká spořitelna

in the Year 2017

Tomáš Salomon

Born on 1 March 1966
Chairman of the Board of Directors
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Salomon is a graduate of Faculty of Economics of Services and Tourism of Slovak University of Economics in Bratislava. He started banking career in 1997 at GE Capital Multiservis where he worked as the Chairman of the Board of Directors and CEO. In 2000 he was appointed Director of Retail Banking and Member of the Board of Directors at GE Capital Bank with responsibility for Sales and Marketing.

In 2004–2007 he worked as the Chairman of the Board of Directors and CEO of Poštová Banka, a.s. in Slovakia. In the period 2008–2012 he focused on private investment projects and initiated a project for the formation of a platform for the realization of mobile payments in the Czech Republic and participated in the establishment of MOPET CZ, where he worked as a Member of the Board of Directors and CEO. In 2013 he began working in Slovenská sporiteľňa, where he was later appointed Member of the Board of Directors responsible for Retail. In 2015, Mr Salomon was a member of the Board of Directors of Česká spořitelna responsible for Retail Banking.

Mr. Salomon is the Chairman of the Board of Directors of Česká spořitelna since January 2016.

Membership in other companies: Stavební spořitelna České spořitelny, a.s., Nadace Depositum Bonum, Nadace ČS.

Wolfgang Schopf

Born on 12 August 1961
Vice-Chairman of the Board of Directors
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Schopf is a graduate of the Business College. He started his career in 1980 in Girocentrale and Bank der österreischischen Sparkassen AG where he was responsible for accounting and reporting. From 1997 he worked in Erste Bank as Director of Accounting. In 2004, he became Director of the Controlling Division of Erste Group Bank, later responsible also for Performance Management Program. He held these positions until July 2013.

Mr Schopf is the Vice-Chairman of the Board of Directors of Česká spořitelna responsible for Financial Division since August 2013.

Membership in other companies: Stavební spořitelna České spořitelny, a.s., Nadace Depositum Bonum, Nadace ČS.

Pavel Kráčmar

Born on 15. May 1966
Member of the Board of Directors
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Pavel Kráčmar graduated from the Nuclear Science and Physical Engineering in Czech Technical University of Prague. Over the years he completed internships and training courses with major financial institutions (The World Bank, Bank of England, EBRD, J.P. Morgan, UBS,...). He began his banking career in 1991 in the Czechoslovak State Bank, where over 7 years, held several positions, primarily in management of foreign reserves and operations for financial markets. At this time, simultaneously lectured professional topics in the Banking Institute in Prague. In 1998, he joined GE Capital Bank as director of the Treasury. Between 2000–2001 he was CEO of Savings Investment Company and since 2001 works in Česká spořitelna, where he gradually managed trading the financial markets, the sale of financial market products for corporate and institutional clients, relationships with financial institutions, balance of the financial group and subsequently investment products for retail.

Since February 2016 Pavel Kráčmar is the member of the Board of Directors of Česká spořitelna responsible for financial markets and corporate banking.

Membership in other companies: none.

Karel Mourek

Born on 20 September 1967
Member of the Board of Directors
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Mourek is a graduate of the Czech Technical University in Prague and Thunderbird University in USA, where he obtained MBA. His professional career began in 1992 at Creditanstalt, later in Bank Austria Creditanstalt Czech Republic in Corporate banking division, where he worked until 2001. In 2001–2011 he worked in Česká spořitelna in the Management of Commercial Centers. Between 2011–2013, he worked at Erste Group Immorent as the member of the Board responsible for Risk Management.

Since August 2013, Mr Mourek is the member of the Board of Directors of Česká spořitelna responsible for the Risk Management Division.

Membership in other companies: Erste Reinsurance S.A.

Daniela Pešková

Born on 27 April 1974
Member of the Board of Directors
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mrs Pešková is a graduate of the Prague University of Economics, Faculty of International Relations. She began her banking career in 1998 in GE Capital Bank as an early collections team leader. Over the next five years she worked at GE Capital Bank on management positions primarily in early collections and operations. In September 2003, she accepted an offer to work abroad and became mortgage division director in Budapest Bank in Hungary within the GE Money Financial Group. Since October 2004, she worked in the financial group Raiffeisen International in the Slovak Tatrabanka as director of project, process and organizational department. In December 2007, she began working for the financial group Erste in Česká spořitelna starting as a director of retail operations. From April 2012 she led the entire operations. Since January 2015, she worked as the director of the branch distribution network and external sales. As part of her professional growth Mrs. Pešková successfully completed among others Leadership program at the Katz Graduate School of Business in Pittsburgh, McKinsey Lean Academy in Santiago de Chile and Green Belt certification in project management quality based on the philosophy of Six Sigma.

Since February 2016, Mrs. Pešková is the member of the Board of Directors of Česká spořitelna responsible for retail banking.

Membership in other companies: Stavební spořitelna České spořitelny, a.s., Česká spořitelna-Penzijní společnost, a.s.

Bohuslav Šolta

Born on 25 April 1958
Member of the Board of Directors
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Šolta is a graduate of Slovak University of Economics in Bratislava. After the studies he worked for several years in financial management. He started banking career in 1993 in Slovakia in banka Haná, a.s. where he was later appointed a Board Member. From 1998 to 2005 Mr Šolta was a member of the Board in Všeobecná úvěrová banka with responsibility for IT and Operations. In the period between 2006 and 2016 he casted as advisor for key development project and strategic planning in Slovak companies Eclyps, s.r.o a IQUAP, a.s.. At the same time Mr. Šolta was a Board Advisor in Slovenská sporiteľňa and also an IT Manager. In 2016, he began working for Česká spořitelna, a.s. as an Executive Director in IT and Operations.

Since 13 March 2017, Mr Šolta is the member of the Board of Directors of Česká spořitelna responsible for IT and Operations Division.

Membership in other companies: none.

Supervisory Board and Audit Commitee of Česká spořitelna

in the Year 2017

John James Stack

Born on 4 August 1946
Chairman of the Supervisory Board
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Stack is an American citizen. He studied at Iona College majoring in Mathematics and Economics (BA, 1968) and the Harvard Graduate School of Business Administration specializing in Finance and Management (MBA, 1970). From 1970 until 1976, Mr. Stack worked in municipal government in New York. From 1977 until 1999 he served at Chemical Bank, which merged into Chase Manhattan Bank, in a variety of increasingly important positions including Executive Vice-President. Between 2000–2007 Mr Stack held the position of Chairman of the Board of Directors and CEO in Česká spořitelna. Between 2005–2007 he was a member of Czech Banking Association. Since 2008, Mr. Stack has been a member of the Supervisory Board of Erste Group Bank.

Mr. Stack has been the Chairman of the Supervisory Board of Česká spořitelna since 2013.

Membership in other companies: Erste Group Bank AG, Ally Bank, Ally Financial Inc., Mutual of America Capital Management Corp., Nadace Depositum Bonum, Nadace ČS.

Andreas Treichl

Born on 16 June 1952
Vice-Chairman of the Supervisory Board
Reference Address: Am Belvedere 1, 1100 Vienna, Austria

From 1971 to 1975, Mr. Treichl studied economic sciences at Vienna University. After completing a training program in New York, he began his career at Chase Manhattan Bank in 1977. He was later seconded to Brussels (1979–1981) and Athens (1981–1983). In 1983, he first worked for Erste. In 1986, he became CEO at Chase Manhattan Bank in Vienna, which purchased Credit Lyonnais in 1993. In 1994, he was appointed to the Board of Directors of Erste. In July 1997, he was appointed CEO. In August 1997, the shareholders approved a merger with GiroCredit, in which Erste had acquired a majority interest in March 1997. Under his management, Erste, which until that time had been strictly a local savings bank, became a leading financial services provider in central and eastern Europe with a focus on retail and SME clients. In addition to serving as Board of Directors Chairman and CEO of Erste Group Bank, Mr. Treichl's other responsibilities include strategy, Group communications, human resources, audit and investor relations.

Mr. Treichl is a Vice-Chairman of the Supervisory Board since September 2013.

Membership in other companies: Banca Comerciala Romana SA, Erste Bank der oesterreichischen Sparkassen AG, Erste Group Bank AG, Felima Privatstiftung, Ferdima Privatstiftung, Haftungsverbund GmbH, Österreichischer Sparkassenverband, Leoganger Bergbahnen, BeeOne GmbH, Zweite Wiener Vereins-Sparkasse.

Peter Bosek

Born on 5 June 1968
Member of the Supervisory Board
Reference Address: Am Belvedere 1, 1100 Vienna, Austria

Peter Bosek is a graduate of Faculty of Law, University of Vienna where he also started his career as an Assistant, later as a Lecturer also at the School of Finance, Accounting and Taxes, as well as at the Federal Academy of Public Administration. He is author of various publications. Mr. Bosek joined Erste Bank der oesterreichischen Sparkassen AG in 1996. He started in Law department, later in Real Estate and Retail departments. He was appointed member of the Management Board of Erste Bank Oesterreich in 2007, where he was until 2015 responsible for Retail Business, Corporate Business, Public Sector Business, Large Customer Business, Marketing, Private Banking and Asset Management, Real Estate Business, Product and Channel Management. Since 2015, Mr. Bosek is member of the Managing Board of Erste Group Bank AG with responsibility for Retail Banking.

Mr. Bosek is a member of the Supervisory Board since 2013.

Membership in other companies: aws Gründerfonds Beteiligungs GmbH & Co KG, aws Gründerfonds Equity Invest GmbH & Co KG, BeeOne GmbH, ERP-Fond, Erste Group Bank AG, Sparkassen Versicherung

AG Vienna Insurance Group, Wiener Städtische Versicherung AG Vienna Insurance Group, Forum Wien – Wirtschaftsgespräche, Haftungsverbund GmbH.

Petr Brávek

Born on 4 August 1961
Member of the Supervisory Board
Reference Address: Am Belvedere 1, 1100 Vienna, Austria

Mr. Brávek is a graduate of Czech Technical University, where he specialised on Automated control systems in Electrical Engineering and Project Management. He began his banking career in 1993 in Creditanstalt/Bank Austria as Head of Operations Division responsible for IT management and was also responsible for the merger project of Bank Austria and Creditanstalt in Czech Republic. In 2001-2005, worked as Chief Financial officer and later Member of the Board in HVB Czech Republic. Between 2005–2007, he worked as Chief Financial Officer in the Prague Airport. Mr. Brávek started to work in Česká spořitelna in 2007 as a Chief Information Officer. After 5 years he became the Chairman of the Board of Directors and Executive Officer of s IT Solutions Holding. Between 2012-2015, he was Member of the Board of Directors in Slovenská sporiteľňa again, responsible for IT. Since 2015, he works in the Erste Group Bank AG as Member of the Management Board responsible for Group Organization & IT and Group Banking Operations.

Mr Brávek is a member of the Supervisory Board since April 2016.

Membership in other companies: Erste Group Bank AG, s IT Solutions at Spardat GmbH, Erste Group IT International GmbH, Erste Group Card Processor d.o.o., Haftungsverbund GmbH.

Margita Čermáková

Born on 11 May 1976
Member of the Supervisory Board
Reference Address: Jugoslávská 136/19, Prague 2, Czech Republic

Mrs. Čermáková graduated from the high school in Dobříš. After completing her studies, she joined Česká spořitelna in 1994, where she has worked as an advisor for retail, private and corporate banking and mortgages. She is currently working in a branch Jugoslávská in Prague. Mrs. Čermáková serves as Chairwoman of Trade Union organization for Prague region and holds the position of the member of the Group-wide Trade Union Committee of Česká spořitelna.

Mrs. Čermáková is a member of the Supervisory Board of Česká spořitelna since October 2016.

Membership in other companies: none.

Helena Černá

Born on 15 June 1966
Member of the Supervisory Board
Reference Address: Tř. Svobody 401/19, Olomouc, Czech Republic

Mrs. Černá graduated from the Secondary School of Economics in the Olomouc. After completing her studies, she joined Česká spořitelna in 1985, where she worked in loan department. Later she worked as an advisor for commercial, investment and private banking. She is currently working in a branch in Olomouc as Premier banker. Mrs. Černá serves as Chairwoman of the Trade Union organization for Olomouc region and holds the position of the member of the Group-wide Trade Union Committee of Česká spořitelna.

Mrs. Černá is a member of the Supervisory Board of Česká spořitelna since October 2016.

Membership in other companies: none.

Zlata Gröningerová

Born on 4 July 1957
Member of the Supervisory Board
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mrs. Gröningerová completed her studies at the University of Economics in Prague, where she assumed the role of academic assistant in the Department of Finance and Credit after graduating in 1982. In the years 1991–1993, she was deputy CEO of the company SUEZ INVESTIČNÍ, a.s., specialising in advisory and consulting in enterprise search and acquisitions. In 1995–2004, she held several senior positions (director of the equity investment financing department, senior director of the department of credit transactions and business specialists) and was member of the Board of Directors of the Consolidation Bank and Banking Counsel of the Czech Consolidation Agency. From 2005 to 2007, she was the CEO and Chairwoman of the Board of Directors of Technometra Radotín, a.s. During 2007–2009, she was a financial and administrative consultant and then held an office of Section Director of the Ministry of Finance. In the years 2011–2016, she worked in the International Division of ČEZ, three years in the position of financial director of ČEZ Bulgaria. Now she provides economical and organisational consultancy services. Her professional residencies and courses include a Management Development Programme and a corporate finance management and financial residency at universities in Paris and Lyon accounting.

Mrs. Gröningerová is a member of the Supervisory Board of Česká spořitelna since 26 April 2017.

Membership in other companies: none.

Maximilian Hardegg

Born on 26 February 1966
Member of the Supervisory Board
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Hardegg graduated from the Agricultural Sciences in Weinhenstephan, Germany. In the period 1991–1993, he worked at AWT Trade and Finance Corp, which is part of the Creditanstalt Group. He also worked as an advisor to the Czech Ministry of Agriculture in respect of the privatisation of agriculture. Since 1993, he has been engaged in agriculture management. He has participated in the Phare, Sapard

and Leader+titles projects, which are designed to support cooperation among agricultural systems within the EU. He is also a member of lobbyist groups in Austria and the EU, which are focused on supporting sustainable development in land utilisation and agriculture.

Mr. Hardegg is a member of the Supervisory Board of Česká spořitelna since May 2002.

Membership in other companies: Erste Stiftung, Erste Group Bank AG, Nadace Depositum Bonum, Nadace ČS.

Aleš Veverka

Born on 26 January 1973
Member of the Supervisory Board
Reference Address: Národních hrdinů 3127/7, Břeclav, Czech Republic

Mr. Veverka graduated from the high school in Břeclav before doing a Business Academy qualification course in Economics. After completing his studies and his military service, he joined the Břeclav branch of Česká spořitelna in 1993 as an advisor to MSE clients. He has continued to devote his time to MSE clients. Since 2014, he is the Chairman of the Group-wide Trade Union Committee of Česká spořitelna. He is also Vice-President of the Financial and Insurance sector Trade Union organization. He served as a member of the Supervisory Board between 2011 and 2015. In 2017, he obtained Bachelor's degree in Finance, Tax and Economic Informatics at the European Polytechnic Institute.

Mr. Veverka is a member of the Supervisory Board of Česká spořitelna since September 2016.

Membership in other companies: none.

Members of the Managing and Supervisory Boards declare not to be aware of any possible conflicts of business, private and other interests or duties.

Audit Committee of Česká spořitelna 2017

John James Stack

Born on 4 August 1946
Chairman of the Audit Committee
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

More info in chapter Supervisory Board of Česká spořitelna 2017.

Mr Stack is a Chairman of the Audit Committee of Česká spořitelna since 2014.

Maximilian Hardegg

Born on 26 February 1966
Vice-Chairman of the Audit Committee
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

More info in the chapter Supervisory Board of Česká spořitelna 2017.

Mr Hardegg is a member of the Audit Committee of Česká spořitelna since 2009.

Mario Catasta

Born on 6 September 1954
Member of the Audit Committee
Reference Address: Am Belvedere 1, 1100 Vienna, Austria

Mr. Catasta completed his studies at the University of Economics in Vienna in 1980. After his dissertation work was accepted in 1982, he joined an audit firm affiliated with the Austrian National Bank as an independent auditor. He has worked at Erste Group Bank since 1987, first as an internal auditor and then, from 1993, as head of compliance. In 1994, he assumed the position of internal audit department head. After the merger of Erste Bank der Österreichischen Sparkassen and GiroCredit, he became head of the corporate client department. He has been the internal audit director at Erste Group Bank since 2003.

Mr. Catasta is a member of the Audit Committee of Česká spořitelna since 2009.

Zlata Gröningerová

Born on 4 July 1957
Member of the Audit Committee
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

More info in chapter Supervisory Board of Česká spořitelna 2017.

Mrs. Gröningerová is a member of the Audit Committee of Česká spořitelna since 2009.

Pavel Závitkovský

Born on 19 July 1955
Member of the Audit Committee
Reference Address: Budějovická 1518/13a, Prague 4, Czech Republic

Mr. Závitkovský graduated from the University of Ecomomics in Prague. In 1990 became Certified auditor of the Chamber of Auditors of the Czech Republic and in 2002 Certified Internal Auditor of the Institute of Internal Auditors (CIA). Mr. Závitkovský has more than 25 years of experience in the audit of financial and industrial companies while working for KPMG. He has also been in charge of specific engagements, such as due diligence, privatisation projects, mergers, acquisitions and internal audits. He was one of the founders of the Czech Chamber of Auditors, holding the position of Chairman of the Supervisory Committee of the Czech Chamber of Auditors from 1998-2001. In 2001–2003 he was a Vice-President of the Czech Institute of Internal Auditors.

Mr. Závitkovský is a member of the Audit Committee of Česká spořitelna since 2016.

Macroeconomic Development in the Czech Republic

in 2017

The development of the Czech economy remained favorable in 2017. The economic recovery in the Eurozone and solid domestic demand contributed to high GDP growth, another decrease in the unemployment rate and wage growth acceleration. The rate of inflation exceeded the 2% [3] inflation target of the ČNB, but it remained in the upper part of the tolerance band around it. The Czech economy has been converging towards developed countries of the Western Europe and is characterized by very low macroeconomic imbalances compared to the European Union countries.

In 2017, GDP growth achieved at 4.5% [4]. In comparison with 2016 (2.6% [5]), GDP growth accelerated significantly, mainly due to the economic recovery in the Eurozone, which increased foreign demand for Czech exports and spilled gradually over into another labor market strengthening and thus also into domestic demand. Facing the significant decrease in the unemployment rate and lack of new available employees to hire, Czech firms increased investment expenditures into robotization, automation of production, etc. This factor will positively influence the Czech economy in the coming years, when it will raise productivity and thus the potential growth of the economy.

Compared with the situation in prior years, increase in the price level accelerated in 2017, as the average inflation rate reached 2.5% [6]. Food prices, solid domestic demand and an increase in firms' labor costs were the most important pro-inflationary factors. In October 2017, the y/y headline inflation reached (as an increase in consumer price index, compared with the corresponding month of preceding year) 2.9% [7] and thus came closer to the upper level of the tolerance band around the ČNB inflation target (3% [8]). At the end of the year, inflation started to slow down, which was affected by higher ČNB interest rates and the stronger Czech Crown.

The labor market strengthened further in 2017. The general unemployment rate achieved at 2.4% [9] in December, which contributed to the wage growth acceleration. On the one hand, the strong labor market raised domestic demand and the sentiment of households. On the other hand, Czech firms started to face the lack of new available employees, which started to slow down their expansion and hence contributed to the increase in productivity-enhancing investments. Among EU countries, the unemployment rate remained the lowest.

Due to the pro-inflationary risk associated with the wage growth and overboughtness of the Czech Crown, as well as higher growth in property prices, the ČNB increased interest rates twice in 2017, resulting in exchange rate appreciation and moderation of inflationary pressures.

Yields on Government bonds were increasing in 2017, primarily due to the termination of the exchange rate commitment to the ČNB and interest rates increases. However, yields at the shorter end of the yield curve are still relatively low due to the overboughtness of the Czech Crown, which resulted in a relatively steep yield curve.

(3) Source: Czech National Bank, 28.2.2018. https://www.cnb.cz/en/monetary_policy/inflation_targeting.html
(4) Source: Czech Statistical Office, 16.2.2018. https://www.czso.cz/csu/czso/ari/gdp-preliminary-estimate-4-quarter-of-2017
(5) Source: Eurostat, 21.12.2017. https://www.czso.cz/documents/10180/46173143/370002170803.pdf/6e5ccd66-f3cd-4576-b3ab-7f693bb218a6?version=1.1
(6) Source: Czech Statistical Office, 10.1.2018. https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-december-2017
(7) Source: Czech Statistical Office, 9.11.2017. https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-october-2017
(8) Source: Czech National Bank, 28.2.2018. https://www.cnb.cz/en/monetary_policy/inflation_targeting.html
(9) Source: Czech Statistical Office, 31.1.2018. https://www.czso.cz/csu/czso/ari/rates-of-employment-unemployment-and-economic-activity-december-2017

Report of the Board of Directors on the Company's Business Activities and Financial Position

for 2017

Consolidated Results of Operations [10]

Income Statement

The year 2017 ended successfully for Česká spořitelna. Financial results reflected strong growth of loans, which was in particular supported by the highest-ever volume of newly granted mortgages, outstanding quality of the loan portfolio, stabilisation of net interest income, growing popularity of investment products, and introduction of the very popular financial advisory service called My Healthy Finances.

Česká spořitelna reported a consolidated net profit after taxes and minority interests of CZK 14.6 billion as of 31 December 2017 (in compliance with International Financial Reporting Standards). In 2016, net profit amounted to CZK 15.5 billion. In a year-on-year comparison it decreased by 5.5%. However, net profit in 2016 was supported by one-off income from the sale of the equity stake in Visa Europe. Net of that impact, year-on-year net profit would have been up by 2.1%.

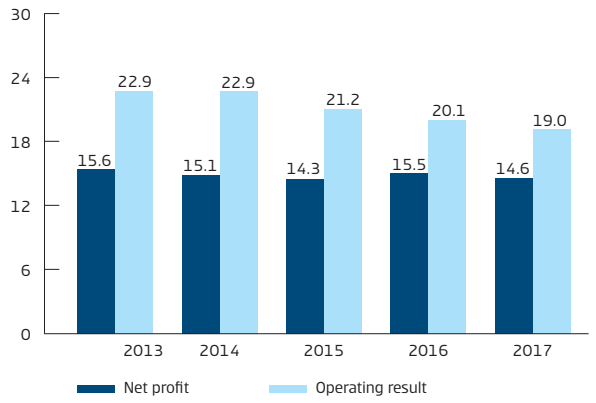
The return on equity (ROE) reached 12.1% and the return on assets (ROA) 1.1%. In 2016, these financial indicators stood at 12.9% and 1.5% respectively. The ROE was negatively affected by the higher net income stemming from the above-mentioned one-off item, and the ROA by the significant increase in total assets.

Total operating income, comprising net interest income, net fee and commission income, dividend income, net trading result, result from financial assets and liabilities designated at fair value through profit or loss, net result from equity method investments and rental income from investment properties and other operating leases, dropped by 2.6% to CZK 37.2 billion. This was mainly driven by the decrease in net fee and commission income and by lower rental income from investment properties.

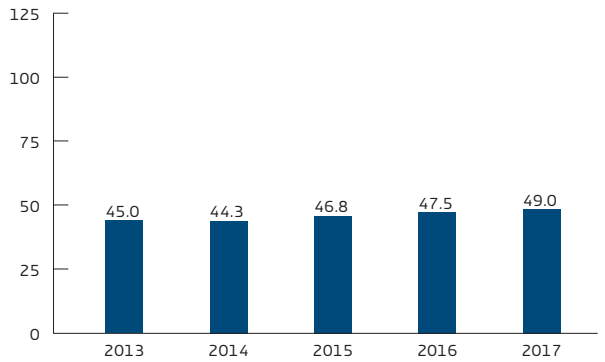
Operating expenses, comprised of personnel expenses, other administrative expenses, including the statutory contribution into the Deposit Insurance Fund, and depreciation and amortisation, only slightly increased by 0.5% to CZK 18.2 billion in a year-on-year comparison. This means that expenses grew well below the CPI inflation rate of 2.5% [2].

Operating result, defined as the difference between the operating income and operating expenses, went down by 5.4% to CZK 19.0 billion, compared to the previous year. Taking into consideration the

Net profit and operating result (CZK billion)



Cost/Income (%)



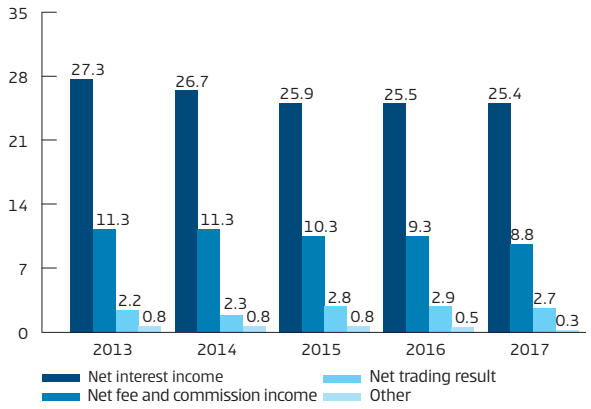
(10) Definitions of below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators on the page 264
(11) Source: the Czech Statistical Office News Release, 22. 2. 2018. https://www.czso.cz/csu/czso/ari/consumer-price-indices-inflation-december-2017

development of the operating income and operating expenses, the Cost/Income ratio slightly grew from 47.5% to 49.0%.

Net interest income traditionally represents the largest share, at more than two-thirds of the operating income. Compared to 2016, the net interest income remained almost stable as it decreased only by 0.6% to CZK 25.4 billion. Moreover, in the second half of 2017, net interest income surpassed the result from the same period of the previous year. Growing loan portfolio, supported by the strong economic growth and gradual increase of interest rates by the Czech National Bank, helped to stabilize net interest income.

Despite the above-mentioned positive development, which was especially evident in the second half of 2017, the low interest rate environment prevailing for most of the year was still able to adversely affect the net interest margin. This, along with the negative impact of maturing high-yield bonds from Česká spořitelna's portfolio and a significant amount of liquidity placed with the Czech National Bank in connection with the exit from the FX interventions, led to a margin squeeze from 3.12% to 2.58%; net of the influence of reverse repo operations [12] the net interest margin amounted to 2.8%.

Composition of operating income (CZK billion)

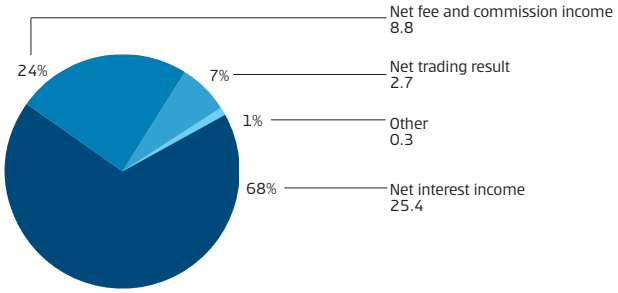


Net fee and commission income slowed down its decline and in a year-on-year comparison fell by 5.4% to CZK 8.8 billion. Services that were cheaper or completely free of charge, along with advantageous programmes and products, led to a drop in income from the lending business and payment services. This decrease was to a certain extent offset by growing income from investment products, in particular from mutual funds, asset management and custody, and income from the sale of insurance products.

Net trading result went down by 5.6% to CZK 2.7 billion, compared to the same period last year. Increased profit from securities trading, foreign currency operations and hedging business did not fully make up for negative revaluation of derivatives due to growing market interest rates.

Rental income from investment properties and other operating leases went down by more than one-third, as Česká spořitelna continued in the planned reduction of its investment portfolio of real estates.

Structure of operating income (CZK billion)



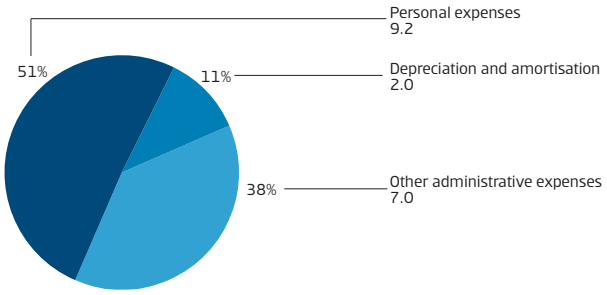
Total operating expenses grew well below the inflation rate (CPI up by 2.5%) and only slightly increased by 0.5%, to CZK 18.2 billion, compared to 2016.

Personnel expenses, which represent more than half of total operating expenses, remained almost stable and rose only by 0.6%, to CZK 9.2 billion compared to the previous year. The increase in personnel expenses is attributed mainly to the steadily growing remuneration of Česká spořitelna's employees.

Other administrative expenses went up by 1.6%, to CZK 7.0 billion, in a year-on-year comparison, and were the main reason behind growing total operating expenses. Česká spořitelna was able to reduce costs of consultancy and property management, but IT expenses rose in connection with the ongoing digitalization and increasing demands of banking regulators. The contribution into the Deposit Insurance Fund was also up, due to the growing volume of deposits.

The long-term trend of declining depreciation of tangible and intangible assets continued in 2017. A further decrease of 3.2% to CZK 2.0 billion was caused by the lower depreciation expense from investment property. Given the ongoing process of digitalization, software amortisation increased.

Structure of operating expenses (CZK billion)



Net gains from financial assets not measured at fair value through profit or loss reached CZK 0.3 billion. The significant decline compared to the result of 2016 was caused by the sale of the above-mentioned equity stake in Visa Europe (CZK 1.4 billion before tax).

(12) Repo and reverse repo operations with clients are not considered as a core business

Net impairment loss on financial assets not measured at fair value through profit or loss (i.e. creation of provisions for credit risk of assets) reached CZK 33 million, which means a significant improvement as compared to the previous year. This excellent result was achieved due to the quality improvements of the loan portfolio, as strong economic growth helped several large corporate clients to recover and led to higher recoveries in the retail segment.

Coverage of non-performing loans by provisions increased in a year-on-year comparison and reached 92%; the total coverage of non-performing loans (including collaterals) increased to 122%. In 2016, these figures were 83% and 116% respectively.

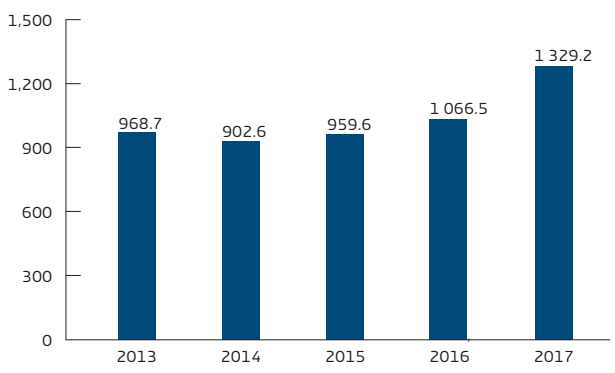
Other operating result reached CZK -1.2 billion and was influenced by a number of factors, such as gains and losses from sale and revaluation of investment properties, impairment of tangible assets, and creation and release of other provisions.

The other operating result includes also the yearly mandatory contribution of CZK 0.4 billion into the Resolution Fund (single bank crisis resolution fund) which is part of the Financial Market Guarantee System. The total contribution to the Financial Market Guarantee System including the contribution to the Deposit Insurance Fund amounted to CZK 0.6 billion in 2017.

Consolidated Balance Sheet Analysis

As of 31 December 2017, total consolidated assets amounted to CZK 1,329.2 billion and grew by 24.6% in a year-on-year comparison. The balance sheet adjusted for all repo (reverse repo) operations increased by 11.0% (12.0%) to CZK 1,146.6 billion (CZK 1,190.0 billion). There was a change in the structure of assets, with the volume of loans to customers and credit institutions and deposits with the Czech National Bank being up. On the liability side of the balance sheet, deposits from customers and interbank deposits went up. This shift was driven by the termination of the Czech National Bank's FX interventions.

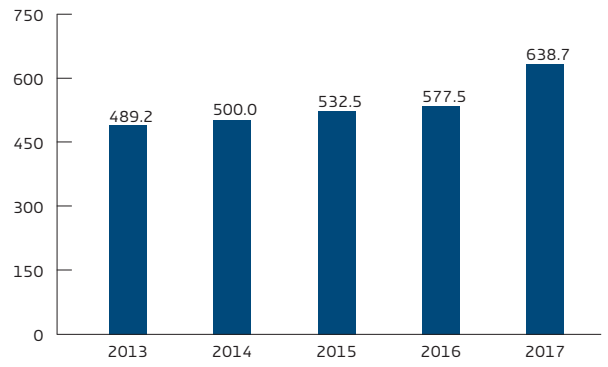
Total assets (CZK billion)



Assets

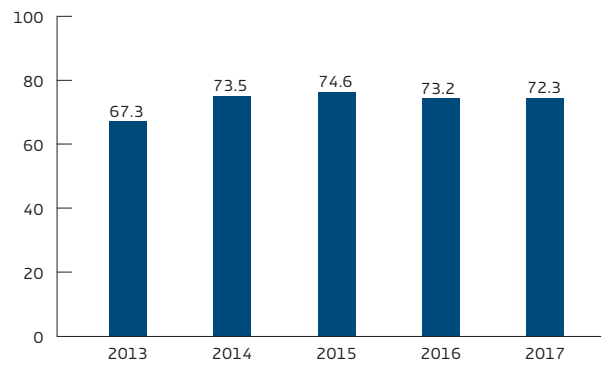
Loans provided to customers represent the most important part of assets and generate the largest portion of operating income. In 2017, Česká spořitelna managed to even further accelerate growth in loans. The total net volume of loans and receivables to customers excluding reverse repo operations increased by 10.0% year-on-year to CZK 634.9 billion, compared to 8.4% in the previous year. The reported figure grew by 10.6%, to CZK 638.7 billion.

Net loans and receivables to customers (CZK billion)



The loan book developed successfully across various client segments and products thanks to the strong growth of the Czech economy and Česká spořitelna's proactive approach to clients. The highest growth dynamics was reported by private mortgages and loans to large corporates, SMEs and public sector. The proportion of net client loans to client deposits (Loans/Deposits ratio) adjusted for repo and reverse repo operations with clients increased from 73.3% to 74.1%. The reported figure went down from 73.2% to 72.3%.

Loan to Deposit Ratio (%)



The volume of net loans provided to households rose significantly by 9.6%, to CZK 362.5 billion, in a year-on-year comparison. The absolute change amounted to CZK 31.8 billion. The main growth engine behind this excellent result were mortgages to private individuals.

The volume of gross mortgages to private individuals increased by 11.4%, to CZK 233.4 billion compared to 2016. The surge in mortgages was related to the low interest rate environment, growing disposable income of households, and Česká spořitelna's attractive offer of mortgage loans, in particular in the area of longer fixed interest rate periods of between 8 and 15 years. The very closely watched financial indicator of loan to value ratio (amount of a retail loan secured by residential property to the collateral value) reached a comfortable level of 62%.

Rising household consumption increased demand for consumer loans. The gross volume of consumer loans went up by 2.8%, to CZK 66.3 billion compared to the previous year. Demand for loans, particularly for loans used for the reconstruction of flats and other real estate properties, was reflected in the total amount of net loans granted by Stavební spořitelna České spořitelny (building society), which was up by 0.8%, to CZK 35.6 billion compared to the previous year.

The volume of net wholesale (Corporate and Group Markets) loans excluding the impact of reverse repo operations increased by 12.1% in a year-on-year comparison, to CZK 255.3 billion, driven by loans to large corporate clients and SMEs. The reported volume of net wholesale loans was up by 10.3%, to CZK 259.1 billion.

The quality of loan portfolio improved even further compared to 2016; the share of non-performing loans over total loans decreased from 3.2% to 2.1%. This result was driven by strong economic growth, a one-time write-off in the retail segment, and outstanding recoveries in the wholesale business.

The item cash and cash balances with central banks continued to increase; by 61.9% from the 2016 level to CZK 280.2 billion. A major part of this volume consists of deposits with the Czech National Bank in the total amount of CZK 253.0 billion; placement of excess liquidity with the Czech National Bank due to a lack of alternative investment opportunities on the Czech banking market.

Net loans and receivables to credit institutions went up several times over to CZK 157.5 billion. The main reason behind this surge were the reverse repo operations with the Czech National Bank, driven by two increases in the 2-week repo rate during 2017.

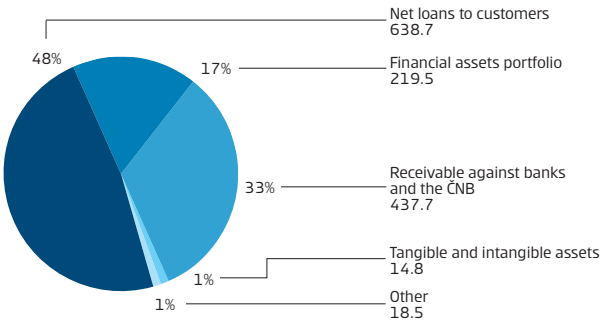
The portfolio of other trading assets, financial assets designated at fair value through profit or loss, available-for-sale securities and held-to-maturity securities decreased by 14.7%, to CZK 219.5 billion, mainly due to drop in available-for-sale securities, in particular government bonds.

Bonds comprise 99% of the above-mentioned securities portfolio. Česká spořitelna prefers to purchase bonds issued by government institutions, which represent a share of 87% of all bonds. Equity instruments make up only CZK 1.7 billion.

After years of planned reductions, the investment into properties stabilized at CZK 2.4 billion.

Aggregate balance of property and equipment and intangible assets increased only slightly by 0.2% to CZK 14.8 billion in a year-on-year comparison; however, the structure of assets changed. Intangible assets were up by 13.3% to CZK 4.9 billion, of that, in particular, software and other assets connected to the ongoing digitalization of the Bank. The value of property and equipment decreased by 5.2%, to CZK 9.9 billion.

Structure of assets (CZK billion)



Liabilities

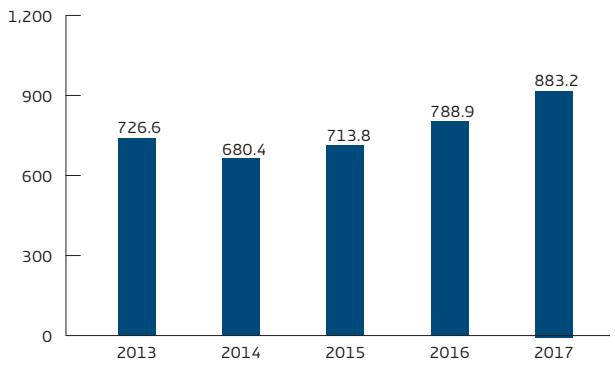
Deposits from customers have, over the long term, always been the most important source of funding for Česká spořitelna. Group deposits from customers (client deposits including those measured at fair value) excluding repo operations grew by 8.8%, to CZK 856.5 billion, compared to the same period last year; the reported figure went up by 12.0% year-on-year to CZK 883.2 billion. This development demonstrates clients' trust in Česká spořitelna. It also helped to further strengthen the already very solid liquidity position of Česká spořitelna.

Household deposits increased by 6.8%, to CZK 619.4 billion, owing to increasing deposits in personal accounts and saving deposits. Demand deposits represent a major share of 85% of all deposits.

Group corporate deposits net of repo operations rose by 16.3%, to CZK 174.8 billion, as current account balances and short-term deposits went up. The reported figure was significantly up by 32.8%, to CZK 201.5 billion. Public sector deposits increased by 8.8%, to CZK 62.4 billion.

The development of deposits from banks reflected a significant inflow of foreign investments into the Czech Republic in connection with the termination of the Czech National Bank's FX interventions. For this reason, the deposits from banks materially increased to CZK 295.2 billion.

Deposits from customers (CZK billion)

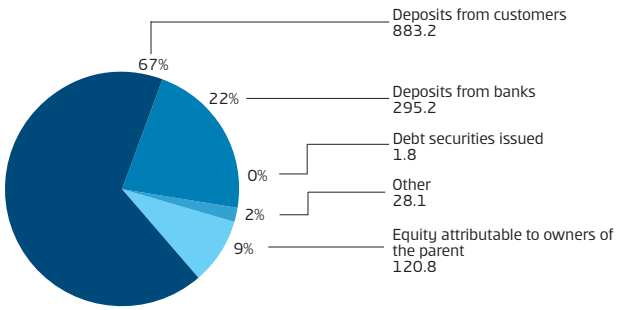


No new issuances of debt securities and gradual maturing of the previous ones, in particular of issuances of mortgage backed securities, led to a further decrease of the total volume of issued debt securities to CZK 1.8 billion.

The equity attributable to owners of the parent comprising subscribed share capital, additional Tier 1 capital (AT1), capital reserves, cash flow hedge reserve, available-for-sale reserve, currency translation effects and retained earnings, amounted to CZK 120.8 billion, which represents a mild decrease of 0.6% in a year-on-year comparison. The equity attributable to owners of the parent amounted to 9.1% of all liabilities.

Total capital ratio for the Česká spořitelna Group as of 31 December 2017 reached a very comfortable level of 18.7%. In 2016 this ratio was at 20.1%. The total capital used in the calculation of capital adequacy amounted to CZK 104.2 billion and the total risk exposure amounted to CZK 557.9 billion. In 2016, these figures were CZK 101.9 billion and CZK 507.1 billion, respectively. The development of the risk exposure was to a large extent connected with the loan portfolio growth in 2017.

Structure of liabilities (CZK billion)



Business Activities

Retail Banking

At the end of 2017, retail banking services at Česká spořitelna and its subsidiaries were used by 4.67 million clients. Česká spořitelna is the most accessible bank on the domestic market, having the largest network of branches (517) as well as ATMs and transactional terminals (1,704). It holds first place on the consumer loan market, including that of credit cards and overdraft facilities, as well as in total deposits. It is also a leader in the distribution of mutual funds, client mortgages, and also life insurance products.

My Healthy Finances

My Healthy Finances (MHF) is a new service in the retail segment of Česká spořitelna. It is based on an offer of financial and non-financial products and services and comprehensive consultancy that allow households to manage their financial life.

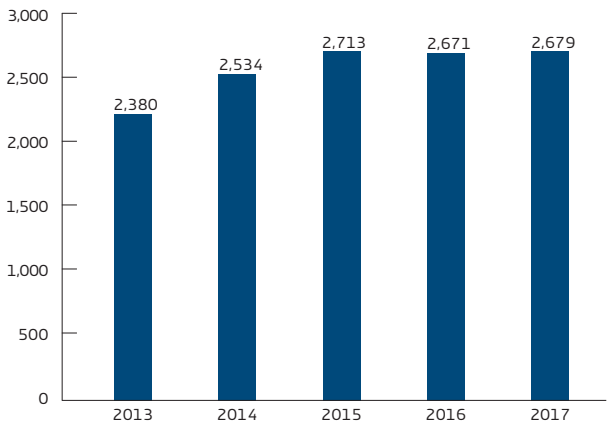
In 2017, Česká spořitelna successfully introduced the MHF service throughout its branch network. Individual financial advisory services, which had been a privilege of more affluent clients, are thus now available to all Česká spořitelna clients. 720,000 clients have already signed up to this service.

MHF represents the most advantageous offer, as it provides clients not only with advisory services, but also an application for optimising expenses and non-financial services, as well as two full-fledged accounts. Opening an account is extremely fast, requiring no more than 5 minutes. Accounts are comprehensive payment accounts for private purposes which meet the requirements of clients of every age group.

New within the MHF offer is the improved function 'Left Until Payday', which allows clients to see how much money will be left on the account once all payments that have already been entered and expected future payments are considered. Another new feature is known as 'Saving in Envelopes', which allows for entering a standing payment that will automatically transfer a specified amount to particular envelopes/targets at the end of each month. At the same time, the client receives a recommendation as to how much to put away or how soon he will reach his target.

Česká spořitelna has begun to evaluate on-the-spot feedback from its clients following meetings with MHF advisors. Immediate satisfaction following a MHF meeting reaches 97%. The positive impact of the MHF service on clients is documented by other facts, as well – thanks to the service, Česká spořitelna has again begun to open more accounts than it closes, and also the number of clients who refer to Česká spořitelna as their primary bank has increased by 10%.

Number of personal accounts (in thousands)



Digital Banking

In 2017, Česká spořitelna focused on further expansion of its offering of digital solutions, on accelerating its service processes, and also on innovations in the supply of products and services. Emphasis was placed on reinforcing all mechanisms that contribute to the best possible identification of client needs. To that end, a new website was launched in October 2017, which was significantly more clearly structured, thanks to various calculators, and which has made it possible to search and make sense of information about Česká spořitelna's products. The site is based on a common Erste Group Bank platform.

Česká spořitelna's new face in the digital world and future backbone of the digital bank is George, which will replace the Servis 24 internet banking during 2018. George represents modern internet banking which enhances an individual approach to each user. One of George's added values is the division of payments by category, which enables clients to manage their expenses more effectively.

In 2017, over 250,000 clients signed up for George during the introductory phase, two-thirds of whom immediately became repetitive users. The popularity of the mobile application George Go, into which the functionalities of George internet banking are gradually being integrated, has also been growing rapidly.

In addition to George Go, Česká spořitelna's clients can also use other mobile applications:

- **Můj stav (My Balance)** – an application for clients who want to keep track of their finances but do not need to make payments;
- **Investment Centre** – an application allowing clients to keep track of developments on the stock exchange; in addition, it provides market analyses and currency and commodity prices;
- **Friends 24** – an application that offers a new way of paying small amounts without having to know the account number;
- **Melinda** – an application that allows a client to contribute small amounts to good causes;
- **BUSINESS 24 Mobilní Banka** – an application that allows account management via BUSINESS 24 while on the go.
- **Servis 24** – predecessor of George (internet banking)

Besides that, Česká spořitelna has released a brand new developer portal called Erste Developer Portal including improved APIs (Application Programming Interface), which provides one-stop access to the APIs from the banks of Erste Group, which has 16 million customers across Central and Eastern Europe (CEE). The developer portal allows developers and third parties to develop solutions which provides not only PSD2 APIs, but also APIs providing additional functionalities both for personal and for corporate accounts.

Housing Financing

In 2017, Česká spořitelna provided an all-time record volume of mortgage loans. This was despite the fact that real estate prices continued to grow and at the same time, interest rates gradually began to climb in the second half of the year. The favourable economic situation of Czech households, whose real income had increased, continued to prevail. On the other hand, the ČNB introduced several measures serving to suppress demand for mortgages.

In all of 2017, Česká spořitelna concluded over 29,700 new mortgage loans, in an aggregate volume exceeding CZK 62.1 billion. This means 8.3% year-on-year growth in the volume of newly concluded mortgages. The volume of the mortgage portfolio exceeded CZK 235.6 billion, which means an increase by CZK 24.5 billion over 2016.

Česká spořitelna introduced many innovations. Since the summer of 2017, clients have been able to arrange a mortgage on-line from beginning to end, i.e., over the Internet. An online mortgage specialist is available to help clients throughout the process. As concerns fixed interest-rates, in the autumn, Česká spořitelna was first on the market to offer a unique 15-year fixed rate, catering to current client demand for long fixed rate periods. This guarantees clients low rates and fixed instalments for more years to come, allowing them to better plan and manage their household budgets.

Financing the Needs of Private Individuals

2017 was marked by growth in the consumer credit market. The main reason is the favourable economic situation on the domestic market, which increased real household income. Given the relevance of consumer credit, this market is one of the most important for Česká spořitelna, which gives it an appropriate priority, as can be seen in the product offer.

Česká spořitelna is the only bank on the market able to address the diverse requirements of clients across the entire lending spectrum. A fundamental value, in line with the My Healthy Finances strategy, is a responsible and fair approach to lending, which is also reflected in the product offering. In the offer of cash loans and consolidation, Česká spořitelna continues to apply the principle of forgiving instalments in the case of timely repayment, and the possibility of a flexible loan setup even at the time of repayment (reduction, increase, deferral of instalment and change of the date of instalment free of charge).

In accordance with these principles, Česká spořitelna provides the unique service Click for your Money, offering clients a fair alternative

to non-banking microloans and instalment purchases. In this service, clients value flexibility in repayment most, as well as immediate, online access to money when needed, especially via digital channels.

Digital channels are of growing importance to searching for the most advantageous offer on the market, even when negotiating or drawing a loan, as is shown by the numbers. The share of credit transactions that start in one of the digital channels is already almost 25% of all consumer loans agreed. However, some of them are completed in branches. From the overall figures, it is clear that despite the increasing share and impact of digital channels, the advisory role of our branch employees is also key in lending.

Česká spořitelna loans are available in a wide range of these digital channels — from websites with a clear calculator and the possibility of arranging meetings at a branch, to internet and mobile banking, to client centres, to ATMs. Česká spořitelna is still the only bank on the market from which one can borrow completely online, without visiting a branch, within 15 minutes, even for clients with no prior business relationship.

Distribution Network

Changing consumer behaviour is reflected in the new branch network concept. This includes three types of branches – small, medium, and large (known as flag ships). They differ in the range of services provided, based on demand in given locations. While small non-cash branches only provide simple products and services (personal account, overdraft facility, retail loans, Click for your Money, savings account), large "flagship" branches provide the maximum range of products and services for all segments, and their design reinforces the role of advisory services. In addition to the offer of banking services, this branch also offers facilities for meetings with its clients as part of community events.

Česká spořitelna opened the first two "flagship" branches in 2017, in Prague and subsequently in Pardubice. They were among the fifty new-concept branches that Česká spořitelna has opened in various locations throughout the country since autumn 2016. The change goes hand in hand with the new advisory concept My Healthy Finances. The new attractive environment of branches further enhances the overall client experience. In order to ensure optimal coverage of client demand, Česká spořitelna also adjusted the distribution of branches throughout the country in 2017, thus opening some branches, closing others, or moving them to places with greater demand.

Investment Products for Retail Clients

The key starting point for the creation of investment products for retail clients is the focus on meeting client needs, requirements and expectations. We put great emphasis on the clarity, simplicity and transparency of investment solutions, while maintaining the highest probability of attaining an attractive yield.

Conservative investment products traditionally enjoy great interest from clients who primarily prefer lower market risk rather over maximum possible yield. This trend is documented by the volume of sales of bonds and structured debt securities, exceeding CZK 3.6 billion. The volume of sales of the most conservative structured deposits reached the amount of CZK 1.4 billion.

Stock markets in 2017 presented an interesting investment opportunity to dynamic investors, who took advantage of direct investment in shares. The total stock-trading turnover through these orders reached almost CZK 3 billion in 2017.

Investment certificates from the offer of Česká spořitelna also performed very successfully. Clients were particularly interested in Bonus certificates, Index certificates and so-called Turbo Long and Turbo Short. In 2017, client trading in certificates reached a total volume of almost CZK 150 million. The sale of physical gold also attracted the interest of clients, who purchased investment gold bullion from Česká spořitelna in 2017, worth more than CZK 100 million.

Erste Asset Management Mutual Funds

In 2017, the continuing trend of low interest rates, along with investors' desire for safer investments, contributed to very decent overall sales of mutual funds, with net sales of the funds exceeding CZK 12 billion. Regular investment made up a significant component of the inflow of funds in 2017, with more than a third of investors investing with us on a regular basis. The average size of the first regular investment is CZK 2,843.

Mixed funds were particularly successful, with more than two-thirds of total net sales being directed to these funds. The most successful mixed fund was Optimum, which has a real estate component in the portfolio. This fund attracted more than CZK 6 billion of new funds and reported a performance of +2.38% in 2017. The largest mixed fund was Konzervativní mix, which manages assets of over CZK 20 billion, appreciated in 2017 by 1.60%, attracting more than CZK 1.3 billion in new investments. Also noting good performance was our life cycle fund ČS fond životního cyklu 2030 (+6.97%).

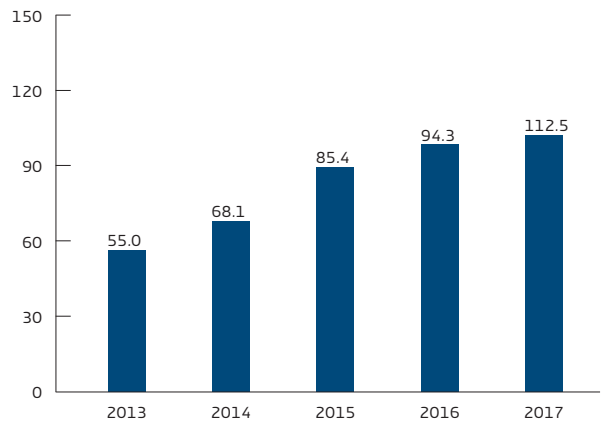
Our equity funds also performed very well. The most successful was the Top Stocks fund, invested in developed markets, with its unit certificates appreciating by 15.83% last year, attracting an inflow of more than CZK 2.3 billion. The equity fund Sporotrend, focused on the markets of Central and Eastern Europe, also grew by 13.03%. Quickly becoming popular with investors was new equity fund Stocks Small Caps, which invests in firms with lower market capitalisation from advanced markets. In over half a year, the fund attracted more than CZK 1.5 billion.

In 2017, the domestic money and bond market was influenced by growing interest rates. The Czech National Bank ended the intervention scheme, and under the pressure of increasing inflation and high growth of the domestic economy, began to raise interest rates. This naturally was reflected in growing yields of Czech government bonds. The rising crown yields were responsible for the negative performance of funds focused mainly on the Czech bond market; the fund Sporobond thus weakened by 2.24%. Trendbond, focused on Central and Eastern European bonds, lost 4.63%. Much

positive development, however, was recorded on credit markets, which grew mainly due to a continuing programme of quantitative easing in euro area countries, as well as through the growth of the global economy. A fund focused on the corporate bonds of companies from emerging-economy countries, ČS korporátní dluhopisový, increased by 1.24%. Some of the best growth rates was noted last year by high-interest corporate bonds, which was reflected in the growth of unit certificates of the High Yield Bond fund by 1.85%.

Total volume of assets of retail funds managed by the Czech branch of Erste Asset Management at the end of 2017 amounted to more than CZK 112.5 billion, which represents growth by more than 19%. This increase in asset volume was due to the positive developments in the stock markets as well as the continued interest of investors who sought higher yields by buying mainly mixed funds.

Volume of fund assets managed by the Czech branch of Erste Asset Management (in CZK billion)



The ČS nemovitostní fond (Real Estate Fund)

Česká spořitelna, in cooperation with its subsidiary company REICO investiční společnost České spořitelny, offers retail clients the opportunity to invest in commercial properties through the ČS nemovitostní fond (Real Estate Fund), which is an open-ended mutual fund. The ČS nemovitostní fond is the largest real estate fund for retail clients in the Czech Republic, with a volume of funding of CZK 17.2 billion.

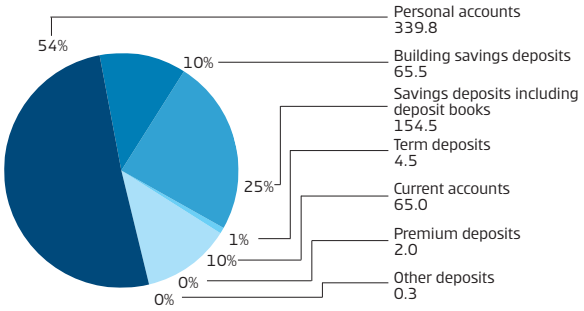
During 2017 ČS nemovitostní fond continued its expansion strategy. In January, the fund bought the office building Park One in Bratislava, then in early August it entered the Polish market for the first time, where it bought the office building Proximo in Warsaw, and in September its largest retail real estate investment, the shopping centre Gallery Słoneczna in the Polish city Radom. The acquisition of the Gallery Słoneczna shopping centre was the fund's second biggest real estate investment ever, and at the same time one of the largest transactions on the Polish and Central European real estate markets last year. The total number of properties in the fund at the end of 2017 thus increased to 13 commercial buildings, of which 8 were in the Czech Republic, 3 in Slovakia, and 2 in Poland.

In 2017, ČS nemovitostní fond appreciated the deposited funds by 2.5%, and over the last five years by 2.8% p.a. The yield achieved thus again confirmed the stable long-term performance of the fund. This is evident from its performance curve, which has been showing positive growth for almost 9 years. In 2017, more than 13,000 new shareholders invested in the fund. The values of the buildings in the fund portfolio were stable in 2017, with significant potential for their long-term retention.

Savings

Another favourite retail product is Spoření ČS, which is intended for regular and irregular savings, and clients have the money in their account constantly available. The total savings in Spoření ČS and other savings products amount to CZK 88 billion. Clients in low interest rate environment prefer deposits on demand, due to which term deposits or deposits with a notice period noted a drop.

Household savings (CZK billion)



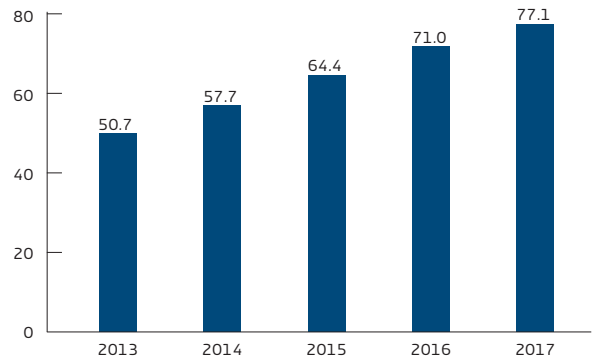
Building Savings with Stavební spořitelna České spořitelny (also known as Buřinka) is the most popular savings product on the market. The number of new building savings contracts, including increases in the target amount, rose by 25% year-on-year, to 72,368 contracts in 2017. The volume of the target amounts of the new contracts, including the increase, rose by 42% in a year-on-year comparison, and reached CZK 21.5 billion for 2017. In the building savings market, in terms of annual growth in new contracts, including those that were increased, Buřinka recorded the highest value. In total, Buřinka manages 565,000 building savings accounts, with savings in the amount of CZK 65.4 billion, and a volume of target amounts of CZK 154 billion.

Buřinka enables clients to negotiate building savings contracts also over the internet, thanks to which clients can set up building savings via a computer, mobile phone, or tablet, from anywhere, such as their office or from the comfort of home. For this reason, among others, the number of new building savings contracts concluded online increased by 69%, and the number of contracts concluded in this manner reached 35,000 in 2017.

Česká spořitelna – penzijní společnost appreciates the pensions of 917,000 unique participants, with a total amount of funds of CZK 77.1 billion which represents a year-on-year increase of 9%.

Supplementary pension savings (SPS) is intended for new clients. A significant increase in the volume of funds continued in all funds under management. The aggregate sum of balances of all SPS funds increased by 67% year-on-year, to CZK 10.3 billion. The Konzervativní účastnický fond (Conservative Participation Fund) is the largest fund on the SPS market; in 2017, the volume of client funds increased by 47%, to CZK 6.5 billion Česká spořitelna – penzijní společnost (ČSPS) maintained its position as the leader on the SPS market, with a 31% share.

The volume of assets managed by ČS – penzijní společnost (CZK billion)



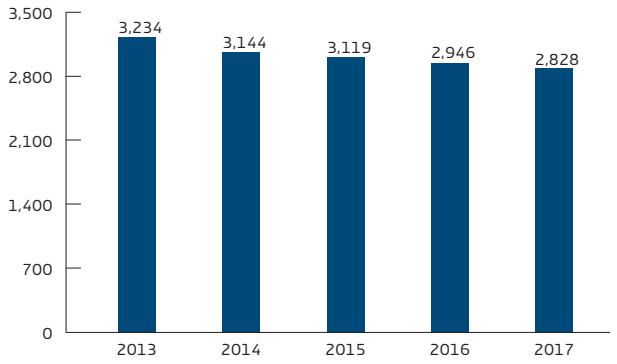
Although supplementary pension insurance in the Transformovaný fond ČSPS is closed to new clients and the number of participants slowly decreases, the volume of client funds in the Transformovaný fond ČSPS again recorded high year-on-year growth, by 3.5% to CZK 66.7 billion.

Česká spořitelna – penzijní společnost enables clients to negotiate supplementary pension savings agreements even over the internet, through an application, thanks to which clients can conclude their agreements not only via a computer, but also a mobile phone or tablet. Since October 2017 it has been possible, within the framework of SPS, to invest in a new ethical participation fund, which seeks to apply the principles of socially responsible investments.

Payment Cards

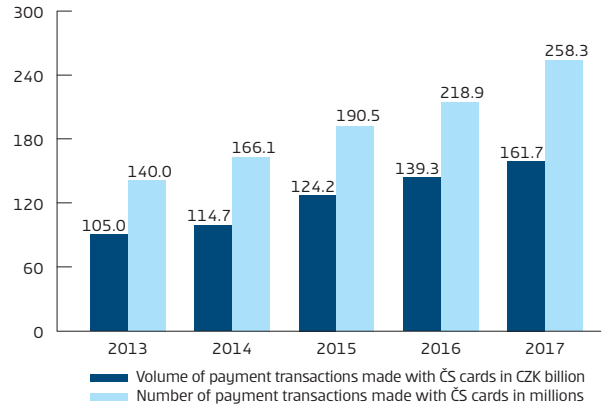
As at the end of 2017, the total number of Česká spořitelna's active payment cards was 2.8 million, of which 0.2 million were credit cards. Thanks to the My Healthy Finances service, a payment card is not only a payment instrument, because the MHF application can clearly show a client for what, when, and where he pays with his card. The overall volume of payments made with Česká spořitelna cards at retail outlets was up in a year-on-year comparison by a significant 16%, to CZK 161.7 billion. The average expenditure amounted to CZK 626. Of the total 258.3 million transactions made with Česká spořitelna cards at retail outlets, 223.2 million were contactless, which is more than 86%.

Number of active cards (thousand)



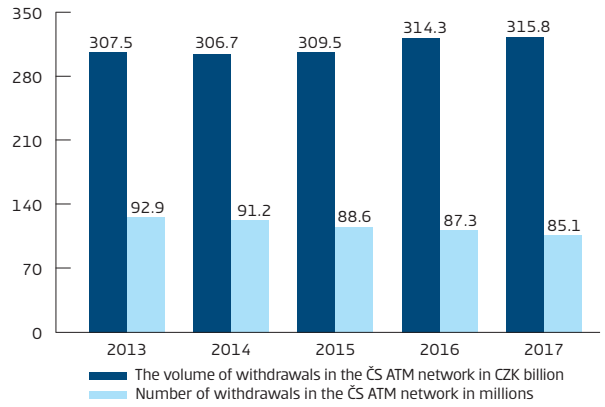
Česká spořitelna is a recognised institution for its activities in the area of payment cards. In the fifth annual Visa Awards, Česká spořitelna won the title Best Issuer of the Year 2017. The award is granted by Visa, which in its evaluation referred to Česká spořitelna as a pioneer in the issuance and acceptance of payment cards in the Czech Republic. From MasterCard, Česká spořitelna received two awards, for the greatest increase in the volume of premium products, and for interactive staff training on credit cards and innovations.

Card transactions involving ČS cards at retailers (issuing)



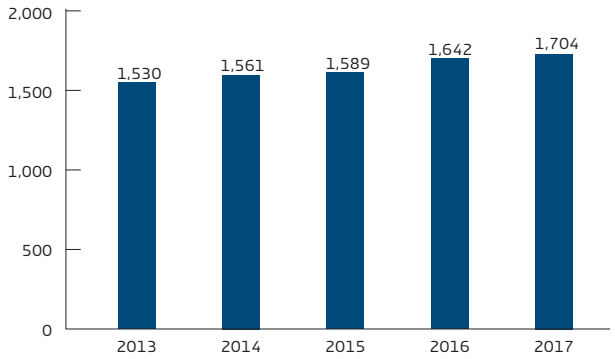
In terms of the size of its ATM network, Česká spořitelna has long maintained a leading position on the Czech market. At the end of 2017, it operated a total 1,704 ATM, deposit and transactional terminals. In all of 2017, cardholders performed 85.1 million cash withdrawals from Česká spořitelna ATMs, amounting to CZK 315.8 billion. The average withdrawal amount was CZK 3,713.

Cash withdrawals in the ČS ATM network



Česká spořitelna has again expanded its network of deposit and dual ATMs that allow clients to deposit cash in their accounts or passbook with Česká spořitelna, but also in accounts held with other banks in the Czech Republic. 187 deposit machines are currently operated, in which clients made 2 million deposits with a volume of CZK 24.5 billion. In most of its ATMs, Česká spořitelna also launched new operating software, which has brought clients a number of simplifications in making cash withdrawals, for example, the possibility of choosing one's preferred amount of withdrawal with a single push of a button, the repetition of the most recent withdrawal or service transaction (balance inquiry, top-up of mobile telephone credit).

Number of withdrawal, deposit and Dual ATMs and transactional terminals



Micro and Small Entrepreneurs (MSE)

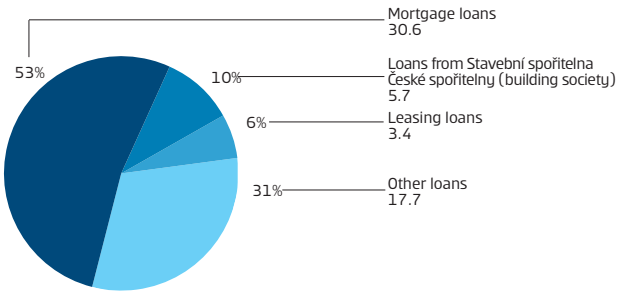
The structure of clients that fall within the segment of micro and small entrepreneurs (MSE) is very diverse. This group of clients includes sole-proprietors, entrepreneurs, the liberal professions, and small companies, but also condominiums and housing cooperatives.

The aim of Česká spořitelna in the MSE segment is to develop long-term relationships with clients, based on the ability to understand the business and functioning of the enterprise and to earn the client's confidence in the banker's expertise as an advisor in the sphere of financing. Česká spořitelna can provide the right services reflecting customer needs at each phase of its business; and even to entrepreneurs who are just start-ups, it is able to provide not only standard financial services, but also professional consulting and assistance with business development.

Due to the diversity of the MSE segment, the service they receive differs depending on the group to which they belong and on what is convenient for them. Sole-proprietors and small entrepreneurs are increasingly served by specialised consultants for entrepreneurs, in cooperation with consultants at branches. Companies and major entrepreneurs are served by corporate bankers. Every corporate banker has his own portfolio of clients and, on the other hand, each client has its corporate banker. They work with clients on a long-term basis, which is reflected in the fact that they are partners to each other.

The number of business and company accounts exceeds 177,000. The total balance was up by 4% on a year-to-year comparison, to CZK 68.7 billion. Business accounts are not only used by entrepreneurs, but also by legal entities and the non-profit sector. The total volume of the loan portfolio in the segment of small companies and entrepreneurs amounted to CZK 57.4 billion as at 31 December 2017. In comparison with 2016, Česká spořitelna transferred municipal loans to small cities and villages from the MSE portfolio to the portfolio of municipal clients.

Structure of the portfolio of loans to small companies and entrepreneurs (CZK billion, gross value)



The 2017 innovations include the "Looking for New Blood" concept for Czech business. Česká spořitelna has lent funds in excess of CZK 500 million to start-up entrepreneurs, making it the most successful start-up bank on the market. The campaign won the competition for the most effective advertising in the financial services category.

Another innovation was the Electronic Lien Clearance Service, whereby the Bank arranges the deletion of a lien in the Land Register for the client. In addition, loan product conditions were adapted such as to make them even more accessible, e.g. by an extension of the repayment term or lower requirement in terms of the client's own resources.

Corporate Banking

In 2017, the Bank united the corporate banking services that it used to provide under the Erste Corporate Banking brand, under the Česká spořitelna – Corporate Banking brand. This change reflected, in particular, the views of clients from the small and medium-sized enterprise (SME) segment. The new brand, Česká spořitelna – Corporate Banking, should further strengthen the Bank's position in this segment. For specific large corporate clients, the bank will continue to actively communicate its Erste Group Bank membership.

Under the Česká spořitelna – Corporate Banking brand, the Bank provides comprehensive solutions for entrepreneurs and businesses. It is the market leader in the provision of financial services to municipalities and to the public sector.

Česká spořitelna's corporate banking provides clients with comprehensive solutions to their needs: from investment, acquisition, and project financing to the promotion of export activities, merger and acquisition consulting, introduction to bond or stock capital markets.

Česká spořitelna is the market leader in financing of energy projects, including renewable resources; in export financing; and in the use of preferential funds in cooperation with the European Investment Bank (EIB), Kreditanstalt für Wiederaufbau (KfW), and the European Investment Fund (EIF), as well as with national agencies such as ČMZRB (the Czech-Moravian Guarantee and Development Bank) and EGAP (the Export Guarantee and Insurance Company).

The Bank has been maintaining and strengthening its position among leading arrangers of syndicated and club solutions, as it has participated in most major transactions on the Czech market, often in the fundamental role of the arranger or co-arranger. Česká spořitelna has also been, on a sustained basis, confirming its ability to design financing solutions by means of a combination of a bond issue and a bank loan. Česká spořitelna is at the top in acquisition financing and debt recapitalisation of companies. It is also one of the most active banks in the sphere of real estate financing, real estate investments, and mortgage transactions.

With the launch of its new website in autumn 2017, Česká spořitelna also introduced a new website for corporate clients. The Bank developed the new website on the basis of workshops with its clients, focusing primarily on a new, fresh design, on simplifying the structure of the website, and improving its comprehensibility and organisation. Just like the site for retail clients, the new website is based on the shared Erste Group Bank platform. The website also includes stories of the Bank's clients, economic analyses, and other content that is updated daily.

Strategic Emphasis on the SME Segment

The development strategy of Česká spořitelna's corporate banking is built on three main pillars: attaining a leading position in the SME segment, growth of large corporate business, using its position as the main player on the financial market for the growth of the corporate business.

In its corporate banking, Česká spořitelna puts an emphasis on the segment of small and medium-sized enterprises (SMEs). They are served through thirteen Česká spořitelna regional corporate centres. For the SME segment, the Bank has developed specialised programmes and solutions. With electronic banking and corporate cash management products, the Bank is available to corporate clients online.

In the lending process, the Easy Loan, a package of simple products and a fast approval process for SME clients, in which the Bank guarantees clients a loan evaluation within two days, has been introduced. Its main advantages include an acceleration of the existing lending process, and a reduction of its cost, as well as guaranteed duration of the approval period and of the process of drafting contractual documentation and greater predictability of the parameters and conditions of the products.

Building on the Easy Loan is the "Standard Procedure", which will result in greater predictability of loan approval for the client. The Easy Loan provides a fast approval process for loans with exposures up to CZK 50 million, whereas the "Standard Procedure" addresses more complex cases with higher exposures. From the first offer, the client should know with a high degree of probability under which conditions he could obtain financing.

From the point of view of the digitisation of services, the aforementioned lending process includes the new digital credit application, which will simplify the work of sales representatives and gradually digitise the lending process. In turn, this will result in a faster approval and faster preparation of agreements with a significantly lower error rate.

In addition to this application, the Bank offers clients, as part of the hybrid service model, a combination of personal and digital service, based on the client's specific needs, such that the resulting model is as pleasant and efficient for the client as possible. The Bank has also been working on a new digital infrastructure, which includes the launch of the Business 360 integrated solution.

Public and Non-profit Sectors

Česká spořitelna is the leader of the domestic market in the provision of financial services to the public sector.

At the beginning of 2017, Česká spořitelna, in cooperation with the City of Brno, managed to launch the first-ever real e-shop for municipal fees in the Czech Republic. At this point, Brno residents can use it to pay public transit fare, and as of April, they will also be able to utilise it to pay fees for municipal waste.

In 2017, Česká spořitelna also offered Tábor residents, in a pilot operation, the possibility to receive calls for the payment of local dog or municipal waste fees in their SERVIS 24 internet banking

service, in which they can make direct payments quickly and easily. The client response was very positive, which is why the Bank has decided to offer the @FAKTURA 24 service to a number of other cities.

Česká spořitelna's innovative Smart City project continued successfully, helping municipal clients prepare and finance smart solutions that facilitate and simplify life in municipalities. The Bank also helps cities and suppliers assess the economic aspects of planned projects, find appropriate forms of financing, and complement them with modern payment functions. In the Smart City project, Česká spořitelna helped arrange electronic fare collection, for example, for Brno, Ostrava, Kolín, Beroun, Příbram and Jeseník.

In the Smart City project, Česká spořitelna, in cooperation with the Office of the Government and O2, organised the Smart Town Hall competition ("Chytrá radnice"), aimed at inspiring and rewarding the introduction of modern technologies into the operation of towns and municipalities. The competition was the largest of its kind in the Czech Republic: a total of 64 competing projects was registered.

Trading in Financial Instruments for Corporate Clients

Česká spořitelna provides services in the sphere of financial markets to international as well as local corporations and companies from the segment of small and medium-sized enterprises. Česká spořitelna boasts high-quality analytical and trading facilities and an infrastructure that allows it to provide clients with reliable execution of their orders, combined with analyses and advice with the structuring and timing of hedging operations. Česka spořitelna's strategic model is focused on offering a broad range of customised hedging instruments and on trading in currency conversions via electronic trading platforms. Our clients annually rate the model as one of the best on the market, which is reflected in their sustained satisfaction with the services provided to them.

Since the beginning of April 2017, the exchange rate of the Czech crown to the euro strengthened significantly due to the discontinuation of the intervention regime of the Czech National Bank. This fact, in combination with uncertainty as to the date of the discontinuation of the intervention, had a major impact on the behaviour of corporate clients in the sphere of currency risk management. Among clients across all segments, demand for currency hedging instruments with a settlement term longer than one year grew significantly. At the same time, the expected increase of interest rates by the Czech National Bank increased demand among companies for interest-rate hedging.

Trading in Debt Securities and Stock Instruments

In 2017, Česká spořitelna affirmed its leading role among securities traders serving institutional clients. The amount of traded transactions in combination with the high quality of its services make Česká spořitelna a leader among banks providing asset management in the capital market.

The main factor that had an impact on bond trading was the discontinuation of ČNB interventions concerning the Czech crown, pressure on yield growth along the entire interest-rate curve, and continuation of quantitative easing by the European Central Bank (ECB) by means of its purchase of government and corporate bonds. Short-term CZK government bonds were under constant buying pressure, primarily from foreign investors. Česká spořitelna was again one of the most active CZK bond traders on the primary market and belonged to the most important primary dealers in government bonds in the Czech Republic.

Asset Management for Institutional Clients

The current volume of funds under asset management for institutional clients exceeds CZK 120 billion. In terms of the volume of assets managed, the greatest share belongs to the sector of financial institutions, i.e., pension funds and life and non-life insurance companies. The increase in assets was even, across all client types, and the client portfolio expanded to include municipalities, housing cooperatives, and corporate clients. Asset management clients continue to include, aside from financial institutions, also dozens of foundations, housing cooperatives, trade union organisations, and corporate entities.

Portfolio performance in 2017 was influenced by very low interest rates. Portfolio managers did, however, expect an increase in yield during the year, which is why they kept the interest-rate component of the portfolio at a short duration. The correctness of this investment strategy was first confirmed in August and then again in November, when the ČNB increased the base 2-week repo rate to 0.5%. Thanks to this, the interest-rate component was gradually invested and deposited in deposit transactions, which offset the adverse impact of the development of bond markets. On the other hand, equity developed favourably, and also the real-estate component of the portfolio faired well. The correct investment strategy chosen by Česká spořitelna for its clients, in combination with its optimum strategy of tactical portfolio asset allocation, resulted in an excellent result when more than 90% of our clients attained a yield on their portfolios above the market benchmark.

Financial Institutions

In 2017, Česká spořitelna continued in its successful sale of products and services to existing clients, and thanks to several major acquisitions, it confirmed its position in the segment of financial institutions. Česká spořitelna continued to develop and deepen its cooperation with insurance companies, pension funds, and investment companies. Its strategy in providing services to the financial institution segment focused more on new payment methods in the sphere of cash management, financial market products, and on specialised services, such as depository, custody, and brokerage of the payment of security yields. In 2017, Česká spořitelna also prepared for new PSD2 legislation, which will allow it to serve within the developing open banking the newly created segment known as TPP.

In correspondence banking, Česká spořitelna developed its service of major banking clients using products focused on the provision

of payment solutions in Czech crowns and foreign currencies. As new clients, it drew in banking institutions that are only taking up the CZK payment business or which switched to Česká spořitelna from its competitors. Česká spořitelna closely cooperates with other members of the Erste Group Bank, which use a shared platform to offer clients comprehensive payment solutions throughout the Central European region.

Depository

Prevailing low interest rates in 2017 supported interest among investors in fund investments. Due to this, 62 new funds were established on the Czech market, primarily qualified investors funds. Thanks to its long-established high-quality and professional services, Česká spořitelna has strengthened its position on the depository market and expanded its portfolio by 28 new funds, which represents about a twenty-five percent increase in the number of funds. The assets in overseen funds reached over CZK 280 billion.

Custody

Česká spořitelna provides custody services and investment instrument management not only as a depository bank for funds, but also to asset managers in the management of client portfolios and as a separate custody service. The client portfolio comprises primarily financial institutions, but clients include many enterprises and public-sector entities. In 2017, Česká spořitelna again saw growth in the aggregate volume of assets – investments of foreign clients in domestic instruments contributed to most to that growth. In 2017, Česká spořitelna took part as the intermediary in several public offerings of shares of companies listed on the Prague Stock Exchange, making it one of the leader on the Czech market in the provision of these services.

Social Banking

Česká spořitelna is not only a leader in supporting the segment of non-profit organisations on the Czech market, but also enjoys a very strong position in the field of social entrepreneurs. The Bank offers these clients in the Social Banking Segment not only advisory services and assistance with education, but it is one of the few domestic banks to also offer funding, investments, and subsidy consultancy. In autumn 2017, Social Banking was also supported by a special marketing campaign based on the stories of actual social enterprises and the people who founded them.

Through its social banking programme, Česká spořitelna offers development and acceleration programmes, mentoring, and coaching, to allow organisations to test the viability and financial sustainability of their business plan. This is mainly provided by the Impact First Accelerator (www.impactfirst.cz). Students can then register their plans for addressing social problems in an entrepreneurial way for the Social Impact Award competition (www.socialimpactaward.cz). The Bank implements both accelerators in cooperation with the corporation Impact Hub. Non-profit organisations are led to financial stability in the FRIN fundraising academy (www.frin.cz), which is implemented by the Bank in cooperation with the Czech Fundraising Centre.

Relations with Financial Institutions

In 2017, Česká spořitelna nurtured cooperation with domestic as well as foreign financial institutions. With the Českomoravská záruční a rozvojová banka (Czech-Moravian Guarantee and Development Bank), Česká spořitelna signed an agreement on participation in the Expansion Programme. In selected regions, the Bank's clients can receive a contribution for the payment of interest on loans granted by Česká spořitelna.

With the European Investment Bank, Česká spořitelna signed a New Global Loan , thanks to which it will be able to provide loans with an interest rate reduction to companies employing young workers under the age of 30.

Česká spořitelna was the first bank in Central and South-Eastern Europe to participate, within the framework of its cooperation with the European Investment Bank, in the Juncker Plan. Thanks to the new guarantee line from the EIB, Česká spořitelna can offer preferential investment loans to Czech companies. By extending its cooperation with the EIB, Česká spořitelna affirmed its position as its most important partner in Central Europe. The new guarantee is mainly intended to increase the availability of financing for medium-sized companies with up to 3,000 employees; however, larger companies and municipal clients can also take advantage of this, provided they meet the conditions. Companies can draw loans primarily for energy savings projects, innovations, and other investment opportunities.

In cooperation with the Council of Europe Development Bank, Česká spořitelna has begun offering new preferential loans to public corporations, municipalities, and other public sector clients. Clients can use this preferential financing for projects related to the environment and for improving conditions in urban and rural areas.

Strategic Programmes

Česká spořitelna successfully continued to deliver project outputs within the framework of its Retail, Corporate, Data, People and Corporate Culture and IT-Consolidation Programmes. The objective of transformation programmes is to implement necessary strategic changes in the Bank.

The retail and corporate banking segments were described above.

The Data Programme

In its Data Programme, Česká spořitelna continued to implement in 2017 the strategic steps that the programme plotted in 2016.

In the field of data management, 2017 was characterised primarily by improving data quality. Emphasis was placed on the sphere of data quality reporting, as well as on investment in error prevention. In 2017, it was also necessary to come to terms with the new regulatory trend, i.e., daily reporting to the ČNB, which places increased demands especially on processes related to data processing as well as to data quality.

The data pool and the related solutions for business data analysis and reporting have been expanded with the addition of the necessary data sources, and it has been used to create reports for sales network management as well as data monetisation and analysis.

In the area of credit risk management, the Bank deployed a number of new solutions in 2017, to improve control mechanisms and more complex use of data for risk management.

At the end of 2017, a new system for calculating pre-approved limits for retail clients was implemented. We also newly use data attributes to speed up and standardise processes in the sphere of corporate banking credit risks.

The People, Corporate Culture, and Resource Management Programme

The People, Corporate Culture, and Resource Management Programme contributes to the implementation of a new strategy by developing desirable skills and competences. In 2017, Česká spořitelna focused on the client experience. Representatives of Česká spořitelna visited companies that deliver an excellent client experience, analysing the common denominators required for building that. Taking advantage of the skills acquired, the People, Corporate Culture, and Resource Management Programme focused on changing the management model and organisational structure of the Bank. Česká spořitelna carried on in its activities aimed at improving process efficiency and proper allocation of human resources.

Awards

Domestic Awards

In 2017, Česká spořitelna received many domestic awards confirming the quality of the products and services it provides:

- Zlatá Koruna (Gold Crown) 2017 competition awarded Česká spořitelna and its subsidiaries in many areas. Česká spořitelna won the first prize among mortgages. Furthermore, for the third time, it defended the award for Corporate Social Responsibility. Stavební spořitelna took first place in the building savings category for its Loan from Buřinka, and bronze for building savings online. In addition, Česká spořitelna – penzijjní společnost was also awarded bronze for its supplementary pension savings.

- The award The Most Trustworthy Bank of the Year 2017 in the Bank of the Year competition, decided by the public. In addition, Česká spořitelna won three silver – in the main category Bank of the Year, Mortgage of the Year, and Bank without Barriers.

- In the 16th annual WebTop 100 competition, the largest competition of corporate websites and digital solutions in the Czech Republic, Česká spořitelna took 4th place in the On-line Tools category for its Online Mortgage. Online mortgage was ranked as the best online tool in the financial sector.

- The Progress Award of the Chytrý Honza server was earned by the paperless loan.

- In the Safe Loan Navigator survey in the area of Microloans, Česká spořitelna won 1st place, with its Click for your Money service. In another survey, the Responsible Lending Index, organised by People In Need, the Bank ranked high on the overall consumer loan market.

- In the TOP Employer 2017 competition, Česká spořitelna took the second place in the category of Banking and Investments. This study is a project of the Association of Students and Graduates, which takes place among students of Czech universities and is implemented in cooperation with the research agency GFK, universities, student organisations, and corporate partners.

- In the 17th annual Czech Contact Center Award competition organised by the ADMEZ Association, Česká spořitelna won two second places from an expert jury: External Call Centre, for its project CS Branches in External Call Centres, and the Client Centre, for its Online Mortgage.

- The team of Česká spořitelna's internal lawyers was honoured in the corporate ranking Law Firm of the Year 2017, in the Inhouse Legal Team category. For the very first time, the award was bestowed on a bank – thus far, only law firms had been rated in the competition.

- In the jubilee 20th annual Effie contest, to choose the most effective advertising, the gold medal went to the "Looking for New Blood" campaign, targeted at the start-up entrepreneurs with the offer of the Start-up Corporate Loan.

International Awards

The quality of the products and services of Česká spořitelna has been recognised with many international awards. The most prestigious international awards include those awarded by specialised magazines:

- Euromoney Awards for Excellence in the category Best Bank in the Czech Republic. The award is bestowed annually by the industry magazine Euromoney, which specialises in banking and capital markets.

- Award for Best Private Banking of 2017 in the Czech Republic for Erste Private Banking, awarded by industry magazine World Finance.

In addition, Česká spořitelna earned the following awards:

- Best payment card issuer (Best Issuer 2017) in the fifth annual Visa Awards 2017. The award is granted by Visa, which in its evaluation highlighted Bank's position as the leader in issuing and accepting contactless cards in the Czech Republic.

- In the royal category 'Film' at one of the most prestigious international festivals of creativity, the Clio Award, the advertising spot "The Story of Professor Vojta" won the bronze medal. The agency Young & Rubicam was involved in the campaign.

Non-commercial Activities

People

Employees are the foundation of a healthy Bank's direction and success in a highly competitive environment. Qualified and satisfied employees are a strong competitive advantage for Česká spořitelna and therefore the Bank builds and provides a flexible working environment and the opportunity to further educate and develop both on a professional and personal level. For this purpose, every year, the Bank carries out a number of initiatives to promote the integration of work and personal life and equal opportunities, in order to strengthen the conditions for a lasting and satisfied partnership between employees and Česká spořitelna as an employer.

Česká spořitelna has become a key partner of important local events such as the Festival VŠEM ŽENÁM ("For All Women") and companies – active cooperation with the British Chamber of Commerce and others – to promote diversity in top management. An example of diversity is the Board of Directors of Česká spořitelna where, from February 2016, Daniela Pešková is responsible for retail banking. Within the framework of talent development and work, the Bank also engages its successful female managers in special programs for women, such as Satori and Equilibrium, where they can exchange experiences or get professional mentoring from experienced female managers from other companies on the Czech market.

In the field of support for people with disabilities, the Bank extended the possibility of providing ergonomic aid not only to employees with disabilities but also to employees with serious health problems who are not classified as persons with disabilities.

The Bank continues to support the return of parents to employment by expanding the number of partner institutions providing care for preschool children in Prague and in the regions. For parents on maternity and parental leave, a portal of job offers and information on events in the Bank is also regularly updated, and a dedicated discussion community based on an internal social network for parents, which has also maintained an expanded e-learning capability. The Bank also regularly organises meetings in the regions for parents on maternity / parental leave. In 2017, a total of 5 meetings took place for about 150 mothers and fathers.

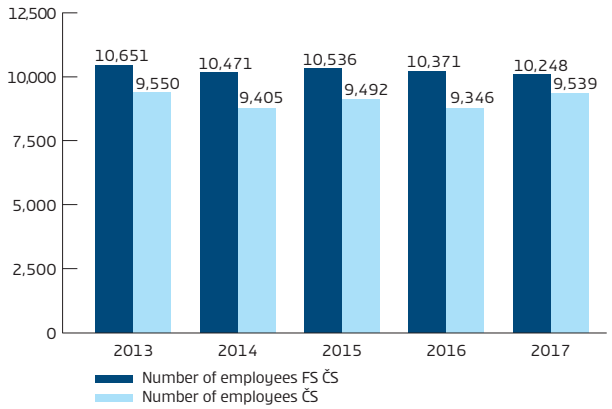
Česká spořitelna focuses on finding and reaching new talent not only in the form of recruitment campaigns, but also presentations of events and operations in the bank and professional lectures. The successful "Můj potenciál" (My potential) program for high school students and their cooperation with the Bank also continues. Participants attended an experience day at Česká spořitelna, where they visited various departments (HR, Communication, IT).

The Bank prepared or participated in a large number of recruitment events, including, in particular, trade fairs at universities (Šance at University of Economics in Prague, Absolvent at Charles University, JobChallenge in Brno, etc.), Days with Česká spořitelna, etc. Česká spořitelna also maintains contacts with the Prague Banking Club, for which Bank representatives deliver lectures on banking topics for economically oriented university students.

A comprehensive offer of development helps employees to be more successful in what they are doing today, but also better prepares them for what the market and the Bank are expecting in the future. The main tool/task used for development of employees is the possibility of work on interesting projects across various departments of the Bank, shadow or rotation. Employees also have a wide range of training, e-courses, and more and more interactive learning opportunities in the digital environment (webinars, etc.). A comprehensive education system builds on adaptation and talent programs that prepare employees, for example, for future roles as managers. In addition, the Bank offers the possibility of coaching, mentoring and encourages participation in interesting networking programs and inspirational meetings with other successful companies.

The average number of employees in the consolidated group decreased by 1.2% to 10,248. For Česká spořitelna itself, the average number of employees was 9,539. The share of women represents 70% of all employees. 8% of employees work part time. The Bank successfully integrated 135 employees returning from parental leave. The average length of employment declined slightly to 9.8 years and the average age dropped to 40 years. Employees over fifty years old represent 21% of the population of Česká spořitelna.

Average number of employees



Strategic Plans for the Future

Strategic Objectives

More than 190 years ago, at the founding, the main goal of Česká spořitelna was already to help people and lead them to prosperity. This basic idea of Česká spořitelna's operations continues up to the present day. As its main goal, Česká spořitelna plans to gain 5 million fans at its 200th birthday in 2025. This goal is to be achieved by the aforementioned leading of clients to prosperity, in particular through proactive counselling within the My Healthy Finances (Moje zdravé finance) service.

Česká spořitelna's key market for the next several years will be the Czech Republic, but also with some necessary overlap across Central and Eastern Europe thanks to the synergies between Erste Group Bank, especially in the corporate sector. From a product perspective, besides the classic financial services, Česká spořitelna intends to continue its attractive offer of non-financial products (sale of electricity and gas to end-users) within the My Healthy Finances project, which was very successful in the first year, when over 700,000 customers joined this project.

Macroeconomic Assumptions

In 2018, the Board of ČNB (Czech National Bank) will most likely continue to raise interest rates gradually, keeping inflation close to the target. The rates will gradually increase every six months. In relation to the faster rate of increase, the monetary policy in the euro area will be continued, as well as the strengthening of the Czech Crown, which will tighten monetary conditions in the Czech economy.

In 2018, Česká spořitelna will operate on the basis of the following key macroeconomic assumptions:

- Real GDP growth will slow to 3.4% from last year's predictions of 4.5% [13]. This will be driven by a stronger exchange rate of the Czech Crown, higher interest rates and strong imports due to high domestic demand. Despite the slowdown in GDP growth, the development of the Czech economy will remain very favourable, as strong domestic and foreign demand will continue to be stronger in the direction of higher growth.
- This year inflation will be slightly above the 2% [13] goal set by the ČNB. Higher prices will be driven by strong domestic demand, rising food prices, higher wage costs of companies and temporarily higher fuel prices. Opposed to this will be a stronger Czech Crown exchange rate, higher ČNB rates and current high investment levels that will increase productivity, and therefore will have an anti-inflationary effect.
- The labour market will remain strong in 2018. The unemployment rate will remain at around 3% [13] , and growth in nominal wages will increase to around 8% [13]. One of the problems of the Czech economy will still be the shortage in the free workforce, for which companies are responding with higher investments in automation, higher robotisation, etc.
- Due to the inflationary risk in a tight labour market, the ČNB repo rate may reach 1–1.25% [13] at the end of the year.
- The exchange rate of the Czech Crown against the euro will gradually strengthen, thanks to the favourable development of the Czech economy and the growth of ČNB rates. At the end of 2018, the exchange rate of the Czech Crown against the euro should reach around CZK 25 / euro [13].

Outline of Business Policy and the Expected Economic and Financial Situation in 2018 and Outlook for the Future

Česká spořitelna's retail banking will focus on the following three key priorities in 2018:

- Expanding the base of satisfied customers, especially thanks to the successful concept of My Health Finances, the ever-growing presence of our products where and when our clients' financial needs arise, by simplifying our products and improving the customer-oriented environment in our numerous branches.
- Transition of client's digital operations from the well-established and reliable Servis24 to modern personalised digital banking – George application and its mobile version George Go, both with the support of new generation of interactive web sites and the potential of the forthcoming

(13) Forecast of Česká spořitelna, a.s., 2. 2, 2018.
https://cz.products.erstegroup.com/Retail/cs/AnaluC3uBDzy_a_prognuC3uB3zy/VyhleduC3uA1vuC3uA1nuC3uAD_analuC3uBDz/Detail_analuC3uBDzy/index.phtml?ID_ENTRY=87206

Payment Services Directive II in the Czech Republic, in force since January 2018.
- Strengthening the image of Česká spořitelna as a pleasant, safe, high-quality, smart and quickly available partner for meeting a wide range of its clients' needs.

In the field of consumer finance, Česká spořitelna has the ambition to remain both a leader in the Czech market and a desirable partner for our existing and new clients as well as financial intermediaries. The Bank will strive to increase its market shares, not only by traditional products, but also by successful digital innovations launched in 2017, the first of which is the Mortgage Online and its consumer-credit version of Loan (Půjčka bez papírů), which has succeeded among both customers and the professional public.

The Bank would also like to follow up on the extraordinary success it had in the field of housing finance in 2017, in which the Bank strengthened its market share both in new sales and in mortgage balances.

Česká spořitelna will continue to take care of client's wealth through its deposit and investment products, which are continuously modernised and simplified for the widest possible customer base. Within investments the Bank would like to continue to offer its clients a wide range of investment instruments, diversified not only by the client's risk sensitivity, but also beyond the level of financial and professional knowledge. The Bank wants to continue to strengthen its position among the banks in the field of mutual fund sales, as well as to build the image of the best expert in the field of private and premium banking. As part of providing comprehensive services, the Bank will offer its clients a wider range of insurance and reinsurance products in 2018.

The fact is that the world of finance in retail banking is not divided into products and customer segments. It is all about the world of the client's needs, and Česká spořitelna perceives it strongly. Although a wide branch network is a competitive advantage for Česká spořitelna in terms of its physical proximity to its clients, the Bank will focus on retail banking to develop those distribution channels that will enable it to reach its clients, regardless of the time and place of their actual financial needs. Within digital banking, both of the above-mentioned versions of the modern assistant of personal wealth management – George and George Go – which will allow the client to be close to his finances literally at every step or on every click and to be close to their bank and interactively address their ideas and needs. The Bank has also expanded video-bankers and specialist services for non-financial products.

Nevertheless, Česká spořitelna has not forgotten its branch network. In 2018, the modernisation of branches will continue the new concept of operating and deploying self-service zones, where customers will be able to very quickly and effectively manage their everyday transactions and cash needs regardless of the opening hours.

Česká spořitelna's retail banking continues its tradition of serving its clients as a trusted and safe financial institution that provides them assurance and support in today's turbulent times and thus fulfils the historic mission of helping to develop prosperity. These values have been practiced by Česká spořitelna for almost 193 years, and for the last twenty years together with the other members of the Erste Group Bank of which Česká spořitelna is a significant member.

Corporate Banking

The next step in Česká spořitelna's corporate banking in 2018 will be to achieve its long-term goal of becoming the leading bank in the segment of small and medium-sized businesses in line with Erste Group Bank's priorities. Česká spořitelna will continue to consolidate its long-term partnership with public and non-profit sector clients, including top-level consultancy. Česká spořitelna also wants to be one of the key banks in the segment of large multinationals. The corporate banking strategy continues to develop services based on complex client service. The offer of appropriate solutions is based on an accurate knowledge of the needs of individual segments and industries. Česká spořitelna provides its customers with an individual offer of tailored products at various stages of corporate life.

The Bank will expand the offer of unique solutions in the area of financing of energy saving projects, will offer successful innovation and start-up support programs as well as specialised software for financing projects from European funds, as well as for the ICT sector. To enable new solutions for customers, the area of digital channels will be expanded. During 2018, Česká spořitelna aims to develop digital services for clients, also following the implementation of PSD2 standards on the banking market. Within the small and medium-sized (SME) business segment, the Bank focuses on further development of its customer-oriented approach. The goal for 2018 is to focus on the specificity of SME segment and the creation of advisory and process teams. As a result, there will be better individualised customer service, which will be perfect especially in anticipating customer needs and quickly responding to their financial queries. Regional corporate centres will continue to provide complex services for SME, including local real estate financing.

In 2018, Česká spořitelna, which is one of the key banks for large corporations operating in the Czech Republic, will continue its strategic effort to become a long-term and reliable business partner of large corporations. With the support of Erste Group Bank, Česká spořitelna will provide banking products and financial services that will enable clients to manage their needs across the region of Central and Eastern Europe, where Erste Group Bank operates.

The Bank will continue to implement its strategy of maintaining a balanced portfolio of financed projects in the area of large development projects, with a constant focus on highly profitable real estate. Furthermore, it will be more focused on the development of real estate financing within SME area, where more intensive cooperation with local developers and investors can be expected. The aim is to finance housing development, including cooperative projects, or to offer interesting solutions for selected locations and projects within retail sales or mixed-use buildings.

Česká spořitelna will continue to develop innovative projects under the Smart City (Chytré město) program in the area of the public and non-profit sector financing. At the same time, it will focus on further enhancing the convenience of mutual communication with an emphasis on the electrisation and digitisation of communication channels.

Česká spořitelna is the first bank in the Czech Republic that started offering so-called social banking, focused on non-profit companies and social enterprises that the Bank wants to promote through education, advisory and funding. The aim is to support the self-sufficiency of social companies and non-profit organisations to avoid dependance on subsidies and grants, which will ensure their long-term existence.

Financial Markets

In 2018, the Financial Market and Financial Institution's aim will be to strengthen market share in all key areas and products of financial market. Financial Market and Financial Institution will primarily focus on the development of financial services for financial institutions in the new MiFID 2 regulatory environment, development of an internet business platform for corporate clients and strengthening the position of a foreign exchange, interest and derivatives markets regional leader.

Financial Market's main objective in the field of comprehensive service for financial institutions is to extend the portfolio of products and services for non-bank payment institutions, in particular through new payment methods and specialised deposit services, storage and brokerage in securities income.

Financial Market's strategy on capital markets will be focused on achieving the medium-term goal of becoming the primary bank for subscribing and distributing new corporate bond issues and confirming its leading position as the main dealer of government bonds in the Czech Republic.

Asset management of Financial Market's institutional clients will aim to increase market share in asset management for institutional and municipal clients as well as to provide services and reporting at the highest level. The investment strategy will be continuously based on portfolio diversification, a strategy that has been confirmed in the long term as the optimal way to achieve stable high returns for medium- and long-term investors.

In the area of financial market products for corporate clients, there will be a significant strengthening of SME segment service and extension of the product offer in order to hedge the exchange rate risk and the interest rate risk. At the same time, as part of the new platform Business 360, further innovative development of digital business channels will be carried out, including new complementary services, such as internet chat with an advisor or a financial market analyst.

In 2018, the area of the dynamically developing acquisition market combined with the continuous generational change of the founders and owners of many companies and, of course, the growing appetite of traditional and new investors for interesting assets will still be a priority. Česká spořitelna is still planning to maintain and further develop specialist knowledge in the area of acquisition financing to fully and responsibly cover the needs and expectations of current and potential clients in this field. The Bank has unchanged ambitions to deal with all major transactions of structured financing on the Czech market and to continue to play a leading role in supporting exporters through export and commercial financial tools and export products and to participate in creating and cultivating an environment that will enable Czech exporters to benefit from state support in the field of exports comparable to the support of the countries of their main competitors.

The Bank will maintain the position of one of the largest financial advisors in the Czech Republic in the area of financial advisory. In addition to the traditional segments of large Czech and international corporations, the ambitions to provide financial advisory to SME segment are not weakening, and are becoming more systematic than in previous years. Česká spořitelna also wants to maintain and further strengthen our leading position in financial advisory of the public sector, including (Public-Private Partnership, PPP).

Expected Economic and Financial Situation

In the second half of 2017, the Czech banking sector experienced a double hike in basic rates by ČNB. 2018 is likely to bring further growth in these rates, which will be positively reflected in Česká spořitelna's operating results. However, the increase in operating results will be slowed down as a result of continued high competition on the Czech banking market and continued investment needs in the area of regulation and regulatory reporting. A slight decrease is expected in relation to 2017 at the level of net profit, mainly due to the standardisation of so-called credit risk costs that are expected to revert to standard values as compared to the extremely low levels recognized in 2017.

The aim of Česká spořitelna is to continue consistently managing the cost base in 2018 in such a way that the cost-income ratio does not show a significant deviation from the 2017 value. At the level of the return on equity indicator, Česká spořitelna intends to continue to maintain a double-digit figure combined with an above-standard compliance with the minimum capital adequacy requirements set by the regulatory body.

Also in 2018, the decisive items of Česká spořitelna's balance sheet will be customer loans and deposits. It is expected that there will be approximately the same growth rate for both customer loans and customer deposits in 2018, which will stabilise the so-called loan-to-deposit ratio of 2017.

Risk Management

Risk management processes are a key element of the Bank's hike management and control system. The nature of its business and other activities causes the Bank being inevitably exposed to a variety of credit, market, operating and liquidity risks. The Bank's attention to risk management corresponds to its size, complexity and volume of its products, business activities and other operations. The Česká spořitelna Board of Directors approved a risk management strategy incorporating risk management principles covering risk identification, monitoring and measurement processes and setting of limits and restrictions. By adopting these principles, the Bank has kept its risk exposure at an acceptable level, enabling it to maintain effective management processes.

The following units participate in managing risk at Česká spořitelna:

- Strategic Risk Management: primarily responsible for credit risk, market and liquidity risk, which includes consolidated risk management and the Internal Capital Adequacy Assessment Process (ICAAP) and stress testing for the entire Česká spořitelna Financial Group;
- Non-financial Risk Management and Compliance: responsible for managing operational risk and other non-financial (non-position) risks, compliance risk and anti-money laundering measures, operational security;
- Corporate Banking Credit Risk Management and Retail Banking Credit Risk Management: primarily responsible for credit risk strategies for corporate and retail banking, respectively;
- Financial Group Balance Sheet Management: manages net interest rate risk of the banking book (investment portfolio) and operational liquidity management risk pursuant to decisions of the Assets and Liabilities Management Committee;
- Strategic Capital Management and Reporting: responsible, among other areas, for managing capital resources for risk coverage.

The activities of these risk management units are complemented by the work of the units:

- IS/IT Security: responsible for risk management in respect of IT security;
- Legal Services: responsible for providing legal support;
- Card Center: responsible for payment card transactions risk management.

The Board of Directors shares risk management decision making authority with the following committees:

- Board of Directors Assets and Liabilities Management Committee ("ALCO");
- Board of Directors Credit Committee;
- Risk Management Committee ("RMC") as an advisory body to the Chief Risk Officer;
- CS Financial Group Cyber Security Management Committee as an advisory body to the Chief Risk Officer;
- Risk Management Models Committee as an advisory body to the Chief Risk Officer;

and further Committees at the Top Management level:

- Financial Markets Risk and Wholesale products Management Committee,
- Compliance, Operating Risk and Security Board (CORB),
- Operational Liquidity Committee (OLC),
- Industry Limits Committee,
- Assets and Liabilities Model Committee

Credit Risk

Česká spořitelna is exposed to credit risk; i.e. the risk that a counterparty will be unable to pay full amounts when due. In managing credit risk, Česká spořitelna applies a standardised methodology adopted on a group-wide basis that sets out the applicable procedures, roles and authorities.

The credit risk management policy includes:

- Prudent lending process guidelines, including rules to prevent money laundering and fraud;
- General client segment acceptability guidelines based on their main activities, geographical location, maximum maturity period, the product and the purpose of the loan;
- Basic framework of the rating system and the setting and review of debtors' ratings;
- Basic principles of the system of limits and the structure of approval levels;
- Loan collateral management rules;
- Structure of basic product categories;
- Methodology for calculation of provisions and risk-weighted assets.

Collection of Necessary Risk Management Information

The credit risk management of the Bank is based not only on its own portfolio information, but also on the portfolio information of other members of the Česká spořitelna Financial Group. The Bank additionally uses information obtained from external sources such as the Czech Banking Credit Bureau, Central Credit Register or ratings provided by reputable rating agencies. The extensive database available for credit risk management purposes serves to model credit risk and supports the collection and measurement of receivables as well as the calculation of losses.

Internal Rating Tools

Rating is considered to be one of the key risk management tools. The Bank uses the client's rating to measure the counterparty's risk profile. The client rating reflects the probability of debtor's default in the subsequent 12-month period. The debtor's assessment and internal rating determination form an inherent part of any loan approval or of any significant change of lending terms and conditions. The debtor's assessment reflects the client's financial position and non-financial characteristics. For corporate debtors, the assessment involves primarily an analysis of the strengths and weaknesses such as management quality and competitiveness. For retail debtors, the analysis entails mainly demographic and behavioural indicators. As part of risk management, the Bank categorizes its clients into the two following groups, "non-performing" and "performing". The Bank categorizes the "performing" clients to an eight-grade rating scale – in case of private individuals (i.e. non-entrepreneurs) – and a thirteen-grade rating scale for other clients. For all "non-performing" clients, the Bank uses a single rating grade – "R" – which is further broken down based on the reasons for the default.

All information essential for the above mentioned assessments is gathered and stored centrally. The Bank performs regular internal rating reviews (at least once a year). The internal rating methodology is validated based on historical data using statistical models. In accordance with regulatory requirements, the Bank ensures independent entity supervision of the internal rating methodology validation process.

Exposure Limits

Exposure limits are defined as the maximum exposure acceptable for the Bank in respect of an individual client or group of economically-related persons. The system is set up to protect the Bank's income and capital from risk concentration.

Structure of Approval Authorities

The structure of approval authorities is based on the principle of materiality of the impact of potential loss from a provided loan on the Bank's financial performance and the risk profile of the respective loan transaction. The Supervisory Board Risk Committee and Board of Directors Credit Committee have the highest approval authorizations. Other approval authorizations are given based on credit risk management unit staff seniority.

Determination of Risk Parameters

Česká spořitelna uses its own internal models to determine risk parameters such as probability of default ("PD"), loss given default ("LGD") and credit conversion factors ("CCF", i.e. coefficients used to transfer off-balance sheet exposures to the on-balance sheet ones). All models comply with the Basel III requirements. Monitoring and predicting historical risk parameters forms the basis for quantitative portfolio management. Česká spořitelna currently uses risk parameters to monitor credit risk, manage the non-performing loan portfolio and assess risks. The active use of risk parameters in managing credit risk of the Bank provides detailed information about the possible sensitivity of basic portfolio segments to both internal and external changes.

Impairment Provisions for Credit Risk

For provision-making, Česká spořitelna uses methodology that complies with International Financial Reporting Standards ("IFRS"). Portfolio provisions are determined for portfolios of receivables in which no individual impairment has been identified. The level of portfolio provisions is established using models based on the Bank's historic experience. The PD and LGD risk parameters are a significant component of these models. Receivables, for which an impairment has been identified are provided for individually. The discounted cash flow method is used to measure impairment of non-retail receivables and of retail receivables with exposure exceeding CZK 5 million. The impairment level of other retail receivables is determined statistically on the basis of experience with recovery of similar types of receivables. Provisions for all receivables are reassessed on a daily basis. Provisions are back-tested annually with a focus on the adequacy of created provisions by a comparison with actual loan portfolio losses. Back-testing covers all major loan portfolios (at least 95%).

In 2018, the methodology for impairment provisions for credit risk is changing due to the first application of IFRS 9: Financial instruments that started to be effective on 1 January 2018. Details to this transition are published in Separate and Consolidated Financial Statements of Česká spořitelna, a.s. for the Year Ended 31 December 2017, in the section Application of amended and new IFRS/IAS.

Concentration Risk and Risk-weighted Assets

Česká spořitelna manages loan portfolio concentration risk through a system of large exposure limits. Large exposure limits are established as the maximum exposure that the Bank may accept in respect of an individual client or economically-related group of clients with a given rating and underlying collateral. The system is set up to avoid excessive risk concentration to a small number of clients in the portfolio and is based on maximum level of economic capital that may be allocated to one group of clients. Česká spořitelna fulfilled the conditions for the use of the Internal Ratings-Based ("IRB") approach for calculation of the credit risk capital requirement and since July 2007 the risk-weighted assets and the capital requirement have been based on internal ratings and the Bank's own estimates of PD, LGD and CCF parameters. Risk-weighted assets are calculated monthly. The standard calculation is regularly supplemented by stress testing, which includes modelling of impacts of sudden changes in the market environment, especially in the macroeconomic factors.

Risk appetite Statement

The maximum tolerated exposure of the amount of Bank capital and operating profit to various types of risks is defined in the Risk Appetite Statement approved by the Bank's Board of Directors. The Risk Appetite Statement is formulated over a 5-year horizon to coincide with the Bank's planning period.

Improving the Process of Timely Collection

The Bank continued to develop and upgrade the process of timely collection and detection of problematic clients. In corporate banking, this area is handled by a unit responsible for monitoring performance of the non-financial terms of loan contracts with corporate clients with the aim of improving the monitoring of the Bank's loan portfolio and reducing its credit risk exposure. In retail banking, the Bank continued with the effective use of the call-centre for timely collection. Call centre services are also utilized by other entities within the Česká spořitelna Financial Group.

Market Risks

Market risk in Česká spořitelna relates mainly to financial market transactions that are performed in both trading and banking books, and interest rate risk associated with banking book assets and liabilities.

Trading book transactions on the capital, money and derivative markets can be broken down into the following areas:

- Client price quotations and transactions and the execution of client orders;
- Interbank and derivative market price quotations (market making);
- Active trading on the interbank market;
- Distribution of financial market products to retail clients.

Česká spořitelna uses a Group Capital Markets holding business model for financial markets trading. Risks from executed client transactions are transferred through back-to-back transactions to portfolios of Erste Group Bank. Quotations on the bond, derivative and foreign currency markets and interbank transactions are also transferred to the holding company. Annually, Erste Group Bank redistributes the proportionate share of the Group result arising from trading in accordance with an approved distribution model. Česká spořitelna has retained new deals making and quotations on the money markets.

Banking book transactions on the capital, money and derivative markets may be categorized into following areas:

- Bank investments in securities as part of its investment strategy;
- Execution of certain interbank and client deposits and loans;
- Issuance of own bonds;
- Management of interest income, hedging of banking book interest-rate risk and closing of the mismatch between foreign currency denominated assets and liabilities.

The Strategic Risk Management Unit monitors and measures trading and banking book (or trading and banking portfolio) market risk. This unit is entirely independent of the Financial Markets Division (for the trading book) and the Financial Management Division (for the banking book) to avoid conflicts of interest and to ensure that submitted reports on the Bank's risks are independent and unbiased.

The Strategic Risk Management Unit ensures that an independent evaluation of all financial market transactions for both the Group and client portfolios administered by the Group is conducted. The unit is also responsible for managing operational risks associated with financial markets trading and with market risk management. It is thoroughly focused on control activities and reconciliations to ensure that complete and accurate records of instruments in the Bank's portfolios exist.

Market risk limits are determined separately for the trading book and the banking book. All trading book limits (specifically VaR limits for intra-day holding and sensitivity limits) are proposed in collaboration with the Strategic Risk Management Unit and the competent business units and approved by the Risk Management Committee of the Chief Risk Officer (VaR limits) or by the Financial Markets Risk Management Committee at the level of Strategic Risk Management Unit leadership (sensitivity limits). VaR limits (for one month holding period) for banking book market risk are proposed in collaboration between the Strategic Risk Management Unit and the Group Balance Sheet Management Unit and approved by the Risk Management Committee of the Chief Risk Officer together with the Assets and Liabilities Management Committee. Additional limits used for interest-rate risk management of the banking portfolio are described in the Interest-rate risk section.

The set of market limits must comply with the maximum risk exposure level as determined in the RAS (Risk Appetite Statement) approved by the Bank's Board of Directors and further confirmed by the holding company, Erste Group Bank.

For financial market interest-rate risk management, the Bank uses PVBP gap – a matrix of interest rate sensitivity factors of individual currencies for individual portfolios of interest-rate products. These factors measure market sensitivity of a portfolio against a parallel shift of the yield curve of the respective currency over a predefined period to maturity. The system of PVBP limits is set for individual trading portfolios of interest-rate products by currency. In addition to interest-rate risk, the Bank also monitors credit-spread risk. This type of risk is relevant for bonds, where changes in bond prices can occur at constant interest rates as a result of a credit spread narrowing or widening.

The sensitivity of foreign currency derivatives to foreign exchange rate movements is measured by delta equivalents and is reflected in the Bank's foreign currency position. Česká spořitelna monitors special limits for foreign currency option contracts, ie. limits for delta equivalent sensitivity to the exchange rate change in the form of the gamma equivalent and limits for option contract value sensitivity to the exchange rate volatility in the form of the vega equivalent. The Bank also monitors the sensitivity of the value to the period to

maturity (theta) and interest-rate sensitivity (rho), which is measured together with other interest rate instruments by PVBP.

Trading book equity risk is monitored by delta sensitivities of market values of the portfolio against the equity price movements both for individual equity issues and in aggregate for individual markets and for the portfolio as a whole.

Trading book commodity risk is monitored by delta sensitivities of market values of the portfolio against commodity price movements for individual commodities.

The Strategic Risk Management Unit uses other sophisticated procedures to assess the value and risks of structured products, whose explicit valuation is not possible. The Monte Carlo method is most frequently used to simulate the probability distribution for the price and future development of complex transactions, including price sensitivities to changes in market factors.

The Value at Risk (VaR) method is used to measure aggregated trading and banking book market risk of the Bank. VaR values are calculated with a confidence level of 99% for the holding period of one trading day. The calculation is performed using a historical simulation method based on historical data over the most recent 520 trading days. Under conditions of normal loss distribution, VaR is also determined for a holding period of one month or one year and for higher probability levels (99.9%, 99.98%). The group's Market Risk System (MRS) is used to calculate VaR. VaR limits are determined for individual trading desks or portfolios. The VaR method is augmented with back testing (both hypothetical and real), which is designed to verify model correctness. Based on the Czech National Bank approval, the market VaR method is also used to calculate the capital requirement for foreign currency risk, general interest-rate risk, general and specific equity risk and risk associated with trading book option transactions. This method is additionally used to calculate Economic Capital for trading book and banking book market risks. VaR calculations are also used when assessing risks associated with the asset portfolios of funds of Erste Asset Management GmbH, Czech Republic branch, ČS – penzijní společnost and Energie ČS and when assessing market risks in the banking book of Stavební spořitelna České spořitelny using special models to represent the Bank's financial position.

As a complement to the VaR method, Česká spořitelna performs stress testing, which is described in more detail in a separate section. The Strategic Risk Management Unit monitors banking book investments in bonds using a system of indicators assessing the quality of security issuer, country of origin and performance of the respective economic sector. If these indicators significantly worsen, each investment is individually re-assessed from the perspective of its future development, potential sale or continued holding.

Information on the Bank's exposure to market risks and on compliance with the established limits is reported on a daily basis to the Bank's responsible managers and on a monthly basis to the members of the Board of Directors via the Asset and Liability Management Committee and Risk Management Committee of the Chief Risk Officer.

Interest Rate Risk

The Bank's Board of Directors and Asset and Liability Management Committee are responsible for decisions concerning banking book interest-rate risk exposure levels. The Strategic Risk Management Unit is responsible for monitoring banking book interest-rate risk. The Financial Group Balance Sheet Management Unit is responsible for managing banking book interest-rate risk and modelling non-contractual behaviour of products. The models are independently verified by a validation team in the Strategic Risk Management Unit.

Interest-rate risk management methods capture all relevant risks, i.e. revaluation risk, yield-curve risk, underlying risk and option risk.

Česká spořitelna uses the following tools to monitor and manage banking book interest-rate risk:

- Simulation of the sensitivity of net interest income to changes in market interest rates (parallel / nonparallel discrete shift in market yield curve). The key interest rate sensitivity parameter is the relative change in the expected net interest income of the Bank with the immediate parallel decline / increase in market interest rates by ± 200 basis points over the next 12 months, assuming a stable balance structure (i.e. product structure of assets and liabilities). This analysis is supplemented by other analyses based on alternative market interest rate development scenarios, different time horizons and alternative assumptions of dynamic balance sheet structure development;
- Simulation of changes in the economic value of the banking book by moving the market yield curve by ± 200 basis points or the actual level of interest rate changes calculated using the 1st and 99th percentile of recorded changes in daily interest rates over five years. For these purposes, the Bank monitors the limit based on the maximum allowed ratio of the impact of this shift on the economic value related to the Bank's capital;
- Simulation of changes in banking book market value given various market yield curve development scenarios. These scenarios reflect parallel and nonparallel shifts in yield curves;
- Value at Risk calculation for a holding period of one month and probability level of 99%.

The Bank's current interest-rate risk exposure is assessed monthly by the Asset and Liability Management Committee within the context of overall development of the financial markets, the Czech banking sector and the structural changes in the Bank's financial position.

Banking Book Management

Česká spořitelna manages and optimizes the individual risks of the banking book using the internal price system as well as the investment and derivative portfolio used for hedging purposes. Investments in the banking book in the form of balance sheet or

off-balance sheet items are defined by the framework investment policy and strategy approved by the relevant decision-making body. The strategy is submitted at least once a year and revised as part of the planning calendar. All transactions in the banking book in 2017 were in line with the approved investment strategy and Česká spořitelna's policy.

Liquidity Risk

Liquidity risk is defined as the risk that the Bank loses the ability to meet its financial obligations at the time they become due or will not be able to fund its assets. Liquidity is monitored and managed on the basis of expected cash flows and, in this context, the structure of the financial position is adjusted.

The Survival Period Analysis ("SPA") is one of the key tools in liquidity management. This indicator measures how long an entity may survive under various predefined crisis scenarios from a liquidity risk perspective. These scenarios include the ordinary course of business ("OCB"), moderate identity crisis ("MIC"), serious identity crisis ("SIC"), moderate market crisis ("MMC"), serious market crisis ("SMC"), combined moderate identity and market crisis (MCIM) and combined serious identity and market crisis ("SCIM"). The actual survival period is assessed weekly. Regulatory bodies recommend the survival period of 1 month for a SCIM crisis; in 2017, Česká spořitelna's survival period exceeded half a year with an internal limit set at three months.

Česká spořitelna monitors and assesses two regulatory ratios to measure liquidity risk introduced by Regulation of the European Parliament and of the Council No. 575/2013 ("CRD IV") every month: the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). Since September 2015, the Bank has additionally monitored and assessed adjusted LCR pursuant to European Commission Regulation no. 2015/61 (The LCR Delegated Act). The LCR measures bank's resistance to a sudden stress event on its liquidity position, specifically whether the bank is able to survive for at least 30 days in the event of a liquidity crisis. The indicator is defined as the ratio of highly liquid assets to total projected net cash outflows over a 30-day period under stress conditions. The minimum ratio should always be higher than 100%.

The NSFR supports liquidity resistance in a long-term horizon in order to ensure that non-current receivables are financed by non-current funds. The standard requires a minimum amount of funding that is expected to be stable over a one-year time horizon. The NSFR is defined as a share of the amount of longer-term, stable sources of funding employed by an institution (equity and a portion of long-term funds stable over a one-year horizon under stress conditions) on the volume of required stable funding (assets convertible into cash in a period exceeding one year). NSFR should always be higher than 100%. Due to the comfortable liquidity situation (high volume of liquid assets combined with financing in the retail market), Česká spořitelna meets the long-term liquidity indicators with a considerable margin.

Short-term liquidity management and solvency assurance are based not only within the cash flow perspective of several days ahead but also on the basis of intraday cash flow monitoring.

Česká spořitelna requires a buffer of highly liquid assets (an intraday liquidity buffer) for operational liquidity management. The limit for the minimum volume of highly liquid assets is regularly assessed based on transactions on Česká spořitelna´s accounts at the ČNB. The buffer is designed to guarantee sufficient liquidity to ensure intraday coverage of outstanding interbank transactions in a crisis situation.

Česká spořitelna uses a system of early warning indicators for the timely detection of forthcoming crises. These indicators serve for a timely detection of market and idiosyncratic liquidity crises and their combination. Where a crisis is detected, the Bank proceeds in compliance with its liquidity crisis emergency plan.

Operational Risks

Česká spořitelna defines operational risks in accordance with ČNB Regulation No. 163/2014 on the activity of banks, credit unions and investment firms as the risk of loss arising from the inadequacy or failure of internal processes, human error, system failure or the risk of loss resulting from external events including legal risk. Bank's management is regularly informed of operational risk developments and its magnitude.

Česká spořitelna uses a Book of Risks developed by the Risk Management and Internal Audit units as a tool to standardise the identification of risks for the needs of the entire ČS Financial Group and to standardise risk categorisation with the aim of achieving consistency in risk monitoring and assessment.

The ČNB approved the use of advanced measurement approaches (AMA) for the management of operational risk and calculation of the capital requirement for operational risk effective from 1 July 2009. This concept was approved at the level of Erste Group Bank and applies for all group entities using advanced measurement approaches for operational risk. The Bank continues developing this approach with an emphasis on strengthening the internal control system to actively prevent significant losses due to operational risk. In 2011, the Bank successfully modified and approved a model for calculating regulatory minimum capital requirements that newly reflects the impact of insurance. The ČNB also approved the use of AMA by Stavební spořitelna České spořitelny.

The Bank has been using the EMUS software application to collect data on operational risk since 2002. Data are collected for the purpose of quantifying operational risks and calculating the capital requirement, but also for qualitative management, i.e. to prevent the further incidence of operational risks and simplify processes for recording events in which the Bank has suffered damage, including insurance claims. The collection and evaluation of data on inappropriate conduct of the Bank's clients and the risk of

human failure (inappropriate employee conduct) in the credit and non-credit areas is key from the perspective of loss prevention.

To assess and manage operational risks, Česká spořitelna does not rely solely on data obtained from actual operational risk incidents. Expert opinions of management regarding risks in the areas for which they are responsible represent another valuable resource. These risk assessments and expert risk scenario evaluations are gathered on a regular basis and the data are aggregated into a risk map and rendered in a standardised form for Erste Group Bank. Risk scenario estimates are applied to calculations of the capital requirement for operational risk pursuant to Basel II principles. An important tool for mitigating losses arising from operational risks is the insurance program that Česká spořitelna has used since 2002. The program involves not only insurance of property damage, but also of risks arising from banking activities and liability risks. Česká spořitelna has participated in the Erste Group Bank joint insurance program since 1 March 2004, which has greatly expanded the Bank's insurance coverage, in particular for damage that may have a material impact on Česká spořitelna's profit or loss. To manage business continuity, Česká spořitelna has introduced a methodology and procedures based on internationally recognised standards and best practice. The Bank systematically analyses key processes and threats with respect to the risk of process failure, including an evaluation of the efficiency of adopted measures and testing of existing emergency plans. Česká spořitelna also participates in the activities of the Financial Markets Critical Infrastructure Committee ("CIFM") that involves key banks and is overseen by the ČNB.

Careful attention is given to fraud prevention as a specific category of operational risk. The Bank focuses on the prevention of external client or third-party fraud as well as the risk of internal fraud. All cases (zero tolerance for fraud) are subject to detailed investigation followed by individual measures and system changes in the Bank's IT and business processes.

The Bank has a system in place to manage risks associated with outsourcing and has implemented a group policy that complies with regulatory requirements (in particular, ČNB Regulation No. 163/2014). Risk analysis is regularly performed and updated for material activities; a general outsourcing activity assessment is reported to the Bank's Board of Directors on an annual basis.

Stress Testing

Česká spořitelna greatly expanded its stress testing of risk factors in 2009 based on its experience with the crisis of 2008–2009 and regulatory requirements.

Market risk associated with the trading book and the part of the banking book measured at market prices is subject to monthly stress testing. Scenarios are primarily based on historical events and stress scenario results are compared to the capital requirement for market risk.

Additionally, Comprehensive Stress Testing Report (i.e. a summary of all risk exposures) is submitted to the Bank´s Board of Directors on a quarterly basis. The report quantifies the impacts of a negative scenario for individual risks derived from the economic crisis in Europe and the U. S. in the 1930s.

The report includes a summary of stress tests for market risk (separately for mark-to-market positions and for impacts of tests on the Bank's net interest income), the risk of widened credit spreads, credit risk, operational risk, business risk, concentration risk and liquidity risk. The aggregate impact of the Comprehensive Stress Test is reflected in the Bank's resultant capital adequacy in compliance with Pillar 1 and Pillar 2. In addition, scenarios are created in the context of reverse stress testing, the impacts of which would jeopardize the viability of the entire bank, for example, extraordinary movements in the yield curve, the slump of the economy leading to a significantly reduced possibility to repay loans, extreme operational risk events, or a bank run associated with deteriorated opportunities to get liquidity on the market that are part of the Recovery plan.

Capital Management

Regarding the internal capital adequacy assessment process ("ICAAP"), Česká spořitelna uses the Erste Group Bank methodology (updated on an ongoing basis) to reflect current trends, recognised standards and regulatory requirements. The approach taken by Česká spořitelna reflects local differences required by local regulatory requirements or other specifics, which leads to slight deviations from the Group approach at a local level.

All significant risks are quantified and covered by internal capital within ICAAP. Economic capital is calculated for a one-year period with a confidence level of 99.9%. Market, operational and liquidity risks are quantified using the complex advanced approaches based on VaR methodology. Credit risk is calculated using the risk-weighted assets method with the IRB approach. Česká spořitelna has also developed models for other risks (business, strategic, reputation and concentration risk). The overall risk of the group is the sum of the individual risks, i.e. the diversification effect is not used due to the preference of a more conservative approach. Total risk is then compared to capital funds derived from the regulatory capital, whereas the main adjustment is the reflection of the current year result.

Česká spořitelna performs stress testing to provide additional information for an internal assessment of its capital adequacy. The resulting economic capital is allocated to the Bank's business lines in order to calculate their risk-adjusted performance. The Česká spořitelna ICAAP results are submitted quarterly to the Board of Directors, which then decides on any steps to be taken in respect of ICAAP and, generally, of risk and capital management.

The Bank has implemented new procedures comprising a Recovery Plan in consideration of new regulatory requirements to be prepared for unexpected adverse market developments and, where the situation requires to do so, to adopt sufficient timely measures. In addition

to the foregoing stress scenarios, the Recovery Plan includes indicators to initiate these procedures, a list of suitable measures to ensure a return to the pre-crisis period, a description of general Bank governance and strategy that incorporates a list of critical functions and other regulatory requirements in this area. In 2017, the Recovery Plan was updated within its regular annual review, approved by the Board of Directors and accepted by the supervisor.

Erste Group Bank, Česká spořitelna included, pays sufficient attention to ICAAP with the aim of gradually improving the system for managing the Group's risk profile and capital adequacy, while taking future development into account. The Bank continues to refine its inclusion of new regulatory requirements when modelling the development of capital needs and funds.

The Bank manages its capital with the aim to support business activities, comply with all applicable regulatory requirements and ensure a stable return for shareholders.

In December 2015, Česká spořitelna established an independent Strategic Capital Management Unit tasked with managing and planning the Bank's capital position, implementing new regulatory requirements for the Bank's capital and crisis management.

Capital Adequacy

The unconsolidated capital adequacy of Česká spořitelna continues to highly exceed the level required by the ČNB when reflecting all capital buffers in Pillar 1. Based on the ČNB calculation, Česká spořitelna was assessed as a systemically important bank and thus has to hold additional capital in the amount of 3% above the basic requirement and the other applicable regulatory capital reserves.

Capital Adequacy*

2017	2016	2015	2014	2013
18,61 %	20.07 %	21.70 %	18.82 %	17.73 %

*data per ČNB methodology

Information on Capital and Ratio Indicators Pursuant to Annex No. 14 of Regulation No. 163/2014 Coll.

The following table shows capital for the Bank's capital adequacy calculation on a stand-alone basis, as reported to the regulator pursuant to the valid regulations.

Data on Capital and Capital Requirements

a) pursuant to Article 437(1)(a) of EU Regulation No. 575/2013

In CZK thousand	standalone data 31.12.2017	standalone data 31.12.2016
Capital	99,696,117	97,217,473
Tier 1 (T1) Capital	96,459,940	94,202,899
Common Equity Tier 1 (CET1) Capital	88,353,076	86,096,035
Instruments usable for CET1 Capital	14,080,567	14,080,567
Paid up CET1 instruments	14,078,879	14,078,879
Share premium	1,688	1,688
Retained earnings from previous periods	80,247,775	75,978,049
Accumulated other comprehensive income (OCI)	(317,329)	2,873,264
Other reserve funds	–	–
CET1 Capital adjustments for prudential filters	1,384,889	(841,508)
Reserve fund for cash flow hedges	1,919,699	(293,273)
Accumulated profit / loss from changes in fair value of liabilities in the event of a change in credit risk	(2,576)	(3,159)
Fair value of profit / loss from own credit risk related to derivative liabilities	(33,919)	(197,963)
(-) Value adjustments per requirements for prudential valuation	(498,315)	(347,113)
(-) Other intangible assets – gross value	(4,481,737)	(3,993,596)
Deferred tax liabilities associated with other intangible assets	–	187,372
(-) Lack of coverage of expected loss by credit risk adjustments under IRB approach	(2,561,089)	(2,188,112)
Other temporary adjustments of CET1 Capital	–	–
Other CET1 Capital instruments and other CET1 Capital deductions	–	–
Additional Tier 1 (AT1) Capital	8,106,864	8,106,864
Paid AT1 instruments	8,106,864	8,106,864
Tier 2 (T2) Capital	3,236,177	3,014,574
Excess coverage of expected losses under IRB approach	2,115,056	1,893,452

b) pursuant to article 438(c) through (f) of EU Regulation No. 575/2013

In CZK thousand		standalone data 31. 12. 2017	standalone data 31. 12. 2016
Risk-weighted exposure cases specified in Article 112 of Regulation (EU) No. 2013/575	Exposures to central governments or central banks	250,105	176,811
	Exposures to regional governments or local authorities	1,417	1,844
	Exposures to public sector entities	973	1,080
	Exposures to institutions	2,338,634	2,082,498
	Exposure to corporates	19,264,848	17,873,033
	Retail exposure	11,159,309	10,122,836
	Exposures in default	–	–
	Exposures in the form of units or shares of collective investment undertakings	527	1,356
	Equity exposures	1,879,384	1,445,435
	Other items	1,172,772	1,214,654
Own funds requirements calculated in accordance with points (b) and (c) of Article 92(3) of Regulation (EU) 2013/575	for position risk	773,601	668,883
	for commodity risk	–	–
Own funds requirements calculated in accordance with Regulation (EU) 575/2013 Part III, Chapters 2,3 and 4 and disclosed separately	Own funds requirements calculated in accordance with Part III, Chapter 4 of Regulation (EU) 2013/575	6,024,683	5,157,112

Capital Indicators

In %	standalone data 31. 12. 2017	standalone data 31. 12. 2016
Tier 1 common capital ratio	16.49	17.78
Tier 1 capital ratio	18.00	19.45
Total capital ratio	18.61	20.07

Ratio Indicators [14]

In CZK thousand	standalone data 31. 12. 2017	standalone data 31. 12. 2016
Return on average assets (ROAA) (in %)	1.22	1.76
Return on average equity Tier 1 (ROAE) (in %)	15.94	22.28
Assets per employee	129,620	107,687
Administrative expenses per employee	1,535	1,602
Net profit or loss per employee	1,539	1,564

(14) Definitions of below mentioned alternative performance indicators are stated in the chapter Definitions of Alternative Performance Indicators, on the page 264

Other Information for Shareholders

pursuant in particular to § 118 of Act No. 256/2004 Coll. on capital market understandings, par. 4, letters b) through l) and par. 5 letters a) through k)

Česká spořitelna, a.s., with its registered office at Prague 4, Olbrachtova 1929/62, 140 00, Company ID 45244782, is the legal successor of the Czech State Savings Bank and was registered as a joint stock company in the Czech Republic on 30 December 1991 in the Commercial Register maintained by the Municipal Court in Prague, Section B, Entry No. 1171.

§ 118, par. 4, letter d) and par. 5, letters a) through e)

The structure of the consolidated and individual equity of Česká spořitelna is presented in the consolidated and separate annual financial statements on page, 71 and 164 of the Annual Report, respectively.

Shares of Česká spořitelna, a.s.

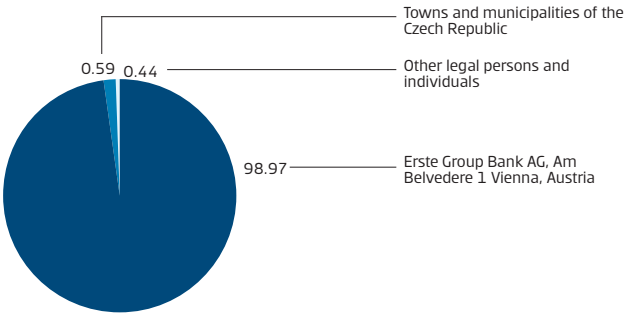
- **Class:** Ordinary and preference shares
- **Type:** 140,788,787 ordinary bearer shares, i.e. 92.62 % of share capital
- 11,211,213 preference shares, i.e. 7.38 % of share capital
- **Form:** Dematerialized
- **Number of shares:** 152,000,000 pcs
- **Total volume of issue:** CZK 15,200,000,000
- **Nominal value per share:** CZK 100
- **Share marketability:** Shares are not traded on any public market

The transferability of preference shares is restricted to towns and municipalities of the Czech Republic; transfers of preference shares to other entities are subject to approval of Česká spořitelna's Board of Directors. A preferential right to receive dividends is attached to preference shares. Holders of preference shares are entitled to preference dividends every year provided that the General Meeting adopts a decision to distribute profit, even if other shareholders are not paid dividends in the given year based on the General Meeting's decision. There is no right to vote at General Meetings attached to the Company's preference shares. Holders of preference shares have all the other rights attached to ordinary shares. Additional information on shareholders' rights is presented in the Česká spořitelna, a.s., Declaration on the Compliance of its Governance with the Code based on OECD Principles (see page 55 of the Annual Report).

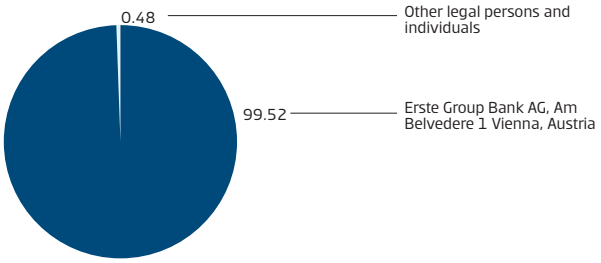
§ 118, par. 5, letters g) and h)

The appointment and recall of Board of Directors' members is the responsibility of the Supervisory Board. Board of Directors members are appointed and recalled by acclamation (a show of hands) at Supervisory Board meetings; in this case, any agreement to take a vote in writing or via remote means of communication outside of the Supervisory Board meeting is unacceptable. The Supervisory Board has achieved a quorum if an absolute majority of its members is present. The Supervisory Board decides by resolution; adopting a resolution requires a majority vote of the Supervisory Board's members. When votes are equal, the Chairman´s vote is decisive. The General Meeting decides on any

Česká spořitelna´s shareholders structure as at 31 December 2017
Share in share capital



Česká spořitelna´s shareholders structure as at 31 December 2017
Share in voting rights



changes to the Company's Statutes in compliance with the relevant provisions of Act No. 90/2012 Coll., on business corporations.

The Board of Directors is the statutory body that manages the activities of Česká spořitelna and acts on its behalf. The standard powers and responsibilities are set out in Article 13 of the Česká spořitelna Statutes. Members of the Board of Directors have no special powers in the meaning of par. 5, letter h).

§ 118, par. 5, letter i)

Česká spořitelna has executed ISDA Master Agreements, which include the condition that if the ownership of either party changes, the other party shall have the right to terminate the agreement. The foregoing applies to agreements entered into with these counterparties: BNP Paribas, Paris; CALYON, Paris; ING Bank, Amsterdam; JP Morgan Chase Bank, New York; Morgan Stanley & Co. (International) and UBS, London.

Information arising from § 118 of Act No. 256/2004 Coll, on Capital Market Undertakings, par. 4, letters b), c), e), j) and l), is included in the Česká spořitelna, a.s., Declaration on the Compliance of its Governance with the Code based on OECD Principles (see page 55 of the Annual Report).

Česká spořitelna has entered into no contracts, agreements or programmes in the meaning of § 118 of Act No. 256/2004 Coll, on Capital Market Undertakings, par. 5, letters f), j), and k).

Controlling Entity

Erste Group Bank AG is the controlling entity of Česká spořitelna, a.s. Measures designed to prevent the controlling entity from misusing its control primarily include

- a ban on the misuse of a voting majority in a company,
- a ban on the abuse of a controlling entity's influence by forcing the adoption of a measure or execution of a contract that could cause damage to the property of a controlled entity, unless such damage is compensated by the end of the fiscal period in which the damage was incurred, at the latest, or a contract is signed stipulating a reasonable period and method for the compensation to be paid by the controlling entity,
- an obligation on the part of the Company to prepare a Report on Relations between Connected Parties (see page 244 of the Annual Report),
- an obligation of the controlling entity to pay damages to the controlled entity, and
- guarantees provided by members of the statutory body of the controlling entity and controlled entity.

Česká spořitelna is a universal bank and is not dependent on other Česká spořitelna Financial Group or Erste Group Bank entities.

Information on the Acquisition of Own Shares and Erste Group Bank Shares

In 2017, Česká spořitelna neither traded nor held any own shares. It acted as a market maker in respect of the shares of its controlling entity, Erste Group Bank AG, on the Prague Stock Exchange. For this purpose, Česká spořitelna purchased 1,121 thousand shares under standard market conditions at an aggregate purchase price of CZK 941 million and sold 1,121 thousand shares at an aggregate selling price of CZK 940 million. In 2017, the minimum price for the purchase and sale of one share was CZK 745.40 and CZK 744.30, respectively, and the maximum price for the purchase and sale of one share was CZK 967.50 and CZK 967.50, respectively. Neither at the beginning nor at the end of 2017 did Česká spořitelna hold any shares. The average nominal value of one share of Erste Group Bank was EUR 2 at the end of 2017.

Information on the Guarantee Fund Contribution

Guarantee Fund: safeguards the guarantee system from which compensation is paid to clients of securities traders unable to meet their client obligations. The calculation base for the Česká spořitelna Guarantee Fund contribution for 2017 was CZK 878.4 million. The contribution itself amounted to CZK 17.57 million.

Information on Research and Development Activities

Česká spořitelna is a leading financial services provider in the Czech Republic. Its extensive portfolio of services and efforts to maintain their high quality are commensurate with the emphasis Česká spořitelna places on security when it comes to service reliability and the protection of the personal information of clients, the secure use of internet banking, payment card security and the reliability and proper functioning of information systems. Česká spořitelna conducts in-house research and development, in particular of proprietary software, i.e. architecture design, development of ancillary tools (frameworks) and their implementation and integration. Česká spořitelna also develops mathematical, statistical and other empirical models designed to model risks, i.e. creating risk management systems, the prevention and automated detection of fraud, and research and development of empirical models designed to model retail market conditions. Česká spořitelna incurred research and development costs of CZK 50 million in 2017.

Supplementary Information on Debt Securities

Debt securities ISIN CZ0002001191, CZ0002001407 and CZ0002001415 have been traded on the regulated market of the Prague Stock Exchange since its issue date. No other securities are traded on any regulated market. Issued debt securities are summarised in the separate financial statements. The debt securities have not been assigned any rating. Credit ratings are assigned to Česká spořitelna by the renowned credit rating agencies Fitch, Moody's and Standard & Poor's. All three credit rating agencies were registered in compliance with Commission Regulation (EC) No. 1060/2009 on credit rating agencies, amended by Commission Regulation (EC) No. 462/2013 (The Regulation on Credit Rating Agencies). Česká spořitelna complied with the duty stipulated in Art. 8d of the above Regulation. The market share of each of the above credit rating agencies calculated in compliance with Commission Regulation (EC) No. 1060/2009 exceeds 10% of the European Union market.

Fees Invoiced by the Audit Company PricewaterhouseCoopers Audit s.r.o. in 2017

§ 118, par. 4 letter k)

CZK million	Audit services	Other assurance services	Other services	Total
Česká spořitelna	13	5	1	19
Other consolidated companies	6	0	0	6
Total	**19**	**5**	**1**	**25**

Services in Addition to the Statutory Audit Provided by Statutory Auditor During 2017

Company	Recipient of the service	Service description	Price without VAT (in CZK)
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Review of consolidated package of Erste Group Bank AG as at 30 June 2017 as per requirements of the Group auditor of Erste Group Bank AG	4,082,000
PricewaterhouseCoopers Česká republika, s.r.o.	Česká spořitelna, a.s.	Assessment of IT Security processes	749,640
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Review of separate and consolidated interim financial statement as at 30 June 2017 and 31 December 2017 prepared in accordance with basis of preparation defined by Česká spořitelna, a.s. for Czech regulatory purposes	144,000
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Agreed-upon-procedures on fee calculation for loan guarantee received from European Investment Bank for first and second half of 2017	95,000
PricewaterhouseCoopers Audit, s.r.o.	Česká spořitelna, a.s.	Auditor's confirmations for insolvency proceedings	76,000
PriceWaterhouseCoopers Legal, s. r. o., advokátní kancelář	Česká spořitelna, a.s.	Training and conferences	70,000
PricewaterhouseCoopers Česká republika, s.r.o.	Česká spořitelna, a.s.	Training and conferences	55,635
PricewaterhouseCoopers Česká republika, s.r.o.	Energie ČS, a.s.	Support during preparation of business model for trading of guarantees of origin from renewable sources of energy	155,000
PricewaterhouseCoopers Česká republika, s.r.o.	Energie ČS, a.s.	Marketing support	126,000
Total			**5,553,275**

Principles of Executive Management and Supervisory Board Member Remuneration

§ 118, par. 4, letters f), g), h), i)

Bonus Pool of Česká spořitelna

The overall bonus pool is created by the Bank and takes into account the financial results. The bonus is a variable compensation benefit paid pursuant to the fulfilment of all established conditions. The total size of the bonus pool is derived from the Bank's performance in a respective year. Payment of the annual bonus is contingent on achieving the minimum target value of established indicators for the respective year (net profit of the Česká spořitelna's Financial Group, capital adequacy, meeting target liquidity indicators and fulfilling the Bank's strategic objectives). The bonus pool is created with regard to a combination of all four criteria and is adjusted by the probability of generating profit in the next three-year period.

The initial value of the Česká spořitelna bonus pool is calculated as the sum of the bonus potential of individual positions. Each position is assigned an additional bonus potential in the range of 15–100% of fixed (annual) salary, based on its classification in the job list (taking into account its importance and worth for the Bank). The total amount of the bonus fund is adjusted at the end of the year, if performance indicators are met, using so-called bonus multipliers, whose value (%) is based on the rate of implementation of strategic business and financial indicators, i.e. the comparison of their results with the planned values. Business and financial indicators for 2017 were operating revenues of the Česká spořitelna Finance Group (FSČS) reduced by risk costs, share of FSČS operating expenses on revenues, market share in the area of retail loans, market share of retail assets under management and operating income of the corporate segment.

Executive Managers

At Česká spořitelna, executive management comprises the Chairman, Vice-Chairman and other members of the Board of Directors (henceforth the "Board of Directors"), who form a collective statutory body. The Board of Directors is the legal statutory body managing Company operations. Chairman, Vice-Chairman

and the members of the Česká spořitelna's Board of Directors perform their duties with due diligence and professional care and act in good faith and in the best interests of the Company and its shareholders. They are skilled in managing large corporations and have international experience and the ability to work in a team. Their position calls for the ongoing development of their industry knowledge and corporate governance skills, a proactive approach to the fulfilment of their duties, the ability to participate in developing corporate strategy and, no less importantly, loyalty to the Company. Members of the Board of Directors adhere to high ethical standards and are responsible for ensuring that the Company complies with enacted laws. They are personally liable for damages arising from a breach of legal obligations and, in their capacity as Board of Directors members, are responsible to the Company's shareholders.

Detailed professional biographies of the members of the Board of Directors attesting to their qualifications, professional abilities and practical experience are published on page 10 of the Annual Report.

Compensation of Executive Managers

Board of Directors members are remunerated based on a Contract for Performance of the Duties of a Board of Directors Member concluded in accordance with the valid provisions of the Act No. 90/2012 Coll., on business companies and cooperatives (the "Business Corporations Act"). Individual Contracts for the Performance of the Duties of a Board of Directors Member and amounts of compensation of Board of Directors members are, like the compensation policy, approved by the Česká spořitelna Supervisory Board.

The total income of a member of the Board of Directors for a respective year represents basic income, variable income and benefits / benefits in kind.

Based on management and professional expertise and contribution to the Company, the Board of Directors members are, as a group, entitled to: [15]

- monetary remuneration for the statutory body membership in the amount of CZK 46.179 million,
- bonuses for management of a given division (cash part) in the amount of CZK 14.586 million,
- bonuses for management of a given division (non-cash part – certificates) in the amount of CZK 4.246 million,
- benefits-kind for board membership in the amount of CZK 2.597 million.

All of the above-mentioned income is paid by Česká spořitelna; Board of Directors members receive no income from companies controlled by Česká spořitelna.

Neither Board of Directors members nor their immediate family members held any shares or purchase options for shares of Česká spořitelna under the ESOP programme.

Variable Compensation of Executive Managers

The variable component of the bonus is calculated as the basic income multiplied by the bonus potential (100%) multiplied by the bonus multiplier, in which the value of the bonus multiplier is determined by the section Business (performance indicators, total weight 75%) and Leadership (25%). The annual variable remuneration of the Board of Directors members for their executive management roles represents, generally, less than 4% of the total variable remuneration of Česká spořitelna.

Performance criteria for particular Board of Directors members are set for each calendar year and are approved and subsequently assessed by the Supervisory Board, including the determination of the expected/ target value of each indicator and its relative weight carried among the performance criteria and applied for the calculation of a Board of Directors member's annual bonus, if any. Board of Directors members may receive an annual bonus up to 100% of their annual base salary. The setting of the objectives for the Company Board of Directors always reflects the respective regulatory requirements, with which the resulting structure of these objectives shall be compatible. Financial performance criteria are adjusted for associated current and future risks and costs.

Assessment of the Board of Directors members takes place after the calendar year-end and is carried out by the Top Executive Appraisal Committee (TEAC). TEAC is a committee of the Group represented by Board members from the Group and assesses fulfilment of key performance indicators (KPI) for each Board of Directors member; the overall evaluation comprises a summary of attained results in the area within the responsibility of each Board of Directors member, i. e. financial, non-financial, strategic, operational and managerial results. The TEAC evaluation is based on assessed indicators from the controlling and strategy units, the self-assessment of every member and a qualitative evaluation prepared by the Board of Directors Chairman from the perspective of both KPI fulfilment for the elapsed year and future potential. Results of TEAC committee are then considered by Remuneration Committee. The Supervisory Board decides on the bonuses of the Board of Directors members based on TEAC outputs. More details on Remuneration Committee can be found in following parts of the chapter Principles of Executive Management and Supervisory Board Member Remuneration.

During 2017, the following key performance indicators were set and evaluated by the Supervisory Board (section "Business" – weight of 75% in overall rating):

- Chairman of the Board of Directors: Performance Related Targets – Operating Result After Risk Costs, Economic Value Added, and Strategic Targets – Implementation of the Long-term Strategy, Implementation of the Data Management Project, Implementation of the My Healthy Finances Concept and building of the Bank's fans, and Execution of an Efficiency Program by Improving the Capacity Management Capabilities of All Management Levels in ČS;

- Vice-Chairman of the Board of Directors responsible for Financial Management: Performance Related Targets – Operating Result After Risk Costs, Economic Value Added, and Strategic Targets – Implementation of the Data Management Project, Ensuring Financial Regulatory Requirements, Execution of an Efficiency Program by Improving the Capacity Management Capabilities of All Management Levels in ČS, and Cost Effectiveness;
- Member of the Board of Directors responsible for Retail: Targets for the Performance of the Respective Business Line – Operating Result After Risk Costs, Economic Value Added, and Strategic Targets – Implementation of Digital Transformation and Retail IT Projects, Implementation of the Data Management Project, Implementation of the My Healthy Finances Concept and building of the Bank's fans, and Improving client experience;
- Member of the Board of Directors responsible for Corporate: Targets for the Performance of the Respective Business Line – Operating Result After Risk Costs, Economic Value Added, and Strategic Targets – Implementation of the SME Strategy, Implementation of the Data Management Project, Improvement of the Corporate Lending Process, Execution of an Efficiency Program by Improving the Capacity Management Capabilities of All Management Levels in ČS, and Improvement of client experience;
- Member of the Board of Directors responsible for Operations and IT: Performance Related Targets – Operating Result After Risk Costs, Economic Value Added, and Strategic Targets – Implementation of IT Strategy and Consolidation, Implementation of Strategic IT Projects, Streamlining of ČS Operation, and Execution of an Efficiency Program by Improving the Capacity Management Capabilities of All Management Levels in ČS;
- Member of the Board of Directors responsible for Risk Management: Ratio of Non-Performing Loans to Total Loans, Risk Costs in Relation to the Total Loan Book, Implementation of the Data Management Project, Support of Business Lines to Improve the Loan Approval Process, Execution of an Efficiency Program by Improving the Capacity Management Capabilities of All Management Levels in ČS, and Improving client experience.

Each of the above indicators had a set target value to be achieved during 2017 and the weight in the overall "Business" ranking.

Achieved management results, quality assessment made by the Chairman of Board of Directors and the assessment of potential for the future are part of the "Leadership" criterion with a 25% weight in the overall assessment.

Deferring Variable Compensation and Payment Method

In granting the variable remuneration components to Board of Directors members (when the annual amount of this variable remuneration is at least CZK 1.6 million), an amount of 40% of the variable component is deferred. This deferral period is three years. The variable component is then granted in accordance with the following scheme: 60% being the non-deferred amount + 13.33% in the first deferment year + 13.33% in the second deferment year + 13.34% in the third deferment year. If the amount of the variable component exceeds CZK 4 million, the ratio of 40% non-deferred and 60% deferred portion (20% first year deferral + 20% second deferral + 20% third deferral) applies. Half of the non-deferred and deferred variable remuneration is awarded in the form of Compensation Certificates.

Česká spořitelna uses a Compensation Certificate (Certificate) having the nature of other instrument pursuant to Article 4 of Regulation (EU) No. 527/2014 as a non-cash payment alternative. Through the Certificate, the part of the bonus which is recognised in non-cash remuneration instruments is paid. The nominal value of the Certificate is CZK 1. Certificates mature in one and half years in the case of an awarded bonus without deferral and one year in the case of the deferred portion of the bonus. The value of the Certificate at the payment date is determined based on its current price. Payment is effected at the maturity date based on the current price and number of held Certificates contingent on the fulfilment of certain requirements. Česká spořitelna has the right not to redeem Certificates in the event of an adverse financial situation or insolvency. The price of one Certificate is determined for every half-year based on the attainment of stipulated CET1 capital adequacy and liquidity indicator values. No Board of Directors member may redeem awarded non-cash compensation instruments during the deferral period.

The variable remuneration components or any part thereof are only granted where feasible given the overall financial position of Česká spořitelna and where justified by the performance of the respective unit and job performance of the individual. Otherwise, the entitlement is not awarded or is awarded in a limited scope (malus). The possibility of withdrawing already awarded or paid variable remuneration (clawback) is not applied.

The following rules are applied for ex-post testing of the justification for paying the deferred portion of the variable remuneration:

a) consolidated net profit after tax and minority interests did not achieve negative values (loss);
b) capital adequacy on the consolidated basis exceeds the RAS limit (liquidity and capital adequacy);
c) the person has not been convicted of an offense related to his/her professional activity (e.g. embezzlement);
d) in performing his/her work duties, the person:
   i. did not act fraudulently;
   ii. did not provide misleading information that had, or could have had, an impact on his/her performance evaluation;
   iii. did not act in violation of the internal regulations of Česká spořitelna (e.g. the Conditions of Employment, Code of Ethics, etc.) or breach a statutory obligation, and in no other way acted contrary to the legitimate interests of Česká spořitelna.

If at least one of the conditions from a) to c) is broken, the deferred amount of compensation is not awarded (malus). In the case of d), it is reduced by 0–100% based on the seriousness of the offense or conduct (malus).

Supervisory Board

The Supervisory Board is the Company's controlling body, which oversees the exercise of the Board of Directors' powers in performing the Company's business activities. The Supervisory Board checks, in particular, whether the Board of Directors is performing its duties in compliance with the legislation and the Company statutes and whether the Board of Directors members are acting with due professional care in the interests of the Company. Supervisory Board members perform their duties with due professional care and are required to possess professional skills, maintain allegiance to the Company and observe confidentiality in respect of all confidential information and facts. Supervisory Board members are liable for damages arising from a breach of legal obligations and, in their capacity as members of the Company's Supervisory Board, are responsible to the Company's shareholders.

Supervisory Board members are remunerated in accordance with the relevant provisions of the Business Corporations Act. The General Meeting approves the amount of Supervisory Board members' remuneration.

For their work on the Česká spořitelna Supervisory Board in 2017, Supervisory Board members as a group were entitled to: (15)

- monetary compensation for the Supervisory Board membership in the amount of CZK 4.050 million;
- in-kind benefits in an aggregate amount of CZK 0.017 million,
- Supervisory Board members who are Česká spořitelna employees received monetary employment income in cash an aggregate amount of CZK 2.754 million.

All the foregoing income is paid out by Česká spořitelna; Supervisory Board members receive no income from companies controlled by Česká spořitelna.

The Supervisory Board has established a Compensation Committee (the "Committee") comprising Supervisory Board members (Maximilian Hardegg, John James Stack and Aleš Veverka) and who do not perform any executive function in the Company. In 2017, the Committee met 8 times. In particular, the Compensation Committee is responsible for the preparation of proposals for Supervisory Board decisions pertaining to compensation within the Company, including compensation having an impact on risks and risk management. When preparing these decisions, the Compensation Committee considers the long-term interests of shareholders, investors and other capital market participants. The duties of the Compensation Committee include submitting proposals to the Supervisory Board for Board of Directors member remuneration, overseeing the remuneration of unit directors carrying out internal controls and supervising the basic principles of compensation and their application. The Committee has access to the relevant information from the Supervisory Board, the Board of Directors and internal control units. As part of its activities, it cooperates with HR and other relevant departments of the Bank. The Committee performs compensation-related tasks entrusted to it by the Supervisory Board. The Committee's oversight of key compensation principles and their application focuses on the mechanism for reflecting all risks, liquidity and capital, and on the consistency of the compensation system with the long-term prudent management of Česká spořitelna. Committee members received a fixed fee per meeting and the Committee chair further receives a regular monthly amount.

Affidavit

The undersigned represent that, to the best of their knowledge, the annual report and consolidated annual report provide a true and fair view of the financial position, business activities and financial performance of Česká spořitelna and its consolidation group for the previous financial year and of the outlook for the future development of its financial position, business activities and financial performance.

Prague, 27 March 2018

Tomáš Salomon
Chairman of the Board of Directors

Wolfgang Schopf
Vice-chairman of the Board of Directors

(15) Monetary remuneration arising from the role of Board of Directors member or Supervisory Board member – remuneration for performing a function beyond the executive management of assigned units (i.e. for performing the role of Board of Directors chairman/member);
Bonuses arising from management of a respective division (monetary) – variable remuneration for executive management of assigned units (divisions), monetary portion;
Bonuses arising from management of a respective division (non-cash Certificates) – variable remuneration for executive management of assigned units (divisions), non-cash Certificates that mature into cash;
In-kind income arising from the role of Board of Directors member or Supervisory Board member – company car, expenses connected with business trips and any other in-kind gifts defined in contracts for the performance of duties (approved by the Supervisory Board). Settlement of their payment and withdrawal is based on the regulation of benefits that can be used by bank employees in accordance with the applicable internal regulations. In case of Members of Board of Directors, this applies to:
(i) a company car with a driver; A car without driver services can also be used for private purposes,
(ii) a mobile phone, notebook, tablet or other work tools and tools needed to perform functions; these tools and work tools are used only for working purposes,
(iii) individual health care in a contracted medical facility with an agreed scope; health care can also be provided to family members of Member of Board of Directors,
(iv) Contribution to the supplementary pension insurance in accordance with the internal regulations approved by the Supervisory Board,
(v) Contribution to private life insurance in the amount of the contract concluded by the Company and approved by the Supervisory Board,
(vi) Contribution to cultural and sport activities in the amount of CZK 15,000 per calendar year,
(vii) liability insurance for damage caused in accordance to the performance of the duties of Member of Board of Directors (so-called D & O Insurance) on the terms approved by the Supervisory Board,
(viii) accident insurance under the conditions approved by the Supervisory Board.
For members of the Supervisory Board is only compensation for the costs incurred to participate in the meetings of the Supervisory Board (after approval by the Company's General Meeting).

Česká spořitelna Corporate Social Responsibility

Česká spořitelna Believes in Good Things

In 2017, the Bank launched its new communication concept characterized by the motto: When someone believes in you, you achieve more. Even with this motto, the Bank points to its nearly two-hundred-year old roots and to the fact that it has never been afraid to grant a loan or invest in a completely unknown entrepreneur or project. This dates back to times when savings banks initiated the construction of not only water lines and sewage systems but also retirement homes and schools – the Bank simply supported the steps that led to development of the local community and helped the people in need. And the Bank is following this trend to the present days, because the Bank believes in good things.

Česká spořitelna Leads You to Prosperity.

The Bank has always endeavoured to ensure that the people around are successful. The Bank is behind a number of projects which assist in good management and financial literacy, it supports smart solutions for the environment.

The Bank organizes educational programs for primary and secondary school pupils and college students, helping to improve their financial literacy. Apart from its own projects, it also contributes to the Czech Banking Association (CBA) project "Bankers to Schools".

Money Alphabet

The project which introduces the world of finance and business to elementary school pupils was launched in September 2017 as a follow-up to the successful pilot stage carried out in the spring of the same year. From the beginning of the school year, the fourth- and fifth-grade pupils from 17 schools across 12 regions joined the Money Alphabet project. They gradually applied their knowledge in practice. Within a few weeks, they tried what it is like to have one's own business, to manage and promote it, to create your own products, and finally to offer them to the customers. At the Bank's branch offices, children organized 20 successful fairs. They raised nearly 350 thousand crowns by selling the Christmas goods and sweets. The proceeds will make their dreams come true and – on numerous occasions – help the needy. More at www.abecedapenez.cz

Show Me the Money

The first-grade pupils are offered a multimedia exhibition "Show me the money", which uses interactive and nonviolent methods for teaching them prudent money management. The exhibition the Bank brought to the Czech Republic for the second time is actually a big game. At the beginning, children are given a small (virtual) capital on their savings card. Then, they pass through the exhibition getting to know finances, participate in various work and make money that they can use for leisure time activities, change products, save or donate. The ambassador for the whole project, which the Bank opened in DEPO2015 in Plzeň, was a well-known youtuber KOVY. From October 2017 till the end of the same year, the exhibition was attended by more than 5,000 visitors of which 2,384 were pupils from 171 school classes. It will be held until 18 April 2018 and includes a competition for a stay in Belgium together with KOVY.

The range of the Bank´s activities in financial literacy is wide. In the long run, the Bank supports a board game **Financial Freedom**, which is intended for the eighth grade pupils of primary schools and their teachers. In the course of the game, pupils live their virtual lives for 30 years and learn how to properly manage money. At the same time, the Bank tries to provide the educators and teachers of financial literacy with a unique and proven know-how to apply a simple model for the use of methodological aids to teach students even without the follow-up attendance of external lecturers. In 2017, 66 new schools joined the program. Nearly 4,000 pupils have seen the school by play principle in practice. Clients can obtain valuable information about a responsible attitude to loans thanks to the **Debt Advisory Centre**, whose establishment Bank proposed. Since its founding, the Centre has helped more than 103 thousand people.

Melinda, a Mobile Donor Application

Melinda is a simple and modern way to help those who need help while retaining the control over the donations. The Bank launched the application early 2016 and its clients have used it to support dozens of projects of various nonprofit organizations, with a total contribution of almost CZK 900,000. As a partner, we also participate in **Darujme.cz**, a unique fundraising platform operated by the charity foundation VIA.

Green Bank

The Bank supports smart environmental solutions. It focuses on energy savings, the Internet of things, and recycling. The Bank strives to make its own carbon footprint as low as possible. In 2015 and 2016 the Bank finished in first place in the GEEN Bank competition. Through its Smart City project, the Bank helps cities and companies prepare and finance innovative projects that make cities

a better and more modern place to live, thereby also relieving the load on the environment. More than three quarters of the **electricity** consumed in Česká spořitelna comes from renewable resources. The Bank also focuses on reducing the power consumption in our branch network, and further develop the Energy League project, i.e. a web application on the intranet that provides employees with information on the energy consumed in the buildings the Bank uses, and ranks the individual unit in order of energy consumption. Since 2013, the Bank has used recycled paper.

Developing the Communities

The savings institutions, predecessors of the Bank, understood that promotion of welfare public service goals is an integral part of their social responsibility. The principle of humanity has always been shared by these institutions, they were in fact established on the basis of charity and mutual help. This is another legacy for our presence.

Česká spořitelna Foundation

In 2002, the Bank founded the Česká spořitelna Foundation, which aims at supporting the social entrepreneurship and helping people living on the margins of society. Ten years later, the education-specialized Depositum Bonum Foundation was founded with the funds raised from the non-withdrawn money on the anonymous savings books. In May 2017, both foundations were interlinked at the human resources and managerial levels, having one director, and a single supervisory board and board of trustees. In January 2018, the foundations interconnected even more closely, starting to operate under the auspices of the Česká spořitelna Foundation. That is how it has been created the largest banking foundation in this country. It is ready to invest in the development of the civil society about CZK 60 million per year. In addition to system changes in social entrepreneurship and aid to the needy, the Foundation will also focus on changes in the education system.

At the same time, Foundation has separated two successful foundation projects – Teacher Live and Potion to Schools, which foundation will continue to support.

The total support for helping people on the margins of society since 2002 exceeded in 2017 CZK 250 million. The Foundation has recently contributed mainly to organizations which take care of seniors, intellectually disabled people or focus on the prevention and treatment of drug addiction. In the same areas, the Foundation offered the client and employee grants in 2017 thereby allocating two million crowns among 27 projects of nonprofit organizations across the country. Since 2014, the Česká spořitelna Foundation has annually awarded the Floccus Award to recognise the work and courage of nonprofit organizations and individuals whose activities match the Foundation's mission.

For nonprofit organizations and social enterprises to be financially sustainable, foundation offers development programs to examine their business plan and to teach them how to raise money for their activities. In the 2nd year of the **FRIN Academy**, foundation has taught the organizations to diversify their resources in order not to rely solely on grants and subsidies. 19 organizations have already graduated from this several-month-long academy; this year 20 applicants have enrolled, from which have been chosen 9 to accelerate. In order to keep their business plan sustainable for a long time and to make it stand on solid ground, foundation post two or three acceleration runs per year in the **Impact First programme**. Foundation has already helped start up 35 projects. Foundation also thinks of young people in order to change the world around us for better. To this end, Foundation functions as consulting partners in the **Social Impact Award** contest for student projects with social overlap. This year, the contest have had 41 participants of which we have chosen 10 for the accelerator and awarded 5 of them.

Potion to Schools is a flagship project of the Depositum Bonum Foundation, the aim of which is to support the teaching on not only technical and natural sciences at primary and secondary schools. It helps teachers not only improve the quality of education, primarily physics, but it also creates a community of motivated teachers. It can take advantage of network comprised of 22 regional centres across the country. Since January 2018, it has been working as an independent organization – Potion to Schools, a registered institute.

Teacher Live is 770-hour-long training for prospective teachers. Under the auspices of the Depositum Bonum Foundation and with a team of experts, foundation has based it on the development of personality, quality relationships, role of teacher as a guide and long-term practice in schools. The training course copies a school year, in June 2017 foundation finished the pilot project and in September 2017 are to launch the first regular year. Since January 2018, the project has been working as an independent organization – Teacher Live, a registered institute.

Foundation has been supporting the **Mathematics according to Prof. Hejný** and H-mat, o.p.s. since their inception. For example, foundation has contributed to the training and further development of lecturers who have conducted over 900 seminars, summer schools and conferences. Educational activities have been attended by more than 10,000 participants, mainly teachers.

Bank without barriers

The Bank has the widest network of barrier-free branch offices and ATM's. In terms of complexity and availability of services offered to people with various types of disabilities the Bank is at the top of the market. Among other things, it offers the Silent Connection service for the deaf and hearing-impaired, a wide network of ATM's tailored for the visually impaired. For an overview of all the services, their description and the place where clients can use them, see the special pages www.bankabezbarier.cz.

Investing in a Better Future

In practice, the Bank is committed to see people in the Czech Republic will be better off in every aspect. That's why the Bank supports talented students, artists, as well as sporting and cultural events. The Czech Republic is an amazing country, full of gifted people, and the Bank is delighted to contribute to make its future even better.

Česká spořitelna Helps Good Ideas Grow

The Bank supports young and talented people who have a clear vision and want to bring something new and fresh. The Bank is the partner of seven universities across the Czech Republic, for this reason the Bank was looking for a way to communicate with the students which gave rise to the **Ambassador programme**. Ambassadors help it communicate at schools, organize events together with the Bank, and recruit new ambassadors – their own successors whom they teach and later pass on their work to. A total of 76 students enrolled in the pilot year that copied the academic year 2016/2017, of which 6 were chosen for the post of ambassador and one for youtuber. Together with experts from Česká spořitelna, ambassadors wrote 3 diploma theses, took a part-time job and one of them was given a full-time job. They have made a significant contribution raise the awareness of our activities at their schools.

In 2017, the Bank also joined the **Youth Alliance**, a cluster of large corporations in the Czech Republic which comes up with new ideas how to give opportunities and practical experience for young people. For the university incubators, the Bank organized the third year of the **United Incubators Contest**. The Bank has extended TEDx support to regions as well, supporting nearly forty other events, including **Success Harvest Feast.** The Bank's experts held 44 lectures and workshops at partner universities, consulting forty bachelor and diploma theses. Latest news and interesting tips for students and about students are posted in our Facebook We help good ideas grow.

Česká spořitelna is Developing Culture

Whether you see culture as a dignified admiration in an art gallery or crazy dancing variations at a festival, we all need it. Therefore, the Bank supports a wide range of cultural events to make them as accessible as possible and keep them for future generations.

In September 2015, together with the **Czech Philharmonic**, Česká spořitelna celebrated the 190th anniversary and officially started its cooperation; the Bank is proud to be the general partner of the orchestra. Its clients can get a 10% discount on concerts of the Czech Philharmonic concerts and up to 70% on the performances of its chamber ensembles. The Bank also organizes shows for young audiences to teach them how to be amused by the so-called classical music.

For young listeners and families with children the Bank has also designed the new concept of the accompanying program of the **Smetana's Litomyšl Festival**, which has been supporting since 1992. In June 2017, the Bank organised the first year of the free of charge Smetana weekend featuring concerts, fairytales, competitions and theatre shows.

The international "baby-punk" **festival Kefir** is another event the Bank has organized for parents with their children. The open-air festival is focused on outstanding cultural projects and works across genres from home and from abroad. Its uniqueness consists in engaging the audience in order to boost their desire for entertainment and the creative process that each person has within.

In the long run, the Bank is the general partner of the **Colours of Ostrava** multi-genre festival, which ranks among the top ten European festivals. The Bank has recently created an accompanying program in our Blue Zone and have opened it to all our visitors. Apart from DJ's, the Bank invited some interesting speakers. Blue zone reflected the fact that in 2017 the Bank has become the partners of the **Meltingpot** discussion platform, an integral part of the festival.

In addition to the branch office in Rytířská Street Palace (Prague), the Bank also operates the **Česká spořitelna Gallery**. Its fund contains about 6,000 valuable paintings from the 19th and the early 20th century, which were collected from the original decorations and furnishings of savings banks and stored across the whole country. Since 2009 the Bank has paid great attention to their restoration and research work so that the Bank would be able to show them to the general public in exhibitions. The Bank has not abandoned the support of art even nowadays, its brand Erste Premier is a partner to **Czech Grand Design** and **Designblok** awards.

Crazy about Sports

Every sporting performance deserves some credit regardless of the final results. In addition to the Bank's support for top sporting events and organisations, it makes great efforts to bring sports and games to kids. There are sports teams comprised of the Bank staff too and they rarely return without any medal from various tournaments and matches.

As a general partner, the Bank has been supporting the **Cycling for Life** project since its inception in 2000, thanks to this the Bank can offer its clients a number of participatory benefits: this largest amateur race is attended by more than 20,000 cyclists every year. As a general partner, the Bank also supports the series of cross-country ski races **Ski Track for Life**.

Since 2001, the Bank has also been the general partner of the Czech Athletics Union and since 2010 it has been supporting the **Athletics for Children** project. Together, they offer parents and their children high-quality leisure-time activities in the form of athletic youth groups, and also support the preparation of the youngest children in sporting clubs.

The Czech Olympic Committee was established on 18 May 1899 with a view to develop and disseminate the Olympic ideas and to represent and secure the participation of Czech athletes at the Olympic Games. We have been honoured to be an official partner to the Committee over the years 2016-2018.

Benefits for Bank Employees and Clients

Since 2013, employees are given the opportunity to use the **Cafeteria** benefits programme through which they can obtain financial products of the Česká spořitelna Financial Group at attractive prices and redeem points for a wide offer of benefits of their own choice – healthcare, wellness, fitness, holidays, welfare, sports, cultural events, etc. The Bank also contributes to the

development of clubs that associate its employees in the field of sports, games and culture. They can also give their points to the projects of nonprofit organizations – each year they can choose from at least three partner organizations of the Česká spořitelna Foundation. Charity Days is an event targeted at the needy, participating employees may take two fully rewarded days off.

Employees can also take advantage of a comprehensive offer of courses, trainings, talent and development programs in the field of education. Bank´s experts also give papers in conferences, workshops, and lectures at universities. The Bank fully supports the flexible forms of work and maximize the return of employees to work after parental leave. The Bank, as a matter of course, provides contributions for kindergarten fees, five days off for new fathers after the birth of a child, five weeks of regular holiday, paid sick days, etc.

Apart from standard services and products, the Bank offers its clients a preferential admittance fees for events under its patronage or those it organizes itself. In addition to standard feedback tools, clients can also contact the independent ombudsman of Česká spořitelna.

For more information about good things, visit www.verimedobrymvecem.cz/en. To watch inspirational life stories of Ceska sporitelna clients, visit www.dokazemevic.cz.

Declaration of Česká spořitelna, a.s.,

of Compliance of its Governance with the Corporate Governance Code based on OECD Principles

In compliance with the statements made by Česká spořitelna, a.s., (the "Company") in its previous annual reports, the members of the Company's Board of Directors make every effort to improve the Company's standards of corporate governance and ensure, to the extent set out hereunder, compliance with the Corporate Governance Code based on the OECD principles from 2004 (the "Code"). The Company systematically supports, develops and enhances its governance practices.

No major changes adversely affecting the Company's corporate governance standards were made in 2017. Česká spořitelna complies with all key provisions, principles and recommendations of the Code, which may be viewed on either the Česká spořitelna's website or the Czech Finance Ministry website. The principles of the Company's governance standards are set out below.

In conjunction with the document Guidelines on the assessment of the suitability of members of the management body and key function holders issued by the European Banking Authority (EBA) and the Czech National Bank, Česká spořitelna drafted guidelines and procedures for assessing the suitability of management body members and key function holders in Česká spořitelna.

The Board of Directors has adopted the collective Diversity and Inclusion policy of Česká spořitelna, which defines the basic principles and direction of applying Diversity and Inclusion policy within the entire bank in August 2017. Based on this policy, ČS has made a commitment that within 35% of the positions on the supervisory board and in top management positions (Board of Directors and B-1 Management) will be staffed by women by 2019. This objective is consistent with CRD IV and Erste Group Bank policy. One woman was a member of the 6-membered Board of Directors and a further ten women were members of top management positions out of a total of 45 positions (level B-1) as at 31 December 2017.

ČS is also focused on ensuring equal conditions and opportunities for all employees especially in the areas of remuneration, reconciliation of work and personal life, and career development in order to ensure diversity. All employees may appeal to an internal ombudsman, who deals with complaints of possible discrimination, etc. at any time.

To ensure transparency and equal recruitment opportunities for all positions, including managerial positions, all available positions are offered via internal job offers. For all talented employees (regardless of age, gender or history), there are also talent and development programmes available, that provide preparation for further career development (both vertical and horizontal). A list of potential suitable candidates for top managerial positions (and the ČS Board of Directors) which must always include female representatives is prepared and regularly updated. To strengthen the diversity policy, ČS provides women in managerial positions with further development opportunities such as mentoring and networking programs as part of their career plan.

The selection of candidates for membership in the Supervisory Board is in line with an approved concept. The aim of selection is the establishment of a Supervisory Board that is extremely diversified in regard to qualifications and experience so that the knowledge of the specific members covers the whole range of the Bank's activities. In line with the Group policy, the Supervisory Board of Česká spořitelna should include at least 3 women by 2019. This term has been fulfilled since April 2017, as the Supervisory Board currently includes nine members, three of whom are women. Candidates for a member of the Supervisory Board should not be older than 70 years of age. An exception can be made in extraordinary cases, based on the needs assessment of the Supervisory Board and specific skills and experience of individual candidates.

Candidates for membership in the Supervisory Board of Česká spořitelna ensure by their education, practical experience in domestic and international banking, overall economic, social and political overview and personal characteristics that the Supervisory Board will be fully functional and capable to perform all of its tasks and competence responsibly and at high quality level. The balance and proper representation of all levels, knowledge and experience that are essential for the activities of the Supervisory Body also contribute to the fact that employees if Česká spořitelna may, under certain conditions, select candidates from their ranks for up to three members of the Supervisory Board. Employees select candidates for the position of members of the Supervisory Board in accordance with the adopted internal procedure. The employee representatives chosen to be in the Supervisory Board are one of the pillars in the long-term operations of the Supervisory Board and brings the views of another key interest group to the Supervisory Board of the Company in terms of its operations, strategic direction and related risks.

A. Organisation of the Company

The Board of Directors is the Company's statutory body. It manages the Company and acts on its behalf while assuming responsibility for its long-term strategic direction and operational management. The scope of its powers is defined in the Company's statutes, internal rules and by Czech legal regulations. The Board of Directors exercises its powers with due care and diligence; in performing its activities, it is accountable to the extent set out in the Czech legal regulations. All Board of Directors members are internationally experienced professionals and team players skilled in managing large corporations. The Board of Directors members adhere to the general legal rules and ethical standards.

Pursuant to the Company's Statutes, the Board of Directors must obtain the Supervisory Board's opinion or approval before performing a number of acts and, in certain cases determined by Supervisory Board decision, the Board of Directors must solicit the prior opinion of a committee established by the Supervisory Board. The Board of Directors regularly presents reports on Company activities to the Supervisory Board and its committees. In compliance with the Banking Act, the Board of Directors is responsible for establishing, maintaining and evaluating an efficient and effective internal management and control system for the Company.

Board of Directors Decision-making Procedures

The work of the Board of Directors is directed by an activity plan, which it drafts in advance for every calendar quarter. The Board of Directors meets on an ad hoc basis, but no less than twice a month. Nonetheless, regular weekly sessions have become common practice. In 2017, the Board of Directors held 46 ordinary meetings. Board of Directors meetings are conducted in English or Czech, as required by the attending members. Board of Directors meetings are chaired by the chairman and, in the chairman's absence, by the vice-chairman. Should both the chairman and vice-chairman be absent, a delegated Board of Directors member shall chair the meeting. All Board of Directors members, the Company secretary and invited guests take part in meetings.

The Board of Directors only achieves a quorum if more than half of all its members are present at a meeting. The Board of Directors adopts decisions in the form of a resolution requiring a majority of the votes of attending members. When votes are equal, the Chairman's vote is decisive. If all the Board of Directors members are in agreement, the Board of Directors may pass a resolution by a written vote or a vote taken via remote means of communication (e. g. all Board of Directors members per rollam or individual members in writing, via video- or teleconferencing); in such cases, voting members are deemed present. Material submitted in per rollam form is approved, if a majority of the votes of all members of the Board of Directors is in agreement. Voting on matters under discussion is conducted openly at Board of Directors meetings by acclamation, i.e. a show of hands.

All Board of Directors members have the requisite character traits and professional experience to execute the role of a Board of Directors member. Members of the Board of Directors are appointed and recalled by the Supervisory Board. In compliance with the Banking Act, nominees for Board of Directors membership of the Česká spořitelna Corporate Social Responsibility Organisational Structure are discussed in advance with the Czech National Bank, which assesses the professional qualifications, credibility and experience of the nominees. The term of office of a Board member is four years, and members may be re-elected. Detailed professional biographies of the Board of Directors members attesting to their qualifications, professional abilities and practical experience are published on page 13 of the Annual Report.

The Supervisory Board of the Company has nine members. There was a change in the composition of the Supervisory Board in 2017. In April 2017, the General Meeting elected a new independent member of the Supervisory Board, Mrs. Zlata Gröningerová. Peter Bosek, Margita Čermáková, Helena Černá, John James Stack and Aleš Veverka were re-elected to the Supervisory Board at the same time. The Company continues to have three employee representative on the Supervisory Board. The current members of the Supervisory Board from among the employees are Margita Čermáková, Helena Černá and Aleš Veverka. The Company has in place a concept adopted to address Supervisory Board composition and performance. All Supervisory Board members are professionals, who guarantee the high quality of the Supervisory Board's function, and possess the requisite personal and professional qualifications to serve as Supervisory Board members. Supervisory Board members perform their duties with due diligence. To serve on the Supervisory Board, members shall have professional expertise, maintain their loyalty to the Company and maintain confidentiality with respect to confidential information and facts. Supervisory Board members are elected by the General Meeting.

The term of office of a Supervisory Board member is four years; re-election for another term is allowed. A full list of Supervisory Board members, including their professional biographies, is published on page 15 of the Annual Report.

The Supervisory Board oversees the execution of the Board of Directors' powers and the performance of the Company's business activities. In addition to its statutory duties and authorisations, the Supervisory Board, in accordance with the Company's statutes, has the right to opine in advance on certain acts impacting the Company's assets (including, inter alia, capital expenditures for building, plans (projects) to acquire tangible and intangible assets for the Company in excess of a designated limit, the transfer of title to Company assets, the Company's equity investments, etc.). The Supervisory Board also provides an advance opinion on the strategic plan for Company activities and development, planning tools and regular financial information. Additionally, the Supervisory Board furnishes its advance opinion on proposals for the appointment and recall of directors of internal audit, compliance and strategic risk management and on the selection of an external auditor. The Supervisory Board may establish Supervisory Board committees in support of its work.

In 2017, the Supervisory Board convened in four meetings.

Supervisory Board Decision-making Procedures

The work of the Supervisory Board is directed by an activity plan, which the Supervisory Board drafts annually in advance. Supervisory Board meetings are held on an ad hoc basis, usually in compliance with the activity plan, but no fewer than four times a year. Supervisory Board meetings are conducted in Czech or English, as required by the attending members. Supervisory Board meetings are chaired by the chairman, vice-chairman or an authorised member of the Supervisory Board and, in their absence, the oldest member or an authorised member of the Supervisory Board in attendance.

The Supervisory Board only achieves a quorum if more than half of all its members are present at a meeting. The Supervisory Board adopts decisions in the form of a resolution requiring a majority of votes of the members. When votes are equal, the Chairman's vote is decisive. If all the Supervisory Board members are in agreement, the Supervisory Board may pass a resolution by a written vote or a vote taken via remote means of communication (e. g. all Board of Directors members per rollam or individual members in writing, via video- or teleconferencing); in such cases, voting members are deemed present. Voting on matters under discussion is conducted openly at Supervisory Board meetings by acclamation i.e. a show of hands.

The Audit Committee is a company body that shall perform the tasks assigned to an audit committee by law or the Company statutes. The Audit Committee is chiefly responsible for monitoring procedures used to prepare the standalone and consolidated financial statements, monitoring the effectiveness of the Company's internal controls, internal audit function and any risk management systems in place, monitoring the process of performing the statutory audit of the separate and consolidated financial statements, assessing the independence of the statutory auditor and audit company and, particularly, provision of ancillary services to the audited entity and recommending an auditor. A full list of Audit Committee members, including their professional biographies, is published on page 17 of the Annual Report.

Audit Committee Decision-making Procedures

The work of the Audit Committee is governed by its Rules of Procedure and activity plan. The Audit Committee met four times in 2017. Meetings of the Audit Committee are chaired by its chairman, vice-chairman or an authorised member. At Audit Committee meetings, votes on matters under discussion are taken openly, by acclamation, i.e. a show of hands. The Audit Committee only achieves a quorum if more than half of its members are present. It adopts decisions in the form of a resolution requiring a majority of votes of the Audit Committee members. When votes are equal, the Chairman's vote is decisive. Where all Audit Committee members are in agreement, the Audit Committee may vote based on a written vote or a vote undertaken via remote means of communication, in which case those voting are deemed present at such meeting.

The Company consistently ensures that the members of the Board of Directors and Supervisory Board are **kept up to date** at all times; the Company has in place a well administered and highly developed system supporting the execution of corporate governance. Newly elected members of the bodies are given immediate access to all information regarding the Company's principles and rules of corporate governance.

The Company's highest bodies, i.e. the Board of Directors, Supervisory Board and Audit Committee, have adopted binding Rules of Procedure for the bodies. These deal in great detail with administrative and procedural matters related to the activity of a given body. The Rules of Procedure of all three bodies regulate the technical process of convening and voting at meetings, the preparation of meeting minutes, the activities of the body outside of meetings and procedures to address the potential bias of a body member. Both Supervisory Board and Board of Directors members take part in Supervisory Board meetings. All Board of Directors members take part in Board of Directors meetings, as do the authors of materials to be presented to the Board of Directors. Representatives of the external auditor, members of the Board of Directors and Supervisory Board and, on occasion, other guests, are invited to attend meetings of the Audit Committee. Members of the Board of Directors, Supervisory Board and Audit Committee may solicit a legal opinion on individual materials under discussion from the Company's Legal Services Unit or may seek the services of independent advisors. The Company Office organizes long-term training in corporate governance (the system for running and controlling the Company) and legislation for the members of administrative bodies so as to develop and enhance their knowledge and skills on an ongoing basis.

The position of Company **Secretary** has long existed within the Company. The Secretary of the Company's bodies manages administrative and organisational matters for the Board of Directors, Supervisory Board and Audit Committee including organising General Meetings. The Secretary familiarises new members of administrative bodies with the activities of those bodies and with the Company's corporate. The Company Secretary ensures mutual co-operation among the Company's bodies. The Secretary is appointed by the Company's Board of Directors and reports directly to the Chairman of the Board of Directors. The Secretary is responsible for due and timely distribution of invitations and materials for meetings of the Company's Board of Directors, Supervisory Board and Audit Committee. The Company has instituted binding regulations for the submission of materials to be discussed at meetings of the Supervisory Board, Board of Directors and Audit Committee, which stipulate the basic rules for the preparation and submission of materials, procedures for making comments prior to the submission of materials and conditions for the archiving of materials. The Secretary takes the minutes of all meetings of the Board of Directors, Supervisory Board and Audit Committee. The Company maintains an electronic database of all minutes from meetings of its bodies; these are available to authorised persons on the Company's internal archiving system.

The Company Secretary is a member, inter alia, of the CGI (Corporate Governance Institute) and its steering committee. The mission of the CGI is to create and continually develop a respected professional platform for secretaries of business companies and other organisations and for other corporate governance professionals working in the fields of compliance, business ethics management,

administration and support of administrative body activities, the management of business groups and equity investments and related administrative functions.

B. The Company's Relations with Shareholders

The Company diligently ensures compliance with all the legal rights of shareholders and with the principle of the equitable treatment of all shareholders. The Company's shares are held in book entry form. A list of all shareholders is maintained by the Central Securities Depository. In addition to ordinary shares, the Company has also issued bearer preference shares. The transferability of these shares is restricted to Czech towns and municipalities; transfers to other entities are subject to approval by the Company's Board of Directors. A preference right to receive dividends is attached to the preference shares. Decisions regarding transfers of preference shares are made by the Board of Directors and are always based on detailed information about the assignee. The Company complies with all duties to inform its shareholders and other entities to the extent imposed by law and keeps shareholders updated throughout the year via the media and the Company's website. The Company posts information on its current financial results, shareholder structure, planned events and more on a web page designed specifically for shareholders and investors (https://www.csas.cz/cs/o-nas/pro-akcionare-investory). Press releases covering important information about the Company are issued on a regular basis. All material information the Company publishes on its website is available in Czech and English.

The Company convenes **General Meetings** by means of a letter sent to all shareholders. The General Meeting invitation always includes basic information for shareholders about the requirements for participating in General Meeting, the exercising of shareholders' rights and basic financial indicators. General Meeting announcements are published on the Company's website as a matter of course. Shareholders may familiarise themselves in advance (within the statutory period) with the materials that are to be subject to discussion in the General Meeting. The Company always organises its General Meetings at venues that are accessible to all shareholders. For several years now, General Meetings have been held at the Company's registered office.

The powers of the General Meeting extend to decisions on matters that the law or Company statutes assign to the powers of a General Meeting. The General Meeting is held no less than once a year and no more than four months after the end of the fiscal period. General Meeting voting is performed by ballot; details are stipulated by the Rules of Procedure of the General Meeting approved by the General Meeting. General Meeting votes are first taken on proposals presented by the individual who convened the General Meeting; if the General Meeting has been convened by request, then the proposals presented by the individual who requested that the General Meeting be convened are voted on first. If this proposal is passed, no votes shall be taken on further counter-proposals in the given matter. If the proposal is not passed, the proposals presented by attending shareholders are voted on in consecutive order according to the number of shareholder votes. The General Meeting adopts decisions in the form of a resolution requiring a majority of votes of attending shareholders, where the law does not stipulate a different majority.

Shareholders receive all supporting documents for a General Meeting at the time of their registration for the respective General Meeting. These materials always include the Rules of Procedure of the General Meeting, which the General Meeting approves. If Supervisory Board and Audit Committee members are to be elected, shareholders are provided with detailed biographical data of all nominees attesting to their professional and personal qualifications to hold such position. The bodies of the General Meeting are set up by the Board of Directors in a manner that ensures all the bodies are able to perform their functions with due and professional care. In most cases, a notary is present at the Company's General Meeting. In compliance with the Rules of Procedure, shareholders may exercise their shareholder rights in person or by proxy, i.e. vote on proposed items on the agenda, solicit and receive explanations on such items and put forward proposals and counter-proposals.

The members of the Board of Directors, Supervisory Board and Audit Committee take part in General Meetings (there must be at least as many members as are required for a quorum) as do members of the Supervisory Board committees who answer shareholder questions. The Company provides sufficient time for shareholders to raise their questions on agenda items prior to a vote being taken.

All shareholder questions and answers are recorded in the General Meeting minutes. Each item on the General Meeting agenda is subject to a separate vote taken after debate on the given item is closed. All shareholders registered in the attendance list and present at the General Meeting when the vote is being taken are entitled to vote, with the exception of those shareholders who hold preference shares. The right to vote at General Meetings is not attached to the Company's preference shares. In addition, shares whose holders' voting rights for General Meetings were suspended by a decision of the Czech National Bank are not considered voting shares; the shareholder is informed of such a suspension at the time of his/her registration in the attendance list and the Company indicates this fact, including the reasons for the suspension, in the attendance list.

C. Information Disclosure and Transparency

The Company rigorously endeavours to prevent the misuse of insider information that might allow persons who have special relationships with the Company to enjoy unauthorised gains in dealing with the Company's securities or debt instruments or with derivatives and other associated financial instruments. Board of Directors and Supervisory Board members and parties close to them are obliged to promptly notify the Czech National Bank of transactions with such financial instruments, which they perform on their own account. Erste Group Bank's rules for trading financial instruments are applied to ensure identical terms and conditions for all members of the Board of Directors of Erste Group Bank companies. Members of the Company's Board of Directors, the Supervisory Board and also the employees

concerned are obliged to inform the Company's Compliance Unit of dealings with securities or debt instruments of Erste Group Bank or derivatives and other associated financial instruments and to comply with an imposed trading moratorium during a stipulated period. The Compliance unit provides regular inspections, with the aim to check whether the above persons fulfil their obligations.

The Company has established a Compliance Unit whose principal activities include ensuring compliance of the Company's internal regulations with valid legal and regulatory requirements and their observance and ensuring compliance of staff conduct with the legal regulations, internal regulations, Code of Ethics and other adopted standards and rules governing employee conduct. Compliance is involved in all aspects of the Company's activities and administration and forms a part of its corporate culture. The Compliance Unit evaluates insider information included in the Watch List and Restricted List of investment instruments as well as any dealings with investment instruments recorded in these lists. The Compliance Unit informs the Company's Board of Directors and Supervisory Board of its activities on a regular basis and keeps a regularly updated list of persons with access to insider information.

The Compliance Unit also includes the AML unit, which ensures compliance with the Company's obligations in the field of preventing money laundering and financing of terrorism and controls compliance of the Company's business and activities with the applicable sanctioning regimes announced by the Czech Republic, EU, UN and OFAC.

The Compliance Unit provides so-called Whistle-blowers with, the possibility of anonymously reporting illegal, prohibited or unethical conduct in the workplace by the current or former Company employees. The Company has an **Ethics Manager** to resolve matters of unethical workplace conduct.

The Company diligently fulfils and complies with all Czech legal regulations, principles of the Corporate Governance Code based on OECD principles and EU Commission recommendations regarding corporate governance and, on an ongoing basis, **provides shareholders and investors with all material information** on its business activities, the Company's financial and operating results, ownership structure and other significant events. All information is prepared and disclosed in compliance with the highest standards of accounting and the disclosure of financial and non-financial information. Moreover, the Company discloses a great deal more information than the statutory requirements so that shareholders and investors may make informed decisions concerning ownership of the Company's securities and voting at General Meetings. The Company uses various distribution channels to publish such information, e. g. the media or the Company website, where information is published in both Czech and English to enable equal participation of foreign investors and shareholders in decisions regarding the Company's business and development. The Company regularly publishes annual and semi-annual reports. The annual report principally includes the audited financial statements, the audited consolidated financial statements and provides a picture of the Company's financial position, business activities and financial results. The report also provides **information on the Board of Directors and Supervisory Board member remuneration policy** in compliance with the legal regulations. The Company has no option scheme for remuneration either for the members of the Board of Directors or the Supervisory Board.

In accordance with the Act on Accounting, non-financial information is available in Erste Group Bank's Consolidated Annual Report 2017 on the Company's website under Investor Relations / Reports / Financial Reporting.

D. Committees of Company Statutory Bodies

The Company has established committees under the Board of Directors and Supervisory Board to support the Company's activities and to ensure the internal management and accountability of these bodies. The individual committees' Rules of Procedure define the scope of their powers and include a precise description of applicable rules, tasks and decision-making procedures.

Committees of the Supervisory Board

Risk Committee

The Risk Committee has an advisory function in respect of the overall current and future approach to risks, risk strategy and acceptable risk levels, as well as the drafting of credit policy and the credit portfolio. The Committee also oversees the implementation of risk management strategies. In specific credit-related cases, the Committee has an approval function. The members of the Risk Committee are Peter Bosek, Zlata Gröningerová and Andreas Treichl.

Compensation Committee

The Compensation Committee provides support to the Supervisory Board when formulating the basic principles of compensation. Its duties include submitting proposals for Board of Directors member remuneration to the Supervisory Board, overseeing the remuneration of unit directors carrying out internal controls and supervising the basic principles of compensation and their application. The Compensation Committee members are Maximilian Hardegg, John James Stack and Aleš Veverka.

Nomination Committee

The Nomination Committee primarily assesses the suitability of nominated and appointed members of the management body and evaluates the activities of the members of the management body and the management body as a whole. The members of the Committee are John James Stack and Andreas Treichl.

Committees of the Board of Directors

Board of Directors Committees are advisory bodies of the Board of Directors established by resolution of the Board of Directors. The purpose of the committees is to create and present expert recommendations to the Board of Directors; these committees consist of Board of Directors members and selected Company employees.

All the committees are accountable to the Board of Directors and submit a report on their activities at least once a year.

Credit Committee

The Credit Committee is the body that assesses and approves credit transactions and products, as well as assessing and approving business policy principles, the credit risk measurement and management system, and Česká spořitelna's credit portfolio structure level.

Asset and Liability Management Committee

The Asset and Liability Management Committee adopts decisions serving to actively guide the balance sheet structure of the ČS Financial Group (including off-balance sheet items) with the aim of achieving planned interest income while minimising incurred risks, in particular interest rate, liquidity and foreign exchange risks.

Products and Pricing Committee

The Committee is a body that:
a) assesses and approves the launch, innovation or discontinuation of high-profile products and services in retail and corporate banking and financial markets,
b) manages and implements Česká spořitelna's pricing policy and strategies and assesses and approves product and service prices in this area.

E. The company's Stakeholder Policy

Information on this topic is available in the section Česká spořitelna Corporate Responsibility (see page 53).

F. Principles of Internal Control and Rules for Accepting Risk in the Financial Reporting Process

Česká spořitelna processes its financial accounts via SAP, which complies with exacting requirements for the security and quality of account preparation. System inputs are entered both manually and automatically from other transaction systems.

Česká spořitelna complies with all statutory and legislative requirements. Procedures pertaining to accounting documents and their circulation have been put in place as required by the Accounting Act and in a manner that serves the needs of the controlling and management accounting functions. The entity established separate internal regulations for accounting documents and their circulation and these are subject to regular review, particularly internal regulation on accounting document circulation, which requires the "four-eyes" control principle and eliminates the possibility of unauthorised accounting transactions by defining persons authorised to approve and perform accounting entries, i.e. who may be involved in the accounting process. Any correction of accounting entries is subject to the same controls. Manual and automatic controls of the completeness and correctness of SAP system inputs are performed in respect of automatic accounting between SAP and the transaction accounting systems. Accounting documents are archived both in the system and manually and the archiving process has been set up to comply with statutory requirements (the Accounting Act and Archiving and Records Service Act).

Česká spořitelna fulfils its asset valuation requirements pursuant to both Czech and European legislation. Asset valuation is primarily regulated by the International Financial Reporting Standards as adopted by the European Union and in accordance with the general principle of prudence, pursuant to Part IV of the Accounting Act. The entity has instituted several separate internal regulations for this area that comply with these statutory requirements and principally address the setting of asset input prices, i.e. their valuation under Accounting Act requirements, changes in their valuation, in particular provisioning, asset amortisation, depreciation, impairment, disposal, stock-taking and related tax requirements. Applied regulations and accounting policies are described in the individual and consolidated financial statements.

Statutory and legislative regulations do not separately address the area of management accounting, with the exception of the definition of basic features required, inter alia, for clarity. The entity established management accounting based on historical developments while respecting current requirements for bookkeeping and for cost controlling within the entity. Management accounting is primarily kept in the form of sub-ledger accounts whose contents are subject to regular review. Bookkeeping operations on sub-ledger accounts are controlled for accuracy on an ongoing basis.

The entity primarily recognises provisions and reserves pursuant to the basic principles stipulated by statutory accounting and tax regulations. The accounting procedures are additionally regulated by internal rules that, in addition to the foregoing, reflect the needs of key units in relation to the accounting system in this area (audit, reporting, controlling, etc.). The methodology and accounting for the creation and release of impairment allowances in the Company is concentrated in a single location and carried out by a small group of staff, which is advantageous, inter alia, from the perspective of logic, operational and reconciliation controls. The controls are performed on an ongoing basis both before and after accounting operations. Given the impact on financial results, the general creation of provisions is not monitored by individual accounting item, but in a broader context.

Aggregated financial statements are submitted to the Company's statutory body on a monthly basis. The Company's Supervisory Board has the aggregated consolidated and separate financial statements on hand at every one of its meetings. The consolidated and individual financial statements of the company are tested at an irregular interval by the internal audit. The procedure for the preparation of consolidated and individual financial statements is followed by the Audit Committee, which also assesses the effectiveness of internal controls at the Bank. The Audit Committee additionally monitors the process of the statutory audit of the consolidated and separate financial statements, which are subject to a standard external audit once a year; the preliminary work is done first and this is followed by the audit work on both the consolidated and separate financial statements and the annual report.

Organizational Structure

as at 31 December 2017

Chairman	Vice Chairman	Member	Member	Member	Member
Tomáš Salomon	Wolfgang Schopf	Pavel Kráčmar	Daniela Pešková	Karel Mourek	Bohuslav Šolta
Company Office	Accounting and Controlling	Markets – Wholesale/ Trading and Financial Institutions	Sales Planning and Performance Management	Legal Services	IT Strategic Changes Management
Communication	Property Management	Markets – Retail Investments	Branch and External Sales	Strategic Risk Management	Solution Delivery
Internal Audit	Group Balance Management – AML	Funding and Advisory Group	Digital	Credit Risk Management Corporate Banking	Data and Integration
Human Resources	Business Intelligence	Local Corporate Client Banking	Customer Solutions and Design	Credit Risk Management Retail Banking	Advanced Technologies and Prorotypes
Marketing	Capital Participations and Investor Relations	Public Sector and Real Estate	Client Centre	IS/IT Security	Operations and IT Governance
Economic and Strategic Research		Large Corporates Banking	Support and Development	Nonfinancial Risk Management and Compliance	Strategic Project Portfolio
Ombudsman and Customer Experience		Product Management and Sales Support		Risk Management Support and Development	IT Operations
					IT Infrastructure
					Cards, Cash and Payments Back Office
					Operations Excellence
					Administration of Accounts and Client Documentation
					Financial Markets and Investment Products Back Office
					IT Operations Security

Supervisory Board Report

for the Year 2017

John James Stack
Chairman of the Supervisory Board
Chairman of the Audit Committee

In the year 2017 the Supervisory Board supervised the discharge of the Board of Directors powers and the operation of the Česká spořitelna, a.s. business in accordance with the Articles of Association and legal provisions.

The Supervisory Board, among other matters, approved the Financial Statements and distribution of Profit for the year 2017, and it discussed regularly the Financial Reports of the Česká spořitelna financial group, macroeconomic development in the Czech Republic, the development of the loan portfolio, capital participation strategy and asset management. Further, the Supervisory Board discussed organization of IT activities and digital transformation in the company, revised principles of remuneration as well as approval of the 2018 budget.

The Supervisory Board continuously monitored the execution of the powers / authorities of the Board of Directors, carrying out the Bank's business activity and implementing its strategy.

The Board of Directors provided the Supervisory Board with the documentation and information necessary for the discharge of its functions in accordance with the Articles of Association and legal provisions. The Supervisory Board states that in 2017 the Board of Directors duly fulfilled its tasks arising mainly from the law, the Articles of Association and decisions of the Supervisory Board and the General Meeting.

In 2017 the Supervisory Board held four meetings; besides these meetings, the Supervisory Board also made use of the "per rollam" voting.

During the year, the Supervisory Board members discussed the results of activities of the individual committees – Risk Committee, Compensation Committee and Nomination Committee. The Supervisory Board was also informed about activities of the Audit Committee, which is an independent body of the company.

During 2017 changes in the Supervisory Board´s membership took place. The General Meeting in April elected a new independent Supervisory Board Member, Mrs. Zlata Gröningerová. At the same time five members: Mr. Peter Bosek, Mrs. Margita Čermáková, Mrs. Helena Černá, Mr. John James Stack and Mr. Aleš Veverka were re-elected as members of the Supervisory Board.

In accordance with legal provisions and based on the recommendation of the Audit Committee, the Supervisory Board reviewed the Separate and Consolidated Financial Statements as at 31. 12. 2017 and came to the conclusion that the books and accounting records were kept in a transparent manner in accordance with accounting regulations and that the accounts and Separate and Consolidated Financial Statements give a true and fair view of the financial position of Česká spořitelna, a.s. and Česká spořitelna, a.s. Financial Group as at 31. 12 .2017. The audit of the year-end financial statements was performed by PricewaterhouseCoopers Audit, s.r.o., who confirmed that according to their opinion the financial statements give a true and fair view of the financial position of Česká spořitelna, a.s. and its subsidiaries (together "the Group") as at 31 December 2017, of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU").

The Supervisory Board also reviewed the Report on Relations between the Connected Parties and in accordance with the provision 83 para 1 of the Business Corporations Act states that it took account of this Report without comments.

Based on these facts, the Supervisory Board hereby recommends to the General Meeting to approve the Separate and Consolidated Financial Statements of Česká spořitelna, a.s. as at 31. 12. 2017 and the proposed distribution of profit of the Company submitted by the Board of Directors.

Report of the Audit Committee

In the year 2017, the Audit Committee of Česká spořitelna, a.s. operated as an independent body of the company.

In compliance with the Act No. 93/2009 Sb. on Auditors and the Articles of Association of Česká spořitelna, a.s., the Audit Committee monitored the procedure applied at the compilation of the financial statements and the consolidated financial statements, monitored the effectiveness of internal controls, the risk management system and the internal audit including independence; monitored the process of the statutory audit; approved the non-audit services provided by the auditor (more details on the chapter "Other information for shareholders"); assessed the independence of the auditor; and recommended the company PricewaterhouseCoopers Audit s.r.o. for performing the audit of annual financial statements for the year 2017.

In compliance with the regulatory requirements, the Audit Committee performed the evaluation of the functionality and effectiveness of the internal control system in the Bank. In the year 2017 the Audit Committee discussed on its regularly held meetings the activity plan of Internal Audit, the report on the focus and activities of the Internal Audit and the information about the fulfilment of measures from the audits and inspections adopted by Bank management and approved priorities of the Internal Audit for the period 2017–2019. The Audit Committee also focused its attention on the system of the risk management, activities of the compliance function, prevention of frauds and the fulfillment of the measures adopted on the basis of the protocol from the Czech National Bank inspections. The Audit Committee elaborated a report with the assessment of its activities and submitted it to the Public Audit Oversight Board.

John James Stack
Chairman of the Audit Committee

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Independent auditor's report

to the shareholders of Česká spořitelna, a.s.

Report on the Audit of the Consolidated and Separate Financial Statements

Our Opinion

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Česká spořitelna, a.s., with its registered office at Praha 4, Olbrachtova 1929/62 ("the Bank") and its subsidiaries (together "the Group") as at 31 December 2017, of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("EU").
- The accompanying separate financial statements give a true and fair view of the financial position of the Bank standing alone as at 31 December 2017, of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

We confirm that the audit opinion expressed herein is consistent with the additional report to the Audit Committee of the Bank, which we issued today in accordance with Article 11 of the Regulation (EU) No. 537/2014 of the European Parliament and of the Council ("the EU Regulation").

What we have audited

The Group's consolidated financial statements comprise:

- The consolidated statement of comprehensive income for the year ended 31 December 2017;
- The consolidated statement of financial position as at 31 December 2017;
- The consolidated statement of changes in total equity for the year then ended;
- The consolidated cash flow statement for the year then ended; and
- The notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

The Bank's separate financial statements comprise:

- The statement of comprehensive income for the year ended 31 December 2017;
- The statement of financial position as at 31 December 2017;
- The statement of changes in total equity for the year then ended;
- The cash flow statement for the year then ended; and
- The notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, the EU Regulation and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and Bank in accordance with the Act on Auditors, EU Regulation and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have not provided any non-audit services that are prohibited under Article 5 of the EU Regulation and fulfilled our other ethical responsibilities in accordance with these regulations.

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Shareholders of Česká spořitelna, a.s.
Independent auditor's report

Our audit approach

Overview

We have set our materiality as 5 % of the profit before tax, which represents CZK 900 million for the consolidated and separate financial statements.

Our audit covered 97.6 % of the total assets and 95.1 % of the net profits of the Group. By application of other assurance procedures at the level of smaller subsidiaries we covered further 1.8 % of the total assets of the Group.

- Credit risk and impairment of loans and receivables from customers
- Classification and measurement of non-traded financial instruments measured at fair value

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements (together "financial statements"). In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for each set of financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on each set of financial statements.

Overall materiality of the Group and separate Bank financial statements	CZK 900 million
How we determined it	5 % of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark, as the goal of the Bank and the Group is to achieve profits and users focus on this information. The level of 5 % is a standard benchmark for public interest entities and reflects the best practise for public interest entity audits.

Key Audit Matters

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

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Key audit matter	How our audit addressed the key audit matter
Credit risk and impairment of loans and receivables from customers In the balance sheet and in note 20 of the consolidated financial statements, the Group presents its customer loan portfolio of CZK 638,694 million, of which 93.5 % is hold by the Bank. The risk of irrecoverability of the loans granted is an inherent part of banking activities, however the impairment quantification through loan provisions is a subjective area that has significant impact on the profits of the Bank and therefore we focused on it. Comprehensive models used for the measurement of these loans require a number of assumptions based on management judgement and expert estimates. These judgements and estimates for each significant segment of the loan portfolio include: • Expected cash-flows from the loans granted; • Probability of default of the debtor; • Loss incurred in the case of default; • Estimated income from loan collateral; and • Loss identification period.	We verified that the Bank follows its principles for setting aside provisions for loan impairment and that these principles are in line with the accounting standards. As the inputs into banking systems and internal control system design have a key role in the identification of impaired loans and models facilitate appropriate quantification of the provisions, we focused our audit procedures particularly on these areas. We verified the process of granting of loans to satisfy ourselves that the banking system uses appropriate and complete data, that the processes are in line with the regulatory requirements, generally accepted principles and internal guidelines and that the procedures ensure timely recognition of incurred credit risks. We verified numerous control procedures for monitoring and measurement of collateral, including assessment of the quality of external experts used by the Bank. The goal of our approach to this item has been to verify the measurement of loans and receivables from customers including the quantification of adequate impairment provision. The system of allocation of loans into groups and ratings is essential for the measurement of loans and setting aside provisions. We reviewed the principles used by the Bank in this area and observed that the procedures used result in an appropriate and exact setting of customers' rating and consequently in proper quantification of the provision and loan value presented in the financial statements. Our team included our specialists for credit risk modelling, which focused on review of the risk modelling methods and adequacy of the calculations used. We assessed back-testing results and consequent measures taken by the Bank. Last but not least we used our information technology specialists to verify that appropriate data inputs, its processing inside individual core systems and automated system calculations result in appropriate and complete recognition of impairment provisions in the financial statements. These procedures in its summary enabled us to verify the adequacy of the net amount of loans in the financial statements and related disclosures in the notes.
Classification and measurement of non-traded financial instruments measured at fair value Use of models, which require inputs that are not directly observable on financial markets, are needed for the fair value measurement of certain financial instruments. These instruments hold by the Bank, disclosed in the Note 42 of the consolidated financial statements, must be presented separately as "level 3" instruments as the measurement of their fair value is more subjective than in the "level 1" and "level 2".	We requested a full list of recorded financial instruments and verified its completeness based on confirmations from banks, depositories and other counterparties. We assured that measurement of financial instruments, which are not classified in "level 3", is based solely on data obtained from liquid financial markets or from publicly available information. Our treasury specialists verified the models used for the measurement of "level 3" instruments and assessed suitability of used non-market inputs needed for this measurement. We verified through these procedures that these models reflect best practice and both the input data and resulting fair values are adequate, neutral, evidenced based and do not contain any material bias.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide opinion on each set of financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, the share of individual companies on the financial position and performance of the Group and specifics of the industry in which the Group operates.

For audit of the consolidation we performed a full audit of Česká spořitelna, a.s. and Stavební spořitelna České spořitelny, a.s. These banks form 97.6 % of the Group total assets and 95.1 % of the Group net profits. Additionally, we verified selected items of the financial statements of other Group companies, thus increasing the share of total audited assets of the Group to 99.4 %. I am personally responsible for the audits of all significant companies in the Group. This approach did allow us to reasonably exclude significant misrepresentations of the Group results.

The year 2017 has been the first year that you have appointed us as the Česká spořitelna auditors. In this report we provide more information on our preparation, engagement hand-over and audit approach for the following reasons:

First-year audits are generally considered as more risky, particularly in the case of complex Groups with comprehensive control and information systems, which we need to fully map and understand its functions and risks, including verification of accounting methodologies and opening balances.

Following the decision of the General Meeting of the parent company Erste Group Bank ("EGB") to appoint PwC as its auditor reached in 2016 we commenced our preparation for the audit take-over already in May 2016, firstly focused on fulfilment of all independence requirements levied on the auditor vis-a-vis the Group.

We held numerous meetings with the key members of the management of the Group in order to acquire knowledge of the current matters in the commercial and regulatory areas, which the Group is dealing with, so that we could properly plan our audit. Since January 2017 we participated along with the prior auditors in the clearance meetings of the 2016 audit, so as to obtain understanding of the complex issues and auditor's judgement in the key matters.

Since our appointment in April 2017 we held series of hand-over meetings with the prior auditors and we went through the key items in their audit files in order to understand on which controls they relied and which evidence they used to support their opinion.

We used our information technology specialists to map the information and control systems of the Group, we selected key controls and interfaces and verified its functionality and reliability. We studied the accounting methodologies and verified the opening balances. We continuously co-operated with the auditors of EGB, not only through correspondence but also by personal meetings and monthly conference calls.

These activities facilitated planning and performing a quality audit within the given deadlines.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than both of the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Group and the Bank obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group and the Bank obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Board of Directors and Supervisory Board for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Group and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or the Bank or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above stated requirements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and the Bank's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors, Supervisory Board and Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of the EU Regulation, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of the Group and the Bank by the General Meeting of Shareholders on 25 April 2017 and for 2017 we are the auditors for the first year.

Provided Non-audit Services

The non-audit services provided in 2017 to the Group are disclosed in the chapter "Other information for shareholders" of the Annual Report.

Non-financial information

The Bank does not disclose non-financial information as it is aggregately disclosed by EGB in its annual report.

27 March 2018

PricewaterhouseCoopers Audit s.r.o.
represented by partner

Ing. Petr Kříž FCCA
Statutory Auditor, Evidence No. 1140

Note

Our report has been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over the English version.

Consolidated Financial Statements

for the Year Ended 31 December 2017

Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union

Consolidated Statement of Comprehensive Income of Česká spořitelna, a.s.

for the Year Ended 31 December 2017

Income Statement

in CZK million	Notes	2017	2016
Net interest income	1	25,350	25,512
Interest income	1	28,148	28,441
Interest expense	1	(2,798)	(2,929)
Net fee and commission income	2	8,803	9,308
Fee and commission income	2	11,981	12,777
Fee and commission expense	2	(3,178)	(3,469)
Dividend income	3	64	86
Net trading result	4	2,736	2,897
Result from financial assets and liabilities designated at fair value through profit or loss	4	(7)	(44)
Net result from equity method investments		9	(10)
Rental income from investment properties & other operating leases	5	272	478
Personnel expenses	6	(9,224)	(9,169)
Other administrative expenses	6	(6,970)	(6,863)
Depreciation and amortisation	6	(2,046)	(2,114)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	7	271	1,421
Net impairment loss on financial assets not measured at fair value through profit or loss	8	(33)	(1,905)
Other operating result	9	(1,198)	(672)
Pre-tax result from continuing operations		**18,027**	**18,925**
Taxes on income	10	(3,415)	(3,470)
Net result for the period		**14,612**	**15,455**
Net result attributable to non-controlling interests		2	(2)
Net result attributable to owners of the parent		**14,610**	**15,457**

Statement of Comprehensive Income

in CZK million	Notes	2017	2016
Net result for the period		**14,612**	**15,455**
Items that may be reclassified to profit or loss			
Available for sale reserve			
Gain/(loss) during the period	10	(1,197)	(841)
Cash flow hedge reserve			
Gain/(loss) during the period	10	(2,719)	297
Currency translation			
Gain/(loss) during the period		(31)	(4)
Deferred taxes relating to items that may be reclassified			
Gain/(loss) during the period	10, 26	744	103
Total		**(3,203)**	**(445)**
Total other comprehensive income		**(3,203)**	**(445)**
Total comprehensive income		**11,409**	**15,010**
Total comprehensive income attributable to non-controlling interests		2	(2)
Total comprehensive income attributable to owners of the parent		**11,407**	**15,012**

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

Consolidated Statement of Financial Position of Česká spořitelna, a.s.

as of 31 December 2017

in CZK million	Notes	2017	2016
Assets			
Cash and cash balances	12	280,221	173,100
Financial assets – held for trading		11,433	20,944
Derivatives	13	11,301	13,357
Other trading assets	14,18	132	7,587
thereof pledged as collateral		1	–
Financial assets – designated at fair value through profit or loss	15,18	407	423
Financial assets – available for sale	16,18	55,283	81,274
thereof pledged as collateral		2,781	–
Financial assets – held to maturity	17,18	163,679	167,899
thereof pledged as collateral	38	76,334	30,950
Loans and receivables to credit institutions	19	157,525	22,328
Loans and receivables to customers	20	638,694	577,453
Derivatives – hedge accounting	21	613	519
Property and equipment	24	9,913	10,456
Investment properties	24	2,372	2,390
Intangible assets	25	4,854	4,284
Investments in associates	22	762	753
Current tax assets	26	341	611
Deferred tax assets	26	1,000	136
Assets held for sale	28	19	320
Other assets	27	2,107	3,636
Total assets		**1,329,223**	**1,066,526**

in CZK million	Notes	2017	2016
Liabilities and equity			
Financial liabilities – held for trading		11,414	17,982
Derivatives	13	11,414	13,877
Other trading liabilities	29	–	4,105
Financial liabilities – designated at fair value through profit or loss	30	1,240	1,997
Deposits from customers		1,240	1,997
Financial liabilities measured at amortised cost	31	1,179,929	911,350
Deposits from banks		295,232	114,282
Deposits from customers		881,997	786,876
Debt securities issued		1,805	9,173
Other financial liabilities		895	1,019
Derivatives – hedge accounting	21	1,813	452
Provisions	32	2,778	2,909
Current tax liabilities	26	89	109
Liabilities associated with assets held for sale	28	–	125
Deferred tax liabilities	26	220	188
Other liabilities	33	10,765	9,684
Total equity	**34**	**120,975**	**121,730**
Equity attributable to non-controlling interests		165	166
Equity attributable to owners of the parent		120,810	121,564
Subscribed capital	34	15,200	15,200
Additional paid-in capital	34	11	11
Other capital instruments	34	8,107	8,107
Retained earnings and other reserves	34	97,492	98,246
Total liabilities and equity		**1,329,223**	**1 066,526**

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

These consolidated financial statements were prepared by the Group and authorized for issue by the Board of Directors on 13 March 2018 and are subject to approval at the General Meeting of shareholders.

Tomáš Salomon
Chairman of the Board of Directors

Wolfgang Schopf
Vice-chairman of the Board of Directors

Consolidated Statement of Changes in Total Equity

for the Year Ended 31 December 2017

in CZK million	Subscribed capital	Capital reserves	Retained earnings	Other capital instruments	Statutory reserve	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**	**90,108**	**8,107**	**3,424**	**28**	**3,275**	**(167)**	**119,986**	**(23)**	**119,963**
Dividends paid	–	–	(13,423)	–	–	–	–	–	(13,423)	–	(13,423)
Other	–	–	(11)	–	–	–	–	–	(11)	191	180
Realocation of statutory reserve	–	–	3,037	–	(3,037)	–	–	–	–	–	–
Total comprehensive income	–	–	15,457	–	–	240	(681)	(4)	15,012	(2)	15,010
Net result for the period	–	–	15,457	–	–	–	–	–	15,457	(2)	15,455
Other comprehensive income	–	–	–	–	–	240	(681)	(4)	(445)	–	(445)
Change in cash flow hedge reserve	–	–	–	–	–	297	–	–	297	–	–
Change in revaluation reserve	–	–	–	–	–	–	(841)	–	(841)	–	–
Change in currency translation reserve	–	–	–	–	–	–		(4)	(4)	–	–
Change in tax	**–**	**–**	**–**	**–**	**–**	(57)	160	**–**	103	**–**	**–**
As of 31 December 2016	**15,200**	**11**	**95,168**	**8,107**	**387**	**268**	**2,594**	**(171)**	**121,564**	**166**	**121,730**
As of 1 January 2017	**15,200**	**11**	**95,168**	**8,107**	**387**	**268**	**2,594**	**(171)**	**121,564**	**166**	**121,730**
Dividends paid	–	–	(12,152)	–	–	–	–	–	(12,152)	(3)	(12,155)
Other	–	–	(10)	–	–	1	–	–	(9)	–	(9)
Total comprehensive income	–	–	14,610	–	–	(2,202)	(970)	(31)	11,407	2	11,409
Net result for the period	–	–	14,610	–	–	–	–	–	14,610	2	14,612
Other comprehensive income	–	–	–	–	–	(2,202)	(970)	(31)	(3,203)	–	(3,203)
Change in cash flow hedge reserve	–	–	–	–	–	(2,719)	–	–	(2,719)	–	(2,719)
Change in revaluation reserve	–	–	–	–	–	–	(1,197)	–	(1,197)	–	(1,197)
Change in currency translation reserve	–	–	–	–	–	–	–	(31)	(31)	–	(31)
Change in tax	–	–	–	–	–	517	227	–	744	–	744
Transfers	–	–	–	–	–	–	(2)	2	–	–	–
As of 31 December 2017	**15,200**	**11**	**97,616**	**8,107**	**387**	**(1,933)**	**1,622**	**(200)**	**120,810**	**165**	**120,975**

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

Consolidated Cash Flow Statement

for the Year Ended 31 December 2017

in CZK million	Notes	2017	2016
Pre-tax result from continuing operations		**18,027**	**18,925**
Non-cash adjustments for items in net profit/loss for the year			
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	6, 24, 25	2,004	2,143
Allocation to and release of provisions (including credit risk provisions)	8, 9, 32	603	2,694
Gains/(losses) from the sale of assets		29	(1,413)
Change in fair values of derivatives		860	(329)
Accrued interest, amortisation of discount and premium		(1,057)	(1,070)
Other adjustments		1,036	1,198
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Deposits with the CNB		(5,835)	5,737
Loans and receivables to credit institutions		(137,057)	10,142
Loans and receivables to customers		(67,893)	(47,186)
Financial assets – held for trading		7,464	(6,986)
Financial assets – designated at fair value through profit or loss		17	506
Financial assets – available for sale : debt instruments		24,161	(4,382)
Financial assets – held to maturity		3,202	(10,283)
Derivatives – hedge accounting		(2,719)	298
Other assets from operating activities		1,373	1,087
Deposits from banks		187,928	27,673
Deposits from customers		98,027	77,108
Financial liabilities – held for trading		(3,942)	2,056
Increase in non-controlling interests		–	185
Payments for taxes on income		(3,166)	(3,651)
Other liabilities from operating activities		460	2,649
Cash flow from operating activities		**123,523**	**77,101**
Financial assets – available for sale : equity instruments		(361)	867
Proceeds of disposal			
Property and equipment, intangible assets and investment properties		728	201
Acquisition of			
Property and equipment, intangible assets and investment properties		(2,987)	(2,016)
Disposal of subsidiaries	47	(25)	1,347
Cash flow from investing activities		**(2,645)**	**399**
Dividends paid to equity holders of the parent		(12,152)	(13,423)
Dividends paid to non-controlling interests		(3)	1
Other financing activities (mainly changes of subordinated liabilities)		3	8
Proceeds from bonds issued	48	1,007	95
Repurchase of bonds in issue	48	(8,670)	(6,575)
Cash flow from financing activities		**(19,815)**	**(19,894)**
Cash and cash equivalents at beginning of period		**149,884**	**92,278**
Cash flow from operating activities		123,523	77,101
Cash flow from investing activities		(2,645)	399
Cash flow from financing activities		(19,815)	(19,894)
Effect of currency translation		888	–
Cash and cash equivalents at end of period	**12**	**251,835**	**149,884**
Cash flows related to taxes, interest and dividends			
Payments for taxes on income (included in cash flow from operating activities)		(3,166)	(3,651)
Interest received		28,192	28,565
Dividends received		64	86
Interest paid		(2,651)	(2,683)
Dividends paid to equity holders of the parent		(12,152)	(13,423)

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

Notes to the Consolidated Financial Statements

for the Year Ended 31 December 2017

A. General Information

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

The Bank's majority shareholder is Erste Group Bank AG ('Erste Group Bank'), having its registered office address at Am Belvedere 1, 1100, Vienna. Information on the ultimate parent company's shareholder structure is published in the financial statements of Erste Group Bank AG for the year 2017.

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/regulations. 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 operating risk.

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.

B. Significant Accounting Policies

a) Basis of Preparation

The consolidated financial statements of the Group for the 2017 financial year and the comparative information were prepared in compliance with applicable International Financial Reporting Standards as adopted by the European Union ('IFRS') on the basis of IAS Regulation (EC) No. 1606/2002.

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

The consolidated financial statements have been prepared on a going concern basis.

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

The financial statements have been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

b) Basis of Consolidation

Subsidiaries

All subsidiaries directly or indirectly controlled by Česká spořitelna, a.s. are consolidated in the Consolidated financial statements on the basis of the subsidiaries' annual accounts as of 31 December 2017, and for the year then ended.

Subsidiaries are consolidated from the date when control is obtained until the date when control is lost. Control is achieved when Erste Group is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power to direct the relevant activities of the investee. Relevant activities are those which most significantly affect the variable returns of an entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income and consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. The financial statements of the Group's subsidiaries are prepared for the same reporting year as that of Česká spořitelna, a.s. and using consistent accounting policies. All intra-Group balances, transactions, income and expenses as well as unrealised gains and losses and dividends are eliminated.

Non-controlling interests represent those portions of total comprehensive income and net assets that are not attributable directly or indirectly to the owners of Česká spořitelna, a.s.. Non-controlling interests are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position. Acquisitions of non-controlling interests as well as disposals of non-controlling interests that do not lead to a change of control are accounted for as equity transactions, whereby the difference between the consideration transferred and the share in the carrying amount of the net assets acquired is recognised as equity.

Additions in 2017

No material acquisitions of new subsidiaries occurred during the year 2017.

Disposals in 2017

With exception of sale of CPDP Prievozská , a.s. in May 2017, none material disposals of subsidiaries occurred during the year 2017.

Additions in 2016

No material acquisitions of new subsidiaries occurred during the year 2016.

Disposals in 2016

In October group sold 100% of its interets in companies BECON s.r.o., Nové Butovice Development s.r.o., Campus Park a.s., Gallery MYŠÁK a.s.

Other Changes

Having met the qualifying criteria of IFRS 5, the disposal of CPDP Prievozská , a.s. (real-estate property fund) is presented for the financial year ending 31 December 2016 under the balance sheet line items 'Assets held for sale' and 'Liabilities associated with assets held for sale'. Prior to the reclassification as a disposal group held for sale in the consolidated balance sheet of Group, an impairment test of the non-financial assets of CPDP Prievozská, a.s. according to IAS 36 was performed. According to this impairment test, no impairment was recognized for the non-financial assets of the disposal group in 2016. In 2016 the Group gained significant influence over its investment in Global Payments s.r.o. (throughout its subsidiary Holding Card Service s.r.o.) and classified its investment as an associate.

Investments in Associates

Investments in associates are accounted for using the equity method. Under the equity method, an interest in an associate is recognised on the balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity. The Group's share of the associate's result is recognised in the statement of profit or loss and other comprehensive income. Entities accounted for using the equity method are recognised on the basis of annual financial statements as of 31 December 2017 and for the year then ended.

Associates are entities over which Group exercises significant influence ('associates'). Significant influence is the power to participate in the financial and operating business decisions of the investee but is not control or joint control of those decisions. As a general rule, significant influence is presumed to mean a share on voting rights between 20% and 50%.

c) Accounting and Measurement Methods

Foreign Currency Translation

The consolidated financial statements are presented in Czech crowns. The functional currency is the currency of the primary business environment in which an entity operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

For foreign currency translation, spot exchange rates quoted by the Czech National Bank are used. For Group entities using the Euro as functional currency, these are the European Central Bank ('ECB') reference rates.

(i) Transactions and Balances in Foreign Currency

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

(ii) Translation of the Statements of Group Companies

Assets and liabilities of foreign operations (foreign subsidiaries and branches) are translated into Group's presentation currency, the Czech crown, at the rate of exchange as of the balance sheet date (closing rate). Their consolidated statements of income and consolidated statements of comprehensive income are translated at average exchange rates calculated on the basis of daily rates. Goodwill, intangible assets recognised on acquisition of foreign subsidiaries (i.e. customer relationships and

brand) and fair value adjustments to the carrying amounts of assets and liabilities on the acquisition are treated as assets and liabilities of the foreign subsidiaries and are translated at the closing rate. Exchange differences arising on translation are recognised in other comprehensive income. On disposal of a foreign subsidiary, the cumulative amount of translation differences recognised in other comprehensive income is recognised in the income statement under the line item 'Other operating result'.

Financial instruments – Recognition and Measurement

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

The Group uses the following categories of financial instruments:

- Financial assets or financial liabilities at fair value through profit or loss
- Available-for-sale financial assets
- Held-to-maturity investments
- Loans and receivables
- Financial liabilities measured at amortised cost.

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

(i) Initial Recognition

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

(ii) Initial Measurement of Financial Instruments

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

(iii) Cash and Cash Balances

Balances with central banks include only claims (deposits) against central banks which are repayable on demand. Repayable on demand means that it may be withdrawn at any time or with a term of notice of only one business day or 24 hours. Mandatory minimum reserves are also shown under this position.

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

(iv) Derivative Financial Instruments

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

For presentation purposes derivatives are split into:

- Derivatives – held for trading; and
- Derivatives – hedge accounting.

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

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

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

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

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

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

(v) Financial Assets and Financial Liabilities – Held for Trading

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

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

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

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

(vi) Financial Assets or Financial Liabilities Designated at Fair Value Through Profit or Loss

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

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

Financial assets – designated at fair value through profit or loss are recorded on the balance sheet at fair value under the line item 'Financial assets – designated at fair value through profit or loss', with changes in fair value recognised in the income statement under the line item '' Result from financial assets and liabilities designated at fair value through profit or loss'. Interest earned on debt instruments is reported under the line item 'Net interest income'. Dividend income on equity instruments is shown under the line item 'Dividend income'.

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

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

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

Financial liabilities designated at fair value through profit or loss are reported in the balance sheet under the line item 'Financial liabilities designated at fair value through profit or loss' further broken down into 'Deposits from customers' and 'Debt securities issued'. Changes in fair value are recognised in the income statement under the line item 'Result from financial assets and liabilities designated at fair value through profit or loss'. Interest incurred is reported under the line item 'Net interest income'.

(vii) Financial Assets – Available for Sale

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

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

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

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

If the fair value of investments in non-quoted equity instruments cannot be measured reliably, they are recorded at cost less impairment. This is the case when the range of reasonable fair value estimates as calculated by valuation models is significant and the probabilities of the various estimates cannot be reasonably assessed. There is no market for such investments. In 2017, as part of IFRS 9 implementation, valuation models for investments in unquoted equities were developed. The Bank considers that these models deliver reliable fair value measurement. As a result, these investments were remeasured to fair value throughout 2017. The remeasurement effects are disclosed in Note 16 Financial assets – available for sale.

(viii) Financial Assets – Held to Maturity

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

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

(ix) Loans and Receivables

The balance sheet line items 'Loans and receivables to credit institutions' and 'Loans and receivables to customers' include financial assets meeting the definition of loans and receivables. Furthermore, finance lease receivables that are accounted for using IAS 17 are presented under these balance sheet line items.

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

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

After initial recognition, loans and receivables are measured at amortised cost. Finance lease receivables are subsequently measured as specified in the chapter 'Leasing'. Interest income earned is included under the line item 'Net interest income' in the income statement. Impairment losses arising from loans and receivables are recognised in the income statement under the line item 'Net impairment loss on financial assets'.

(x) Financial Liabilities Measured at Amortised Cost

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

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

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

(xi) 'Day 1' Profit

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

(xii) Relationships between Statement of Financial Position Items, Measurement Methods and Categories of Financial Instruments:

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

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

Embedded Derivatives

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

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

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented on the statement of financial position under the line item 'Derivatives' in financial assets – held for trading or financial liabilities – held for trading and under the line item 'Deposits from customers' in financial assets – designated at fair value throught profit or loss or financial liabilities – designated at fair value throught profit or loss.

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

Reclassifications of Financial Assets

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

Derecognition of Financial Assets and Financial Liabilities

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

- The contractual rights to receive cash flows from the asset have expired; or

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

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

Repurchase and Reverse Repurchase Agreements

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

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

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

Securities Lending and Borrowing

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

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

Impairment of Financial Assets and Credit Risk Losses of Contingent Liabilities

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

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

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

In order to maximise collection opportunities and minimise the number of defaults, Group renegotiates loans to customers in financial difficulties (referred to as forbearance cases). Both retail and corporate loans can be subject to forbearance. Under the Group's forbearance policy, loan forbearance can be granted if the debtor is currently in default or if there is a high risk of default, there is evidence that the debtor made all

efforts to pay according to the original contractual terms and it is expected that the debtor is able to meet the revised terms. Revised terms could be extended maturity, instalment reduction, changing the timing of the interest payments, interest reduction or forgiveness, revolving exposure change to instalments.

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

For assessment at portfolio level, the Group uses the incurred but not reported losses concept; indications of impairment are observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. It identifies the time period between the moment of the loss event causing future problems and actual detection of the problems by the Group at the moment of default. Credit risk losses resulting from contingent liabilities are recognised if it is probable that there will be an outflow of resources to settle a credit risk bearing contingent liability that will result in a loss.

(i) Financial Assets Carried at Amortised Cost

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

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

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

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

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

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

(ii) Available-for-sale Financial Assets

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

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

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

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

recognised under the other comprehensive income item 'Available for sale reserve' has to be reclassified to the income statement as part of an impairment loss under the line item 'Net impairment loss on financial assets'.

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

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

(iii) Contingent Liabilities

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

Hedge Accounting

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

(i) Fair Value Hedges

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

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

(ii) Cash Flow Hedges

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

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

Offsetting Financial Instruments

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

Determination of Fair Value

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

Details on valuation techniques applied for fair value measurement and on fair value hierarchy are disclosed in Note 42 Fair value of assets and liabilities.

Leasing

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

The Group as a Lessor

The lessor in the case of a finance lease reports a receivable from the lessee under the line item 'Loans and receivables to customers' or 'Loans and receivables to credit institutions'. The receivable is equal to the present value of the contractually agreed payments taking into account any residual value. Interest income on the receivable is reported in the income statement under the line item 'Net interest income'.

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

Lease agreements in which The Group is the lessor almost exclusively comprise finance leases.

The Group as a Lessee

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

Business Combinations and Goodwill

(i) Business Combinations

Business combinations are accounted for using the acquisition method of accounting. Goodwill represents the future economic benefits resulting from the business combination, arising from assets that are not individually identified and separately recognised. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests and the fair value of the previously held equity interest over the net of the acquisition-date amounts of the identifiable assets acquired as well as the liabilities assumed. At the acquisition date, the identifiable assets acquired and the liabilities assumed are generally recognised at their fair values.

If, after reassessment of all components described above, the calculation results in a negative amount, it is recognised as a bargain purchase gain and reported in the income statement under the line item 'Other operating result' in the year of acquisition.

Non-controlling interests that are present ownership interests in the acquiree are measured at the proportionate share of the acquiree's identifiable net assets. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Acquisition costs incurred are expensed and included under the income statement line item 'Other operating result'.

(ii) Goodwill and Goodwill Impairment Testing

Goodwill arising on acquisition of a business is carried at cost as established as of the date of acquisition of the business less accumulated impairment losses, if any. Goodwill is tested for impairment annually in November, or whenever there is an indication of possible impairment during the year, with any impairment determined recognised in profit or loss. The impairment test is carried out for each cash-generating unit (CGU) to which goodwill has been allocated. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is tested for impairment by comparing the recoverable amount of each CGU to which goodwill has been allocated with its carrying amount. The carrying amount of a CGU is based on the amount of net asset value allocated to the CGU taking into account any goodwill and unamortised intangible assets recognised for the CGU at the time of business combination.

The recoverable amount is the higher of a CGU's fair value less costs of disposal and its value in use. Where available, the fair value less costs of disposal is determined based on recent transactions, market quotations or appraisals. The value in use is determined using a discounted cash flow model (DCF model), which incorporates the specifics of the banking business and its regulatory environment. In determining value in use, the present value of future earnings distributable to shareholders is calculated.

The estimation of future earnings distributable to shareholders is based on financial plans for the CGUs as agreed by the management while taking into account the fulfilment of the respective regulatory capital requirements. The planning period is five years. Any forecasted earnings beyond the planning period are derived on the basis of the last year of the planning period and a long-term growth rate. The present value of such perpetual earnings growing at a stable rate (referred to as terminal value) takes into consideration macroeconomic parameters and economically sustainable cash flows for each CGU.

The cash flows are determined by subtracting the annual capital requirement generated by a change in the amount of risk-weighted assets from the net profit. The capital requirement was defined through the target tier 1 ratio in light of the expected future minimum regulatory capital requirements.

The value in use is determined by discounting the cash flows at a rate that takes into account present market rates and the specific risks of the CGU. The discount rates have been determined based on the capital asset pricing model (CAPM). According to the CAPM, the discount rate comprises a risk-free interest rate together with a market risk premium that itself is multiplied by a factor that represents the systematic market risk (beta factor). Furthermore, a country-risk premium component is considered in calculation of the discount rate. The values used to establish the discount rates are determined using external sources of information.

Where the recoverable amount of a CGU is less than its carrying amount, the difference is recognised as an impairment loss in the income statement under the line item 'Other operating result'. The impairment loss is allocated first to write down the CGU's goodwill. Any remaining impairment loss reduces the carrying amount of the CGU's other assets, though not to an amount lower than their fair value less costs of disposal. No impairment loss is recognised if the recoverable amount of the CGU is higher than or equal to its carrying amount. Impairment losses relating to goodwill cannot be reversed in future periods.

Property and Equipment

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

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

The estimated useful lives are as follows:

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

Land is not depreciated.

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

Investment Properties

Investment property is property (land and buildings or part of a building or both) held for the purpose of earning rental income or for capital appreciation. In the case of partial own use, the property is investment property only if the owner-occupied portion is insignificant. Investments in land and buildings under construction, where the future use is expected to be the same as for investment property, are treated as investment property.

Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and impairment. Investment property is presented in the statement of financial position in the line item 'Investment properties'.

Rental income is recognised in the line 'Rental income from investment properties and other operating leases'. Depreciation is presented in the income statement in the line item 'Depreciation and amortisation' using the straight-line method over an estimated useful life. The useful lives of investment properties are identical to those of buildings reported under property and equipment. Any impairment losses, as well as their reversals, are recognised under the income statement line item 'Other operating result'.

Property Held for Sale (Inventory)

The Group also invests in property that is held for sale in the ordinary course of business or property in the process of construction or development for such sale. This property is presented as 'Other assets' and is measured at the lower of cost and net realisable value in accordance with IAS 2 Inventories.

The cost of acquiring inventory includes not only the purchase price but also all other directly attributable expenses, such as transportation costs, customs duties, other taxes and costs of conversion of inventories, etc. Borrowing costs are capitalised to the extent to which they directly relate to the acquisition of real estate.

The result from sales of these assets are recognised under the income statement line item 'Other operating result', together with costs of sales and other costs incurred in selling the assets.

Intangible Assets

In addition to goodwill, The Group's intangible assets include computer software and customer relationships, the brand, the distribution network and other intangible assets. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

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

The cost of intangible assets acquired in a business combination is their fair value as of the date of acquisition. In the case of The Group, these are brands, customer relationships and distribution networks, and they are capitalised on acquisition if they can be measured with sufficient reliability.

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

The estimated useful lives are as follows:

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

Brands are not amortised as they are assumed to have an indefinite useful life. An intangible asset has an indefinite useful life, if there are no legal, contractual, regulatory or other factors limiting that useful life. Brands are tested for impairment annually within the cash-generating unit to which they belong, and impairment is recognised if appropriate. Furthermore, each period brands are reviewed as to whether current circumstances continue to support the conclusion as to indefinite life. In the event of impairment, impairment losses are recognised in the income statement under the line item 'Other operating result'.

Impairment of Non-financial Assets (Property and Equipment, Investment Properties, Intangible Assets)

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. Testing for impairment is done at individual asset level if the asset generates cash inflows that are largely independent of those from other assets. The typical case is investment property. Otherwise the impairment test is carried out at the level of the cash-generating unit (CGU) to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For specific rules related to impairment of goodwill and impairment allocation rules for CGUs please see the chapter 'Business combinations and goodwill', part (ii) Goodwill and goodwill impairment testing.

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

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

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

Non-current Assets and Disposal Groups Held for Sale

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

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

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

Financial Guarantees

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

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

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

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

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. On the statement of financial position, provisions are reported under the line item 'Provisions'. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments) as well as provisions for litigation and restructuring. Expenses or income related to provisions are reported under the line item 'Other operating result'. However restructuring expenses are presented under line item Personnel expenses.

A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly before the end of the reporting period. Any restructuring provision only includes the direct expenditure arising from the restructuring which is necessarily entailed and is not associated with the ongoing activities of the Group.

Taxes

(i) Current Tax

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

(ii) Deferred Tax

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

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

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

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

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

Share Capital

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

Fiduciary Assets

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

Dividends on Ordinary Shares

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

Recognition of Income and Expenses

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

(i) Net Interest Income

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

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

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

Furthermore negative interest from financial liabilities and financial assets are presented in "Net interest income".

(ii) Net Fee and Commission Income

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

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

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

(iii) Dividend Income

Dividend income is recognised when the right to receive the payment is established. This line item includes dividend from shares and other equity-related securities in all portfolios as well as income from other investments in companies categorised as available for sale.

(iv) Net Trading Result

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

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

(v) Result from Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss

The gains and losses presented in this line item relate to changes in the clean price of assets and liabilities designated at fair value through profit or loss.

(vi) Net Result from Equity Method Investments

The line item contains result from associates recorded by applying the equity method (measured as the investor's share of profit or loss in the associates).

However, impairment losses, reversal of impairment losses and realised gains and losses on investments in associates accounted for using the equity method are reported under the line item 'Other operating result'.

(vii) Rental Income from Investment Properties & Other Operating Leases

Rental income from investment properties and other operating leases (i.e. mainly from real-estate and cars) is recognised on a straight-line basis over the lease term.

(viii) Personnel Expenses

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

(ix) Other Administrative Expenses

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

(x) Depreciation and Amortisation

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

(xi) Gains/losses on Financial Assets and Liabilities Not Measured at Fair Value Through Profit or Loss, Net

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

(xii) Net Impairment Loss on Financial Assets

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

(xiii) Other Operating Result

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

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

d) Significant Accounting Judgements, Assumptions and Estimates

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

Fair value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available judgement is required to establish fair values. Disclosures for valuation models, the fair value hierarchy and fair values of financial instruments can be found in Note 42 Fair value of assets and liabilities.

Impairment of Financial Assets

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

Disclosures concerning impairment are provided in Note 40 Risk management in the 'Credit risk' subsection '. The development of loan loss provisions is described in Note 8 Net impairment loss on financial assets not measured at fair value through profit or loss.

e) Application of Amended and New IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning on or after 1 January 2017. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Group are listed below.

Effective Standards and Interpretations

The following standards and their amendments have become mandatory for our financial year 2017, endorsed by the EU:

- Amendments to IAS 7: Disclosure Initiative
- Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses
- Annual Improvements to IFRSs 2014–2016 Cycle (amendments to IFRS 12)

Application of the above mentioned amendments did not have a significant impact on Group's financial statements.

Standards and Interpretations Not Yet Effective

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

Following standards, amendments and interpretations are not yet endorsed by the EU:

- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 40: Transfers of Investment Property
- Annual Improvements to IFRSs 2015-2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)
- IFRIC 22: Foreign Currency Transactions and Advance Consideration
- IFRIC 23: Uncertainty over Income Tax Treatments

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

Following standards, amendments and interpretations are already endorsed by the EU:

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from Contracts with Customers including Amendments to IFRS 15: Effective date of IFRS 15
- Clarifications to IFRS 15 Revenue from Contracts with Customers
- IFRS 16: Leases
- Annual Improvements to IFRSs 2014–2016 Cycle (amendments to IAS 28 and IFRS 1)

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

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

IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 addresses the classification and measurement of financial assets and liabilities, introduces new principles for hedge accounting and a new impairment model for financial assets.

The Group has reviewed its financial assets and financial liabilities in order to evaluate the impact of the first application of IFRS 9 on Group's equity and regulatory capital as of 1 January 2018 ('transition impact'). This review involved iterative financial impact studies across the Group which continued throughout 2017. Furthermore, starting with the second half of 2017, a fully-fledged parallel run of the IAS 39 production environment and the IFRS 9 test environment has been undertaken in multiple iterations. This parallel run provided significant benefits with regards to ensuring a technically correct transition to IFRS 9, but also with regards to refining the transition impact expectations. At the same time, the parallel run outputs bear an inherent degree of approximation that has been reducing along with different IFRS 9-driven functionalities being user-tested and transferred into production. Post-transition activities will continue throughout the year 2018, notably in respect of:

- Finalisation of the testing and assessment of controls over new IT-systems and changes to their governance framework;
- Validation and potential refinement of the models for expected credit loss calculations;
- Updating the policy landscape at the Group level, in all business lines directly or indirectly affected by IFRS 9.

IFRS 9 introduces two criteria for classification and measurement of financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost ('AC') only if both of the following conditions are met: a) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows ('held to collect') and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding. Measurement at fair value through other comprehensive income ('FVOCI') is applicable to financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling the assets ('hold and sell') while the condition b) is also fulfilled. All other financial assets are measured at fair value through profit or loss ('FVTPL'). The main impacts resulting from the classification and measurement model upon transition to IFRS 9 are described below.

In respect of the business model criterion, the main changes relate to financial assets classified as available-for-sale and thus measured at FVOCI under IAS 39. Debt securities at a carrying amount CZK of 1,023 million will be classified as held to collect and measured at AC under IFRS 9 due to insignificant or infrequent sales expected. In applying the business model criterion the Group has to assess the expected selling activity of financial assets. At the Group, sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory environment, severe liquidity crisis) are considered as not contradicting the 'held to collect' business model. Other kinds of sales are expected to be insignificant as to their volume. As a result, sales are incidental in the 'held to collect' business model. On the other hand, in the 'hold and sell' business model the sales of debt securities are significant and frequent and thus they are integral to meeting the business model objectives. The Group will carry out such sales in order to optimise the liquidity position or to realise the fair value gains or losses.

Regarding the contractual cash flows characteristics criterion the Group concluded that the vast majority of its loan portfolio amounting to CZK 796,219 million which is currently classified as loans and receivables will continue to be measured at AC. The carrying amount of loans that will be measured at FVTPL is CZK 2,2 billion. Further, investments in non-consolidated funds at a fair value amount of CZK 380 million classified as available-for-sale and measured at FVOCI under IAS 39 will be measured at FVTPL.

Investments in equity instruments at a carrying amount of approximately CZK 307 million currently categorised as available-for-sale will be categorised as FVTPL. The new standard provides an option to designate non-trading equity instruments at FVOCI at initial recognition without recycling into profit and loss upon impairment or derecognition. The Group will make use of this option for some equity investments that represent strategic business relationships.

Regarding classification and measurement of financial liabilities, upon transition to IFRS 9, there were no changes with the impact into the valuation of portfolios. The Group does not expect any effects of the new standard resulting from its accounting for hedges as it will continue to apply the requirements of IAS 39.

The new impairment model requires recognition of credit loss allowances ('CLA') based on expected credit losses ('ECL') rather than only incurred credit losses as is the case under IAS 39. It applies to credit risk exposures stemming from debt instruments classified at AC or FVOCI, lease receivables, financial guarantee contracts and certain loan commitments.

For credit risk exposures that are not credit-impaired at initial recognition, the Group will recognise CLA at an amount equal to 12-month ECL (referred to as 'Stage 1') for as long as no significant increase in credit risk since initial recognition ('SICR') is identified at the reporting date. In other cases, the CLA is measured at lifetime ECL and the related instruments are referred to as 'Stage 2', unless they are found to be credit-impaired at the reporting date (referred to as 'Stage 3'). For purchased or originated credit-impaired financial assets ('POCI'), only adverse changes in lifetime ECL after the initial recognition are distinctly recognised as CLA, whilst favourable changes are recognized as impairment gains increasing the carrying

amount of the related POCI assets. The measurement of ECL reflects a probability-weighted outcome, the time value of money and reasonable and supportable forward-looking information.

For lease receivables and trade receivables containing a significant financing component (where the Group also includes its factoring receivables), IFRS 9 allows a simplified impairment approach, whereby credit loss allowances are always measured at lifetime ECL. The Group will not apply this simplification.

In the area of ECL modelling and CLA calculation, the Group has identified a number of key drivers, as follows:

a) the 'credit-impaired' definition
In respect of applying the 'credit-impaired' concept of IFRS 9, the Group generally adopted the approach of aligning it with the regulatory concept of 'default' for lending exposures. If the default status exists already at an exposure's initial recognition (e.g. in the context of a significant distressed restructuring), then that exposure is recognised as POCI.

b) the SICR indicators applicable to not credit-impaired exposures
Across portfolios and product types, a number of quantitative and qualitative SICR indicators have been defined, in addition to the SICR indicator of 30 days-past-due.

Thus, SICR is quantitatively measured by reference to the adverse change, since instrument's initial recognition, in the current annualised remaining lifetime probability of default ('PD') and in the current 12-month PD. Significance of such change is assessed by reference to a combination of relative and absolute change thresholds. Current PDs are determined to reflect the current default risk as a 'point-in-time' measure. The thresholds are established at PD segment level or client rating level, as appropriate, and are subject to initial and on-going validation.

Qualitative SICR indicators include forbearance-type flags, a work-out transfer flag, information from early-warning-system that is not sufficiently reflected in the rating grades, as well as fraud indicators. The assignment of some specific qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and timely. Besides the qualitative indicators defined on client level, the assessment of significant increase in credit risk is performed on portfolio level if the increase in credit risk on individual instrument or client level is only available with a certain time lag or is observable exclusively on portfolio level.

Upon transition to IFRS 9 the SICR has to be determined in respect of PDs which existed at instruments' initial recognition. Where retrospective identification of PDs at initial recognition was not possible without undue cost or effort, the Group implemented the following sequence of approximation methods: closest rating to initial recognition, re-rating based on historic data with current rating model, best possible rating for the relevant portfolio at the time, first available rating.

Application of the 'low credit risk exemption' allowed by IFRS 9 for 'investment grade' or other 'low risk'-deemed assets (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) will be limited to particular types of debt securities and counterparty categories, and only if supported by sufficient 'low risk' evidence at local level.

c) ECL modelling
The key risk parameters used in the measurement of ECLs – PD, loss given default ('LGD') and exposure at default ('EAD') – are derived from internally developed statistical models and other historical data that leverage regulatory models.

The PD describes a probability that a client will default on the related loan obligation. The 12-month PD reflects the estimated probability of default within one year from the reporting date, whilst the lifetime PD indicates the estimated probability of default until instrument's maturity and cumulates conditional marginal 12-month PD estimates attributable to each year until maturity. The PD estimation methods used in the Group depend on the segmentation criteria defined by the relevant local strategic risk management units. The applicable estimation methods include average default rate analysis and internal/external migration matrices and consider adjustments to the point-in-time estimate.

The LGD captures the loss rate in the case of default. In general, the selection of estimation method depends on portfolio, and whether the loss curve is defined on LGD segment, client or account level. The LGD estimation methods applicable in the Group include a simple scenario approach and an advanced multiple scenario approach. For defaulted exposures, the calculation methodology provides for a probability-weighted average of pre-defined work-out scenarios (cooperative or non-cooperative client).

The EAD that is attributable to any given future year throughout an on-balance exposure's remaining maturity is approximated on the basis of exposure's current gross carrying amount multiplied by an amortization coefficient that depends on exposure's contractual repayment type. For off-balance not credit-impaired exposures, the EAD approximation is based on the current nominal amount of the exposure, multiplied by the credit conversion factor.

d) Consideration of forward-looking information ('FLI')
Measurement of ECLs and SICR assessment require further consideration of FLI, which the Group has addressed by introducing a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. These are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by the Group's research department. Given multiple scenarios, the 'neutral' PD (and also LGD, with a few exceptions) are adjusted through macro models which link relevant macroeconomic variables with risk drivers. Thus, the unbiased, probability-weighted ECL is derived with the weights representing the occurrence probabilities of each macroeconomic scenario. Typical macroeconomic

variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market.

e) Period of exposure to credit risk

Apart from using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Group will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options). This extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for revolving credit facilities with unspecified maturity and/or cancellable at short notice and for which the day-to-day internal credit risk management activities are customarily performed on a portfolio basis only, best estimates of the period of exposure to credit risk have been developed at entity level across the Group, based on the available data history and expert judgement. Such estimates generally range from 2 to 4 years, with few exceptions, and vary depending on product type, client segment and lender entity. Retail credit cards and overdrafts are among the exposure types the most relevant for such estimates.

Transition to IFRS 9 is expected to result in an increase of the 2018 opening balance of credit loss allowances compared to the 2017 closing balance of loan loss provisions under IAS 39 (including provisions for off-balance exposures treated under IAS 37) by 11 %. Equity impact resulting from the loan provision increase due to the initial application of IFRS 9 has been partly compensated by e.g. clarification of interest income under IFRS 9, deferred tax and re-measurement of financial assets due to the transfer between portfolios.

Overall, the IFRS 9 transition is expected to result in a before-tax decrease of Group's equity by approximately CZK 1,231 million, thereof approximately CZK 919 million relates to retained earnings (accumulated effects which would have impacted profit or loss in previous periods, in connection with all financial instruments subject to classification-driven re-measurement and/or ECL calculation upon transition) and approximately CZK 312 million to accumulated OCI (accumulated effects which would have impacted other comprehensive income in previous periods, in connection with both financial assets classified at FVOCI and financial liabilities retrospectively designated at FVTPL upon transition). Further, the associated before-tax reduction of the CET 1 ratio is estimated in the amount of 5 basis points (Basel 3 phase-in). The related deferred tax impact depends on the fiscal treatment of the incremental differences between the tax values and the IFRS 9-based re-measured accounting values of the affected assets and liabilities, which can vary across the tax jurisdictions of the Group and which, in several of these jurisdictions is yet to be decided by the relevant fiscal authorities. Currently, the Group estimates that the consolidated deferred tax impact upon transition to IFRS 9 is likely to be favourable, meaning that it would mitigate the above estimates of decrease in accounting equity and CET 1. The Group does not apply the transitional provisions for IFRS 9 acc. to Art. 473a CRR when calculating regulatory own funds.

The new standard also resulted in amended IFRS requirements regarding presentation and disclosure. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in 2018. In anticipation of such changes, the Group has already implemented significant updates of the structure of the financial statements (both main components and explanatory notes). Such updates have also taken into account the applicable changes in the regulatory reporting requirements (notably FINREP related) as stipulated (or in advanced process of being decided) by the EU Commission or the relevant national regulators, respectively.

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

IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2018. Clarifications to IFRS 15 were issued in April 2016. IFRS 15 specifies how and when an entity recognises revenue from contracts with customers. It also requires such entities to provide users of financial statements with more informative and more relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. Also in the areas of variable considerations and capitalisation of cost IFRS 15 provides modified regulations. The standard is not focused on recognition of revenues from financial instruments. Hence, on the basis of the analyses performed throughout 2017, the application of this standard is not expected to have a significant impact on the Group's financial statement.

IFRS 16 Leases (IASB Effective Date: 1 January 2019)

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

The analysis and planning of proper IT solutions for the requirements of IFRS 16 have continued throughout 2017. At the same time the assessment of the contracts has been in focus. The role out of proper IT structure is planned to be realised in 2018.

Since the analysis of the impact of IFRS 16 has not yet been completed, no quantitative estimates with respect to the effects of the transition to IFRS 16 can be made at this time. The significant enhancement of the Group's balance sheet due to implementation of IFRS 16 is expected.

Regarding the transition method the Group is planning to follow the modified retrospective approach with recognition of the adjustments arising out of the first time application of IFRS 16, if any, in equity at the date of initial application. The applicable discount rate will be the one determined at the date of initial application.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (IASB effective date 1 January 2019)

Amendments to IAS 19 were issued in February 2018 and are effective for annual periods beginning on or after 1 January 2019. The amendments require that if a plan amendment, curtailment or settlement occurs, it is mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. Application of these amendments is not expected to have a significant impact on Group's financial statements.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (IASB effective date 1 January 2019)

Amendments to IAS 28 were issued in October 2017 and are effective for annual periods beginning on or after 1 January 2019. The amendments clarify that a company applies IFRS 9 Financial Instruments including its impairment requirements to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. Application of these amendments is not expected to have a significant impact on Group's financial statements.

Amendments to IAS 40: Transfers of Investment Property (IASB effective date: 1 January 2018).

Amendments to IAS 40 were issued in December 2016 and are effective for annual periods beginning on or after 1 January 2018. The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 and specify that such a transfer should only be made when there has been a change in use of the property. Application of these amendments is not expected to have a significant impact on Group's financial statements.

Annual Improvements to IFRSs 2014–2016 Cycle (IASB effective date: 1 January 2018)

In December 2016, the IASB issued a set of amendments to various standards. The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018. Application of these amendments is not expected to have a significant impact on Group's financial statements.

Annual Improvements to IFRSs 2015–2017 Cycle (IASB effective date: 1 January 2019)

In December 2017, the IASB issued a set of amendments to various standards. The amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 are effective for annual periods beginning on or after 1 January 2019. Application of these amendments is not expected to have a significant impact on Group's financial statements.

IFRIC 22: Foreign Currency Transactions and Advance Consideration (IASB effective date: 1 January 2018).

IFRIC 22 was issued in December 2016 and is effective for annual periods beginning on or after 1 January 2018. The interpretation relates to considerations denominated in a foreign currency received or paid in advance of the recognition of the related asset, expense or income. It clarifies, that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability in such cases. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Application of the interpretation is not expected to have a significant impact on Group's financial statements.

IFRIC 23: Uncertainty over Income Tax Treatments (IASB effective date: 1 January 2019)

IFRIC 23 was issued in June 2017 and is effective for annual periods beginning on or after 1 January 2019. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. An entity is required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. If the entity concludes that it is not probable that a particular tax treatment is accepted by a taxation authority, the entity has to use the most likely amount or the expected value of the tax treatment. Otherwise the treatment used in the tax filings is applied. An entity has to reassess its judgements and estimates if facts and circumstances change. Application of the interpretation is not expected to have a significant impact on Group's financial statements.

C. Notes to the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Financial Position of Česká spořitelna, a.s.

1. Net Interest Income

in CZK million	2017	2016
Interest income		
Financial assets held for trading	1,553	1,088
Financial assets designated at fair value through profit or loss	15	13
Available-for-sale financial assets	660	726
Loans and receivables	21,134	21,924
Held-to-maturity investments	4,150	4,471
Derivatives – Hedge accounting, interest rate risk	224	115
Other assets	26	12
Negative interest from financial liabilities measured at amortised costs	386	92
Total interest income	**28,148**	**28,441**
Interest expenses		
Financial liabilities held for trading	(1,015)	(977)
Financial liabilities measured at amortised cost	(1,755)	(2,059)
Derivatives – Hedge accounting, interest rate risk	6	110
Other liabilities – Negative interest from loans and receivables	(34)	(3)
Total interest expenses	**(2,798)**	**(2,929)**
Net interest income	**25,350**	**25,512**

For financial assets or liabilities that are not measured at fair value through profit or loss, the total interest income amounted to CZK 26,580 million (2016: CZK 27,340 million) and the total interest expense to CZK (1,783) million (2016: CZK (1,952) million). Net interest income for these items is therefore CZK 24,797 million (2016: CZK 25,388 million).

Interest income on impaired financial assets accrued amounted to CZK 124 million (2016: CZK 295 million).

2. Net Fee and Commission Income

in CZK million	2017	2016
Securities	1,184	1,024
Clearing and settlement	166	206
Asset management	844	719
Custody	220	176
Payment services	4,211	4,813
Customer resources distributed but not managed	892	755
Insurance products	644	460
Building society brokerage	248	295
Lending business	1,348	1,689
Other	(62)	(74)
Net fee and commission income	**8,803**	**9,308**
Fee and commission income	**11,981**	**12,777**
Fee and commission expenses	**(3,178)**	**(3,469)**

The fee and commission income and expense, which are presented in this table, are not an integral part of the effective interest rate.

3. Dividend Income

in CZK million	2017	2016
Financial assets – designated at fair value through profit or loss	11	43
Financial assets – available for sale	53	43
Dividend income	**64**	**86**

4. Net Trading Result and Fair Value Result

in CZK million	2017	2016
Net trading result	2,788	2,908
Securities and derivatives trading	867	1,546
Foreign exchange transactions	1,921	1,362
Gains or losses from hedge accounting	(52)	(11)
Net trading result	**2,736**	**2,897**

in CZK million	2017	2016
Result from measurement/sale of financial assets designated at fair value through profit or loss	14	(7)
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(21)	(37)
Result from financial assets and liabilities designated at fair value through profit or loss	**(7)**	**(44)**

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

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

The portion of trading gains resulting from trading assets transferred to Erste Group Bank and reported within Net trading result is as follows:

in CZK million	2017	2016
Realised and unrealised gains on trading assets	655	572
Foreign exchange trading	174	211
Total	**829**	**783**

5. Rental Income from Investment Properties & Other Operating Leases

in CZK million	2017	2016
Investment properties	212	418
Other operating leases	60	60
Rental income from investment properties & other operating leases	**272**	**478**

6. General Administrative Expenses

in CZK million	2017	2016
Personnel expenses	**(9,224)**	**(9,169)**
Wages and salaries	(6,584)	(6,566)
Compulsory social security	(2,109)	(2,046)
Other personnel expenses	(531)	(557)
Other administrative expenses	**(6,970)**	**(6,863)**
Deposit insurance contribution	(217)	(200)
IT expenses	(2,608)	(2,513)
Expenses for office space	(1,367)	(1,391)
Office operating expenses	(697)	(680)
Advertising / marketing	(974)	(917)
Legal and consulting costs	(278)	(405)
Sundry administrative expenses	(829)	(757)
Depreciation and amortization	**(2,046)**	**(2,114)**
Software and other intangible assets	(978)	(918)
Owner occupied real estate	(634)	(703)
Investment property	(65)	(124)
Office furniture and equipment and sundry property and equipment	(369)	(369)
General administrative expenses	**(18,240)**	**(18,146)**

Personnel expenses include expenses of CZK 2,109 million (2016: CZK 2,046 million) for the statutory defined contribution scheme. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Board of Directors and Supervisory Board Remuneration

in CZK million	2017	2016
Remuneration	74	79

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

Headcount of full time employees per reporting date

in CZK million	2017	2016
Staff	10,171	10,299

7. Gains/losses on Financial Assets and Liabilities not Measured at Fair Value Through Profit or Loss, Net

in CZK million	2017	2016
From sale of financial assets available for sale	214	1,423
From sale of financial assets held to maturity	64	–
From sale of loans and advancess	(3)	(2)
From repurchase of liabilities measured at amortised cost	(4)	–
Gains/losses on financial assets and liabilities not measured at fair value through profit or loss, net	**271**	**1,421**

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

8. Net Impairment Loss on Financial Assets Not Measured at Fair Value Through Profit or Loss

in CZK million	2017	2016
Financial assets – available for sale	4	3
Loans and receivables	(37)	(1,909)
Allocation to risk provisions	(9,985)	(4,472)
Release of risk provisions	9,446	2,088
Direct write-offs	(272)	(168)
Recoveries recorded directly to the income statement	774	643
Financial assets – held to maturity	–	1
Net impairment loss on financial assets not measured at fair value through profit or loss	**(33)**	**(1,905)**

9. Other Operating Result

in CZK million	2017	2016
Other operating expenses	**(2,612)**	**(1,500)**
Allocation to other provisions	(667)	(565)
Allocation to provisions for commitments and guarantees given	(1,518)	(537)
Recovery and resolution fund	(427)	(398)
Other operating income	**1,414**	**828**
Release of other provisions	801	703
Release of provisions for commitments and guarantees given	1,457	218
Result from properties/movables/other intangible assets other than goodwill	(440)	273
Result from other operating expenses	(404)	(366)
Other operating result	**(1,198)**	**(672)**

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

Due to the existence of the impairment's indication in 2017 the Bank recognized in the line "Result from properties/movables/other intangible assets other than goodwill" impairment loss of non-financial assets (buildings) in the amount of CZK 702 million.

Based on the EU Directive and the related binding Delegated Act, banks in the EU are obliged to contribute to the Single Resolution Mechanism (SRM) from 2015. The rules were incorporated into the Czech law in December 2015 with the effective day 1 January 2016. The new law reflects the definition of SRM contributions and the changes in the deposit insurance premium calculation. In 2017 the final annual contribution paid to resolution fund in the amount of CZK 427 million was reported within the line "Recovery and resolution fund" (2016: CZK 398 million).

Result from other operating expenses/ income includes sales of electric energy and gas by subsidiary Energie CS of CZK 1,470 million (2016: CZK 1,562 million), the related cost of sales for 2017 were CZK 1,520 million (2016: CZK 1,485 million).

10. Taxes on Income

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

in CZK million	2017	2016
Current tax expense	(3,503)	(3,789)
current period	(3,499)	(3,785)
prior period	(4)	(4)
Deferred tax expense / income	88	319
current period	88	319
Total	**(3,415)**	**(3,470)**

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

in CZK million	2017	2016
Pre-tax profit/loss	18,027	18,925
Income tax expense for the financial year at the domestic statutory tax rate (19%)	(3,425)	(3,596)
Non-taxable income	455	811
Non-deductible expenses	(459)	(732)
Other	(87)	51
Prior period over/(under) accrual	101	(4)
Total	**(3,415)**	**(3,470)**
Effective tax rate	**18.95%**	**18.33%**

In 2016 non-taxable income was positively influenced by the income from the sale of merchant acquiring business.

Tax effects relating to each component of other comprehensive income:

in CZK million	2017			2016		
	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Before-tax amount	Tax benefit	Net-of-tax amount
Available for sale-reserve	(1,197)	227	(970)	(841)	160	(681)
Unrealized profits / (losses) on revaluation	(980)	187	(793)	585	(112)	473
Reclassification adjustments to the income statement	(217)	40	(177)	(1,426)	271	(1,155)
Cash flow hedge-reserve	(2,719)	517	(2,202)	297	(57)	240
Gains and losses on the hedging instruments	(2,719)	517	(2,202)	297	(57)	240
Other comprehensive income	**(3,916)**	**744**	**(3,172)**	**(544)**	**103**	**(441)**

11. Appropriation of Profit

Management of the Group has proposed that total dividends of CZK 11,704 million be declared in respect of the profit for the year ended 31 December 2017, which represents 77 CZK per both ordinary and preference share (2016: CZK 11,552 million, that is, CZK 76 per both ordinary and preference share). The declaration of dividends is subject to the approval of the Annual General Meeting. Dividends paid to shareholders are subject to a withholding tax of 15% or a percentage set out in the relevant double tax treaty. Dividends paid to shareholders that are tax residents of an European Union member country and whose interest in a subsidiary's share capital is no less than 10% and that hold the entity's shares for at least one year are not subject to withholding tax.

Management of the Group proposed that AT1 (see Note 34 Total equity for descriprition of AT1) distribution would be CZK 604,4 million (2016: CZK 623,7 million) from total nominal value of EUR 300 million. In 2016 management of the Group further transferred the whole balance of the Bank's Legal and statutory reserve in the amount of CZK 3,040 million into Retained earnings. Both AT1 distribution and transfer of the Bank's Legal and statutory reserve were subject to the approval of the Annual General Meeting.

12. Cash and Cash Balances

in CZK million	2017	2016
Cash on hand	25,104	24,144
Cash balances at central banks	253,017	146,720
Other demand deposits	2,100	2,236
Cash and cash balances	**280,221**	**173,100**

A portion of 'Cash balances at central banks' includes mandatory reserve deposits in the amount of CZK 12,389 million (2016: CZK 6,419 million), which do not form part of cash and cash equivalents. 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.

Other demand deposits consist of current accounts and overnight deposits with credit institutions.

Cash and Cash Equivalents

in CZK million	2017	2016
Cash on hand	25,104	24,144
Nostro accounts at central banks (net of mandatory reserve deposits)	240,628	140,301
Treasury bills and treasury bonds with maturity of less than three months	7	–
Nostro accounts with credit institutions	948	1,121
Loro accounts with credit institutions (Note 31)	(14,852)	(15,682)
Total cash and cash equivalents	**251,835**	**149,884**

13. Derivatives – Held for Trading

in CZK million	2017			2016		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**648,321**	**10,057**	**(9,506)**	**578,244**	**11,548**	**(11,271)**
Interest rate	307,765	6,571	(6,146)	315,612	8,976	(8,684)
Equity	–	–	–	550	24	(7)
Foreign Exchange	340,556	3,481	(3,359)	260,778	2,458	(2,492)
Commodity	–	5	(1)	1,304	90	(88)
Derivatives held in the banking book	**51,871**	**1,244**	**(1,908)**	**62,537**	**1,809**	**(2,606)**
Interest rate	9,429	755	(28)	14,708	1,155	(19)
Foreign exchange	42,442	489	(1,880)	47,829	654	(2,587)
Total	**700,192**	**11,301**	**(11,414)**	**640,781**	**13,357**	**(13,877)**

14. Other Trading Assets

in CZK million	2017	2016
Debt securities	132	351
General governments	91	97
Credit institutions	41	254
Loans and advances	–	7,236
Other trading assets	**132**	**7,587**

Money-market instruments classified as trading assets (i.e. reported within Other trading assets) amounted to CZK 0 million (2016: CZK 7,236 million).

15. Financial Assets Designated at Fair Value Through Profit and Loss

in CZK million	2017	2016
Equity instruments	53	29
Debt securities	289	331
General governments	–	17
Credit institutions	289	314
Loans and advances	65	63
Financial assets – at fair value through profit and loss	**407**	**423**

16. Financial Assets – Available for Sale

in CZK million	2017	2016
Equity instruments	1,717	1,355
Debt securities	53,566	79,919
General governments	36,787	61,992
Credit institutions	6,902	8,978
Other financial corporations	2,106	2,257
Non-financial corporations	7,771	6,692
Financial assets – available for sale	**55,283**	**81,274**

Equity instruments classified as available for sale amounted to CZK 1,717 million (2016: CZK 1,355 million). Equity instruments consist of stocks and other equity instruments.

17. Financial Assets – Held to Maturity

in CZK million	Gross carrying amount		Collective allowances		Net carrying amount	
	2017	2016	2017	2016	2017	2016
General governments	152,206	155,267	–	–	152,206	155,267
Credit institutions	11,004	11,783	(4)	(4)	11,000	11,779
Other financial corporations	471	851	(1)	–	470	851
Non-financial corporations	3	3	–	(1)	3	2
Financial assets – held to maturity	**163,684**	**167,904**	**(5)**	**(5)**	**163,679**	**167,899**

18. Securities

In CZK million	Loans and advances to customers and credit institutions		Trading assets		Financial assets						Total	
					At fair value through profit or loss		Available for sale		Held to maturity			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Bonds and other interest-bearing securities	2,638	2,099	132	351	289	331	53,567	79,919	163,679	167,899	220,305	250,599
Listed	–	–	54	53	–	17	42,183	67,576	149,903	153,390	192,140	221,036
Unlisted	2,638	2,099	78	298	289	314	11,384	12,343	13,776	14,509	28,165	29,563
Equity-related securities	–	–	–	–	53	29	1,319	1,256	–	–	1,372	1,285
Listed	–	–	–	–	12	12	–	74	–	–	12	86
Unlisted	–	–	–	–	41	17	1,319	1,182	–	–	1,360	1,199
Equity holdings	–	–	–	–	–	–	397	99	–	–	397	99
Total	**2,638**	**2,099**	**132**	**351**	**342**	**360**	**55,283**	**81,274**	**163,679**	**167,899**	**222,074**	**251,983**

Held-to-maturity financial assets include bonds and other interest-bearing securities that are quoted in active markets and are intended to be held to maturity. Securities lending and repurchase transactions are disclosed in Note 38 Transfers of financial assets – repurchase transactions and securities lending.

19. Loans and Receivables to Credit Institutions

Loans and receivables to credit institutions

in CZK million As of 31 December 2017	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
Debt securities	1,892	–	(24)	1,868
Credit institutions	1,892	–	(24)	1,868
Loans and receivables	155,670	–	(13)	155,657
Central banks	135,515	–	–	135,515
Credit institutions	20,155	–	(13)	20,142
Total	**157,562**	**–**	**(37)**	**157,525**

Loans and Receivables to Credit Institutions

in CZK million As of 31 December 2016	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**

As at 31 December 2017, the Bank granted financial institutions and central banks loans of CZK 139,276 million (2016: CZK 4,535 million) under reverse repurchase transactions which were collateralised by securities amounting to 137,831 CZK million (2016: CZK 4,606 million).

Allowances for Loans and Receivables to Credit Institutions

in CZK million	As of Dec 16	Allocations	Release	As of Dec 17
Specific allowances	**(1)**	**(4)**	**5**	**–**
Loans and receivables	(1)	(4)	5	–
Credit institutions	(1)	(4)	5	–
Collective allowances	**(10)**	**(55)**	**28**	**(37)**
Debt securities	(7)	(27)	10	(24)
Credit institutions	(7)	(27)	10	(24)
Loans and receivables	(3)	(28)	18	(13)
Credit institutions	(3)	(28)	18	(13)
Total	**(11)**	**(59)**	**33**	**(37)**

in CZK million	As of Dec 15	Allocations	Release	As of Dec 16
Specific allowances	**(1)**	**(7)**	**7**	**(1)**
Loans and receivables	(1)	(7)	7	(1)
Credit institutions	(1)	(7)	7	(1)
Collective allowances	**(13)**	**(3)**	**6**	**(10)**
Debt securities	(9)	–	2	(7)
Credit institutions	(9)	–	2	(7)
Loans and receivables	(4)	(3)	4	(3)
Credit institutions	(4)	(3)	4	(3)
Total	**(14)**	**(10)**	**13**	**(11)**

20. Loans and Receivables to Customers

Loans and Receivables to Customers

in CZK million As of 31 December 2017	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
Debt securities with customers	774	–	(4)	770
Non-financial corporations	774	–	(4)	770
Loans and receivables to customers	650,319	(9,730)	(2,665)	637,924
General governments	17,182	–	(11)	17,171
Other financial corporations	18,492	(135)	(51)	18,306
Non-financial corporations	247,570	(5,720)	(1,873)	239,977
Households	367,075	(3,875)	(730)	362,470
Total	**651,093**	**(9,730)**	**(2,669)**	**638,694**

in CZK million As of 31 December 2016	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
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 Dec 16	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/–)	As of Dec 17	Amounts written off	Recoveries of amounts previously written off
Specific allowances	**(13,015)**	**(6,806)**	**3,435**	**6,728**	**124**	**(270)**	**74**	**(9,730)**	**(272)**	**774**
Loans and receivables to customers	(13,015)	(6,806)	3,435	6,728	124	(270)	74	(9,730)	(272)	774
General governments	(1)	(4)	–	5	–	–	–	–	–	–
Other financial corporations	(145)	(70)	69	9	–	–	2	(135)	–	–
Non-financial corporations	(6,861)	(3,535)	694	3,882	78	(50)	72	(5,720)	(220)	64
Households	(6,008)	(3,197)	2,672	2,832	46	(220)	–	(3,875)	(52)	710
Collective allowances	**(2,524)**	**(3,116)**	**–**	**2,685**	**–**	**272**	**14**	**(2,669)**	**–**	**–**
Debt securities with customers	(2)	(4)	–	2	–	–	–	(4)	–	–
Non-financial corporations	(2)	(4)	–	2	–	–	–	(4)	–	–
Loans and receivables to customers	(2,522)	(3,112)	–	2,683	–	272	14	(2,665)	–	–
General governments	(11)	(15)	–	15	–	–	–	(11)	–	–
Other financial corporations	(32)	(74)	–	55	–	–	–	(51)	–	–
Non-financial corporations	(1,671)	(1,908)	–	1,642	–	50	14	(1,873)	–	–
Households	(808)	(1,115)	–	971	–	222	–	(730)	–	–
Total	**(15,539)**	**(9,922)**	**3,435**	**9,413**	**124**	**2**	**88**	**(12,399)**	**(272)**	**774**

in CZK million	As of Dec 15	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/–)	As of Dec 16	Amounts written off	Recoveries of amounts previously written off
Specific allowances	**(14,307)**	**(3,828)**	**2,855**	**1,638**	**295**	**334**	**(2)**	**(13,015)**	**(168)**	**643**
Loans and receivables to customers	(14,307)	(3,828)	2,855	1,638	295	334	(2)	(13,015)	(168)	643
General governments	(1)	(1)	–	1	–	–	–	(1)	–	–
Other financial corporations	(127)	(52)	–	34	–	–	–	(145)	–	–
Non-financial corporations	(6,874)	(2,078)	835	802	129	327	(2)	(6,861)	(120)	60
Households	(7,305)	(1,697)	2,020	801	166	7	–	(6,008)	(48)	583
Collective allowances	**(2,005)**	**(634)**	**–**	**437**	**–**	**(323)**	**1**	**(2,524)**	**–**	**–**
Debt securities with customers	(2)	(81)	–	81	–	–	–	(2)	–	–
Non-financial corporations	(2)	(81)	–	81	–	–	–	(2)	–	–
Loans and receivables to customers	(2,003)	(553)	–	356	–	(323)	1	(2,522)	–	–
General governments	(1)	(10)	–	–	–	–	–	(11)	–	–
Other financial corporations	(17)	(20)	–	5	–	–	–	(32)	–	–
Non-financial corporations	(1,254)	(403)	–	273	–	(288)	1	(1,671)	–	–
Households	(731)	(120)	–	78	–	(35)	–	(808)	–	–
Total	**(16,312)**	**(4,462)**	**2,855**	**2,075**	**295**	**11**	**(1)**	**(15,539)**	**(168)**	**643**

Starting January 2017 the Group 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.

21. Derivatives – Hedge Accounting

in CZK million	As of 31 December 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	**11,893**	**12**	**(20)**	**4,453**	**21**	**(12)**
Interest rate	11,893	12	(20)	4,453	21	(12)
Cash flow hedge	**90,690**	**601**	**(1,793)**	**45,997**	**498**	**(440)**
Interest rate	61,560	253	(1,686)	29,898	455	(54)
Foreign exchange	29,130	348	(107)	16,099	43	(386)
Total	**102,583**	**613**	**(1,813)**	**50,450**	**519**	**(452)**

22. Equity Method Investments

in CZK million	2017	2016
Financial institutions	762	753
Total	**762**	**753**

The table below shows the aggregated financial information of companies accounted for using the equity method:

in CZK million	2017	2016
Total assets	3,631	3,022
Total liabilities	3,631	3,022
Income	1,971	1,040
Protit (Loss)	18	(20)

None of the Group's investments accounted for using the equity method published price quotations.

Significant Equity Method Investments where the Group Has Strategic Interest

in CZK million	2017 Global Payments s.r.o.	2016 Global Payments s.r.o.
Country of Incorporation	Czech Republic	Czech Republic
Place of business	Czech Republic	Czech Republic
Main business activity	Payment services	Payment services
Ownership% held	10%	10%
Voting rights held%	10%	10%
IFRS Classification (JV/A)	Associate	Associate
Reporting currency	CZK	CZK
Cash and cash balances	55	43
Other current assets	2,030	1,366
Non-current assets	1,546	1,613
Current liabilities	2,061	1,470
Non-current liabilities	1,570	1,552
Post-tax result from continuing operations	18	(20)
Total comprehensive income	18	(20)
Depreciation and amortization	(212)	(114)
Interest expense	(7)	(6)
Tax expense/income	(32)	(20)
Net assets attributable to Group	353	344
Carrying goodwill included in the cost of investment	409	409
Carrying amount	762	753

23. Unconsolidated Structured Entities

in CZK million	2017	2016
Carrying amount of assets	436	437
Fair value of liquidity support drawn	73	–
Total	**509**	**437**

The Group is involved as an investor in a number of unconsolidated public or private investment funds registered in the Czech Republic or other foreign jurisdictions. Some of these funds are managed by asset management subsidiaries of the Group, but the Group is not a significant investor in these funds. The interests of the Group in these funds mostly take the form of redeemable fund unit investments measured at fair value on the Group's balance-sheet, and are classified as either available for sale or held for trading equity instruments.

24. Property, Equipment and Other Assets

a) At cost

Property and Equipment – Acquisition and Production Costs

in CZK million	Land and buildings (used by the Group)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Property and equipment	Investment properties
Balance as of 1 Jan 2016	**20,891**	**4,665**	**1,971**	**27,527**	**8,335**
Additions in current year (+)	284	266	218	768	18
Disposals (–)	(989)	(344)	(231)	(1,564)	(4,321)
Reclassification (+/–)	–	7	(7)	–	–
Assets held for sale (–)	–	–	–	–	(418)
Balance as of 31 Dec 2016	**20,186**	**4,594**	**1,951**	**26,731**	**3,613**
Additions in current year (+)	983	248	189	1,420	5
Disposals (–)	(1,632)	(478)	(165)	(2,275)	–
Reclassification (+/–)	–	88	(88)	–	–
Assets held for sale (–)	(126)	–	–	(126)	–
Transfers (+/–)	–	(13)	13	–	–
Balance as of 31 Dec 2017	**19,411**	**4,439**	**1,900**	**25,750**	**3,618**

b) Accumulated Depreciation

Property and Equipment – Accumulated Depreciation

in CZK million	Land and buildings (used by the Group)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Property and equipment	Investment properties
Balance as of 1 Jan 2016	**(10,045)**	**(3,534)**	**(1,630)**	**(15,209)**	**(3,386)**
Depreciation (–)	(703)	(242)	(127)	(1,072)	(124)
Disposals (+)	840	334	224	1,398	1,940
Impairment (–)	(1,390)	(2)	–	(1,392)	109
Assets held for sale (+)	–	–	–	–	238
Balance as of 31 Dec 2016	**(11,298)**	**(3,444)**	**(1,533)**	**(16,275)**	**(1,223)**
Depreciation (–)	(634)	(240)	(129)	(1,003)	(65)
Disposals (+)	1,422	449	165	2,036	6
Impairment (–)	(702)	–	–	(702)	
Reversal of impairment (+)	–	–	–	–	36
Assets held for sale (+)	107	–	–	107	–
Transfers (+/–)	–	11	(11)	–	–
Balance as of 31 Dec 2017	**(11,105)**	**(3,224)**	**(1,508)**	**(15,837)**	**(1,246)**

c) Carrying Amounts

Property and Equipment

in CZK million	Land and buildings (used by the Group)	Office and plant equipment/other fixed assets	IT assets (Hardware)	Property and equipment	Investment properties
Balance as of 1 Jan 2016	**10,846**	**1,131**	**341**	**12,318**	**4,949**
Balance as of 31 Dec 2016	**8,888**	**1,150**	**418**	**10,456**	**2,390**
Balance as of 31 Dec 2017	**8,306**	**1,215**	**392**	**9,913**	**2,372**

In 2017, rental income arising from investment property amounted to CZK 212 million (2016: CZK 418 million), see Note 5 Operating expenses related to investment property amounted to CZK 65 million (2016: CZK 124 million).

As at 31 December 2017, the fair value of investment property amounted to CZK 2,372 million (2016: CZK 2,569 million). Collateral held for investment property financing amounted to CZK 90 million in 2017 (2016: CZK 211 million).

The balances as at 31 December 2017 shown above include CZK 1,064 million (2016: CZK 459 million) in property and equipment under construction.

The acquisition cost of fully depreciated tangible assets still in use was CZK 4,645 million as at 31 December 2017 (2016: CZK 4,676 million).

25. Intangible Assets

a) At Cost

Acquisition and Production Costs

in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Intangible assets
Balance as of 1 Jan 2016	**43**	**11,447**	**5,664**	**17,154**
Additions in current year (+)	–	1,158	90	1,248
Disposals (–)	–	(394)	(254)	(648)
Reclassification (+/–)	–	514	(514)	–
Balance as of 31 Dec 2016	**43**	**12,725**	**4,986**	**17,754**
Additions in current year (+)	74	1,299	194	1,567
Disposals (–)	–	(299)	(2,393)	(2,692)
Reclassification (+/–)	–	(2)	2	–
Balance as of 31 Dec 2017	**117**	**13,723**	**2,789**	**16,629**

b) Amortisation

Amortisation

in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Intangible assets
Balance as of 1 Jan 2016	**(9)**	**(7,831)**	**(5,348)**	**(13,188)**
Amortisation charge (–)	–	(817)	(101)	(918)
Disposals (+)	–	395	252	647
Impairment (–)	–	(11)	–	(11)
Reclassification	–	(682)	682	–
Balance as of 31 Dec 2016	**(9)**	**(8,946)**	**(4,515)**	**(13,470)**
Amortisation charge (–)	–	(902)	(76)	(978)
Disposals (+)	–	287	2,392	2,679
Impairment (–)	–	(6)	–	(6)
Reclassification (+/–)	–	47	(47)	–
Balance as of 31 Dec 2017	**(9)**	**(9,520)**	**(2,246)**	**(11,775)**

c) Carrying Amounts

Property and Equipment

in CZK million	Goodwill	Software acquired	Other (licenses, patents, etc.)	Intangible assets
Balance as of 1 Jan 2016	**34**	**3,616**	**316**	**3,966**
Balance as of 31 Dec 2016	**34**	**3,779**	**471**	**4,284**
Balance as of 31 Dec 2017	**108**	**4,203**	**543**	**4,854**

Other intangible assets include licenses and know-how. In addition, the item includes CZK 1,105 million in intangibles under construction as at 31 December 2017 (2016: CZK 1,275 million).

The acquisition cost of fully amortised intangible assets still in use was CZK 2,707 million as at 31 December 2017 (2016: CZK 4,992 million).

26. Tax Assets and Liabilities

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

The Group has assessed tax losses totalling CZK 163 million (2016: CZK 151 million) that will expire in 2018 and which were not included in the calculation of the deferred tax asset as it is not probable that future taxable profit will be available against which the unused tax losses can be utilised.

Temporary differences relate to the following items:

in CZK million	Tax assets 2017	Tax assets 2016	Tax liabilities 2017	Tax liabilities 2016	Net variance 2017			Net variance 2016		
					Total	Through profit or loss	Through other comprehensive income	Total	Through profit or loss	Through other comprehensive income
Loans and advances to credit institutions and customers	139	329	(55)	–	(245)	(245)	–	23	23	–
Financial assets – available for sale	–	–	(4)	(608)	604	377	227	155	(5)	160
Property and equipment	3	6	–	(12)	9	9	–	466	466	–
Financial liabilities at amortized cost (deposits and bond issues)	–	7	–	–	(7)	(7)	–	(4)	(4)	–
Sundry provisions	–	208	–	–	(208)	(208)	–	60	60	–
Other	5	631	692	(613)	679	162	517	(278)	(221)	(57)
Effect of netting gross deferred tax position	853	(1 045)	(853)	1 045	–	–	–	–	–	–
Total deferred taxes	**1,000**	**136**	**(220)**	**(188)**	**832**	**88**	**744**	**422**	**319**	**103**
Current taxes	**341**	**611**	**(89)**	**(109)**	**–**	**–**	**–**	**–**	**–**	**–**
Total taxes	**1,341**	**747**	**(309)**	**(297)**	**–**	**–**	**–**	**–**	**–**	**–**

27. Other Assets

in CZK million	2017	2016
Prepayments and accrued income	324	1,213
Assets under construction/unfinished goods/inventory	131	95
Sundry assets	1,652	2,328
Other assets	**2,107**	**3,636**

'Sundry assets' consist mainly not invoiced receivables from customers relations of CZK 398 million (2016: CZK 432 million).

28. Assets Held for Sale and Liabilities Associated with Assets Held for Sale

in CZK million	2017	2016
Assets held for sale	19	320
Liabilities associated with assets held for sale	–	125

Having met the qualifying criteria of IFRS 5, tangible assets and the disposal of CPDP Prievozská , a.s. (real-estate property fund) are presented for the financial year ending 31 December 2016 under the balance sheet line item 'Assets held for sale' and 'Liabilities associated with assets held for sale'.

29. Other Trading Liabilities

in CZK million	2017	2016
Deposits	–	4,105
Other financial corporations	–	4,009
Non financial corporations	–	96
Other trading liabilities	**–**	**4,105**

The amount of other trading liabilities concluded with trading intention (i.e. short-term profit taking) was as of 31 December 2017 CZK 0 million (2016: CZK 4,105 million).

30. Financial Liabilities Designated at Fair Value Through Profit and Loss

in CZK million	2017	2016
Deposits	1,240	1,997
Non financial corporations	2	2
Households	1,238	1,995
Financial liabilities designated at fair value through profit and loss	**1,240**	**1,997**

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

Fair Value Changes that Are Attributable to Changes in Own Credit Risk

in CZK million	Amount of change in fair values attributable to changes in credit risk for the period		Amount of cumulative change in fair values attributable to changes in credit risk	
	2017	2016	2017	2016
Financial liabilities – at fair value through profit or loss				
Deposits from customers	–	(4)	3	3

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

31. Financial Liabilities Measured at Amortised Costs

in CZK million	2017	2016
Deposits	1,177,229	901,158
Deposits from banks	295,232	114,282
Deposits from customers	881,997	786,876
Debt securities issued	1,805	9,173
Bonds	1,805	9,173
Other financial liabilities	895	1,019
Financial liabilities measured at amortised costs	**1,179,929**	**911,350**

In 2017 Other financial liabilities included mainly Payables to securities clearing entities of CZK 367 million (2016: CZK 519 million).

Deposits From Banks

in CZK million	2017	2016
Overnight deposits	14,852	15,695
Term deposits	124,464	70,713
Repurchase agreements	155,916	27,874
Deposits from banks	**295,232**	**114,282**

Deposits from Customers

in CZK million	2017	2016
Current accounts/Overnight deposits	746,262	679,889
General governments	62,372	55,874
Other financial corporations	31,506	19,402
Non financial corporations	124,667	123,163
Households	527,717	481,450
Term deposits	109,044	105,574
General governments	31	70
Other financial corporations	15,676	7,926
Non financial corporations	2,910	1,170
Households	90,427	96,408
Repurchase agreements	26,691	1,413
General governments	–	1,413
Other financial corporations	26,306	–
Non financial corporations	385	–
Deposits from customers	**881,997**	**786,876**
General governments	62,403	57,357
Other financial corporations	73,488	27,328
Non financial corporations	127,962	124,333
Households	618,144	577,858

Debt Securities Issued – Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	Bonds Traded on regulated market Yes/No	2017	2016
Mortgage bonds	CZ0002001282	November 2007	November 2017	5.90%	Yes	–	2,064
Mortgage bonds	CZ0002001407	December 2007	December 2022	floating	Yes	19	–
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	Yes	445	474
Mortgage bonds	CZ0002001423	December 2007	December 2017	5.85%	Yes	–	4,986
Mortgage bonds	CZ0002001647	December 2007	December 2017	3.90%	Yes	–	876
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	No	60	70
Mortgage bonds	CZ0002002744	December 2012	December 2021	2.75%	No	40	83
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	No	80	183
Mortgage bonds	CZ0002002777	December 2012	June 2018	1.75%	No	81	42
Mortgage bonds	CZ0002002785	December 2012	December 2019	2.50%	No	178	83
Bonds	CZ0003701054	September 2005	September 2017	x)	Yes	–	292
Promissory note	1950087	December 2017	January 2018			400	–
Promissory note	1950084	December 2017	January 2018			500	–
Cumulative change in carrying amount due to fair value hedging						2	20
Bonds issued						**1,805**	**9,173**

x) Bonds were issued with a combined yield.

Of the aggregate carrying value of the mortgage bonds, CZK 447 million (2016: CZK 455 million) was hedged against interest rate risk through interest rate swaps linked to a market floating rate. In accordance with the applicable accounting policies, these mortgage bonds are remeasured at fair value to the extent of the hedged interest rate risk.

The ISIN CZ0003701054 issues included share index option which was presented at fair value.

Information about issues of mortgage bonds and bonds which are traded on the official regulated market meaning the Prague Stock Exchange ('PSE') is included in table above. The difference between the nominal values of the issued mortgage bonds and the carrying amounts of the relevant issues in the above table arises from the difference in valuation.

Assets in cover pools used for covered bond issuance amounted to CZK 110,768 million (2016: CZK 95,680 million).

32. Provisions

in CZK million	2017	2016
Restructuring	107	149
Pending legal issues	1,843	1,857
Commitments and guarantees given	784	725
Provisions for guarantees – off balance (defaulted customers)	423	431
Provisions for guarantees – off balance (non defaulted customers)	361	294
Other provisions	44	178
Provisions for onerous contracts	8	15
Other	36	163
Provisions	**2,778**	**2,909**

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

'Provisions for legal disputes are explained in detail in Note 45.

Other provisions include 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 and an estimated amount for the Group's constructive obligation to meet any potential future claims of employees (i.e. termination payments) resulting from a fundamental reorganization introduced at the end of 2016.

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

Provisions 2017

in CZK million	As of Dec 16	Allocations	Use	Releases	Exchange rate	Reclassifi–cation	As of Dec 17
Provision for restructuring	149	–	(42)	–	–	–	107
Pending legal issues	1,857	–	(9)	(5)	–	–	1,843
Commitments and guarantees given	725	1,518	(3)	(1,454)	(2)	–	784
Provisions for guarantees – off balance sheet (defaulted customers)	431	769	(3)	(749)	(1)	(24)	423
Provisions for guarantees – off balance sheet (non-defaulted customers)	294	749	–	(705)	(1)	24	361
Other provisions	178	667	(651)	(150)	–	–	44
Provisions for onerous contracts	15	–	(5)	(2)	–	–	8
Other	163	667	(646)	(148)	–	–	36
Provisions	**2,909**	**2,185**	**(705)**	**(1,609)**	**(2)**	**–**	**2,778**

As the Group's position in the significant legal disputes did not change in 2017, the provision for legal issues and tax litigation remained at almost same amount.

Starting January 2017 the Group reports the net allocation (release) of provisions for commitments and guarantees given based on the level of each transaction separately. In 2016 the balances of provisions for commitments and guarantees given (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 these provisions.

Provisions 2016

in CZK million	As of Dec 15	Allocations	Use	Releases	As of Dec 16
Provision for restructuring	–	149	–	–	149
Pending legal issues	1,862	1,431	–	(1,436)	1,857
Commitments and guarantees given	406	537	–	(218)	725
Provisions for guarantees – off balance sheet (defaulted customers)	139	406	–	(114)	431
Provisions for guarantees – off balance sheet (non-defaulted customers)	267	132	–	(105)	294
Other provisions	316	565	(687)	(16)	178
Provisions for onerous contracts	16	7	(2)	(6)	15
Other	300	558	(685)	(10)	163
Provisions	**2,584**	**2,682**	**(687)**	**(1,670)**	**2,909**

In 2016, due to the completion of significant legal dispute the Group decided to release provision in the amount of CZK 1,432 million, due to worsen situation in case of other significant legal dispute the Group decided to create provision in the amount of CZK 1,421 million.

33. Other Liabilities

in CZK million	2017	2016
Deferred income and accrued expenses	235	220
Sundry liabilities	10,530	9,464
Other liabilities	**10,765**	**9,684**

Sundry liabilities consist mainly of unbilled supplies of CZK 1,212 million (2016: CZK 972 million), costs of staff bonuses for 2017 amounting to CZK 1,590 million (2016: CZK 1,422 million) and liabilities from payments clearing in the amount of CZK 3 million (2016: CZK 1,177 million).

In 2017 Sundry liabilities consist also items from the settlement of internal payment transactions in the amount of CZK 2,936 million (2016: CZK 2,518 million) and payables to creditors in the amount of CZK 836 million (2016: CZK 1,111 million).

34. Total Equity

in CZK million	2017	2016
Subscribed capital	15,200	15,200
Share capital	15,200	15,200
Additional paid-in capital	11	11
Other capital instruments	8,107	8,107
Retained earnings and other reserves	97,492	98,246
Owners of parent	**120,810**	**121,564**
Non-controlling interests	165	166
Total equity[1)]	**120,975**	**121,730**

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

As of 31 December 2017, subscribed capital consists of 140,788,787 voting ordinary shares and 11,211,213 preference shares. Additional paid-in capital represents the amount by which the issue price of the shares exceeded their par value. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognized in other comprehensive income.

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

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

Due to the fact, that the AT1 do not represent financial liabilities in terms of IAS 32.11, they should be classified as equity instruments.

Classification of the Notes within financial liabilities is not met from the following reasons:

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

Number of Shares and Share Capital

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

	2017		2016	
	Number of shares	**in CZK million**	**Number of shares**	**in CZK million**
Ordinary shares of CZK 100 each	140,788,787	14,079	140,788,787	14,079
Preference shares of CZK 100 each	11,211,213	1,121	11,211,213	1,121
Share capital	**152,000,000**	**15,200**	**152,000,000**	**15,200**

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

Non-controlling Interest

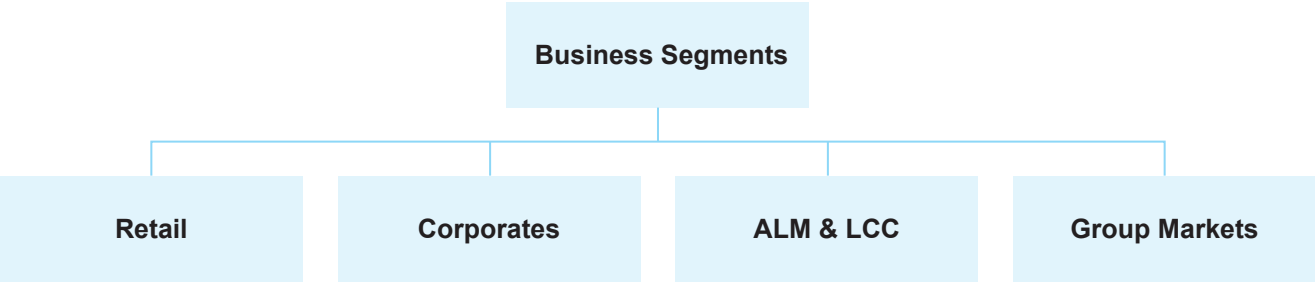
in CZK million	**2017**	**2016**
At 1 January	**166**	**(23)**
Profit for the year	2	(2)
Dividends paid to minority shareholders	(3)	–
Issuance of ordinary shares	–	191
At 31 December	**165**	**166**

35. 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.



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 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.

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.

Public Sector consists of the following three sets of customers: public sector, public corporations and non-profit sector.

Public sector includes such customers as central ministries and state funded funds and agencies, non-profit entities established by or under control of central government entities, regional governments and organizations funded by them, state capitals, public health and social insurance companies. In general, Public sector excludes banks and non-bank financial institutions (FI), pension funds, bond issuing agencies (incl. government debt agencies), asset management based organizations which are part of the Group Markets segment.

Public corporations includes all non-financial state companies and corporations with more than 50% share of state or regional governments or municipals excluding stock exchange listed companies.

Non-profit sector comprises the following private non-profit companies: central authorities of churches, labor unions and nationally significant foundations, private schools and humanitarian organizations.

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

In addition, the segment Corporates contains the 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 & LCC)

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 (LCC) 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	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Net interest income	19,293	19,852	5,501	5,193	88	346	468	121	25,350	25,512
Net fee and commission income	6,610	6,986	1,395	1,365	(453)	(108)	1,251	1,065	8,803	9,308
Dividend income	–	24	15	3	49	59	–	–	64	86
Net trading and fair value result	1,375	1,425	813	773	(412)	(291)	953	946	2,729	2,853
Net result from equity method investments	–	–	–	–	9	(10)	–	–	9	(10)
Rental income from investment properties & other operating leases	7	7	212	418	53	53	–	–	272	478
General administrative expenses	(14,164)	(13,890)	(2,890)	(2,924)	(563)	(657)	(623)	(675)	(18,240)	(18,146)
Thereof: depreciation and amortization	(1,783)	(1,784)	(213)	(243)	(8)	(8)	(42)	(42)	(2,046)	(2,077)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	(1)	(2)	2	–	270	1,423	–	–	271	1,421
Net impairment loss on financial assets not measured at fair value through profit or loss	54	(584)	31	(1,329)	(124)	16	6	(8)	(33)	(1,905)
Other operating result	(12)	259	(62)	516	(882)	(1,380)	(242)	(67)	(1,198)	(672)
Pre-tax result from continuing operations	**13,162**	**14,077**	**5,017**	**4,015**	**(1,965)**	**(549)**	**1,813**	**1,382**	**18,027**	**18,925**
Taxes on income	(2,515)	(2,627)	(916)	(600)	360	19	(344)	(262)	(3,415)	(3,470)
Net result for the period	**10,647**	**11,450**	**4,101**	**3,415**	**(1,605)**	**(530)**	**1,469**	**1,120**	**14,612**	**15,455**
Net result attributable to non-controlling interests	–	–	–	–	(2)	2	–	–	(2)	2
Net result attributable to owners of the parent	10,647	11,450	4,101	3,415	(1,607)	(528)	1,469	1,120	14,610	15,457
Operating income	27,285	28,294	7,936	7,752	(666)	49	2,672	2,132	37,227	38,227
Operating expenses	(14,164)	(13,890)	(2,890)	(2,924)	(563)	(657)	(623)	(675)	(18,240)	(18,146)
Operating result	**13,121**	**14,404**	**5,046**	**4,828**	**(1,229)**	**(608)**	**2,049**	**1,457**	**18,987**	**20,081**
Risk-weighted assets (credit risk, eop)	161,213	150,243	244,495	242,223	28,030	22,540	8,826	11,787	442,564	426,793
Average allocated capital	19,480	19,350	18,417	17,223	80,532	82,185	2,973	1,619	121,402	120,377
Cost/income ratio	51.9%	49.1%	36.4%	37.7%	(84.5%)	1340.8%	23.3%	31.7%	49.0%	47.5%
Return on allocated capital	54.7%	59.2%	22.3%	19.8%	(2.0%)	(0.6%)	49.4%	69.2%	12.0%	12.8%
Total assets (eop)	**448,525**	**421,012**	**263,264**	**244,446**	**551,849**	**376,892**	**65,585**	**24,176**	**1,329,223**	**1,066,526**
Total liabilities excluding equity (eop)	**655,689**	**618,786**	**179,148**	**168,650**	**165,048**	**114,642**	**208,363**	**42,718**	**1,208,248**	**944,796**

eop = end of period

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

From 1st January 2017 there have been changes introduced in the segment reporting of the Group – subsidiaries s Autoleasing, a.s., s Autoleasing SK, s.r.o. have been transferred from Retail to Corporates, subsidiary Energie ČS, a.s. has been transferred from Corporates to Retail. 2016 results were restated accordingly to ensure comparability.

Intersegment transactions are conducted on an arm's length basis. Intersegment settlements are subject of funds transfer pricing dependent on market interest rates. Due to the specifics of the banking business the internal charges are not reported separately and Board of Directors primarily refers to net interest income of operating segments. Non-manageable general administrative expenses are reallocated to operating segments as indirect costs.

36. Leases

a) Finance Leases

Finance leases receivables are included under the statement of financial position item 'Loans and advances to customers'.

The principal assets held under lease arrangements include vehicles and other technical equipment. For the finance lease receivables included in this item, the reconciliation of the gross investment in leases to the present value of the minimum lease payments is as follows:

in CZK million	2017	2016
Outstanding minimum lease payments	2,122	2,340
Gross investment	**2,122**	**2,340**
Unrealised financial income	(132)	(135)
Net investment	**1,990**	**2,205**
Present value of minimum lease payments	**1,990**	**2,205**

The maturity analysis of gross investment in leases and present values of minimum lease payments under non-cancellable leases is as follows (residual maturities):

in CZK million	2017	2016
< 1 year	384	450
1–5 years	1,599	1,494
> 5 years	139	396
Total	**2,122**	**2,340**

b) Operating Leases

Under operating leases, the Group leases real estate to other parties.

Operating Leases from the view of Česká spořitelna, a.s. as Lessor

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

in CZK million	2017	2016
< 1 year	37	22
1–5 years	69	30
> 5 years	18	8
Total	**124**	**60**

Operating Leases from the View of Česká spořitelna, a.s. as Lessee

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

in CZK million	2017	2016
< 1 year	524	582
1–5 years	915	512
> 5 years	305	247
Total	**1,744**	**1,341**

37. 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 standard commercial rates. Outstanding balances at the year-end are unsecured.

There were no provisions for doubtful debts related to the outstanding balances with Related Parties reported by the Group.

Loans and Advances to and Amounts Owed to Related Parties

in CZK million	2017			2016		
	Erste Group Bank AG	Other related parties	Members of the Board of Directors and Super-visory Board	Erste Group Bank AG	Other related parties	Members of the Board of Directors and Super-visory Board
Assets						
Cash and cash balances	661	55	–	657	59	–
Financial assets – held for trading	5,038		–	3,705	1	–
Loans and receivables to credit institutions	14,908	–	–	15,268	–	–
Loans and receivables to customers	–	307	22	–	191	15
Derivatives Hedge Accounting	377	–	–	90	–	–
Other assets	24	39	–	22	39	–
Liabilities						
Financial liabilities held for trading	2,949	–	–	4,308	–	–
Financial liabilities measured at amortised costs	250,029	3,355	39	73,329	1,334	32
Derivatives Hedge Accounting	69	–	–	40	–	–
Other Liabilities	92	238	–	110	201	–
Profit & Loss statement						
Net interest income	502	(2)	–	607	18	–
Net fee and commision income	39	695	–	(2)	544	–
Dividend income	–	7	–	–	6	–
Net trading and fair value result	4,569	–	–	145	1	–
Rental income from investment properties & other operating lease	–	17	–	–	10	–
Other administrative expenses	(297)	(619)	(74)	(259)	(687)	(79)
Other operating result	60	30	–	53	42	–
Loans commitments, financial guarantees and other commitments given	**–**	**–**	**–**	**16**	**68**	**–**
Loan commitments, financial guarantees and other commitments received	**22**	**53**	**–**	**977**	**–**	**–**

Financial liabilities measured at amortized costs as at 31 December 2017 include primarily repurchase agreements in CZK 155,916 million and term deposits of CZK 97,507 million.

The repurchase agreements are mainly denominated in CZK (CZK 104,584 million as at 31 December 2017) and EUR (CZK 48,922 million as at 31 December 2017), the interest rates on repurchase agreements are in the range of 0,2% to 7,5% and maturity of these transactions is up to 12 months.

The term deposits are mainly denominated in CZK and EUR, the interest rates on term deposits are in the range of 2,7% to 7,4% andmaturity of these transactions is up to 52 months.

Both financial assets held for trading and financial liabilities held for trading as at 31 December 2017 include derivative instruments only (currency and interest rate derivative instruments). The net trading result consists primarily of foreign currency gains/ losses from derivative transactions and also currency revaluation result from other balance sheet positions with related parties denominated in foreign currencies.

Loans and receivables to credit institutions – Erste Group Bank AG include primarily standard money-market deposits, denominated in EUR (CZK 7,882 million as at 31 December 2017) and CZK (CZK 5,000 million as at 31 December 2017).

Loans and receivables to customers – Investments in subsidiaries include long-term and short-term loans denominated in CZK with average interest rates of 0.69% and 1.03 %. to Erste Leasing, a.s. and s Autoleasing, a.s. respectively.

38. Transfers of Financial Assets – Repurchase Transactions and Securities Lending

in CZK million	2017		2016	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements				
Trading assets	1	1	–	–
Financial assets – available for sale	2,781	2,565	–	–
Financial assets – held to maturity	70,119	72,810	25,658	29,294
Total – repurchase agreements	**72,901**	**75,376**	**25,658**	**29,294**
Securities lendings				
Loans and advances to customers	–	7,578	–	–
Financial assets – held to maturity	6,216	6,402	5,292	5,834
Total – securities lendings	**6,216**	**13,980**	**5,292**	**5,834**
Total	**79,117**	**89,356**	**30,950**	**35,128**

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

The total amount of CZK 72,901 million (2016: CZK 25,658 million) represents the carrying amount of financial assets under the respective statement of financial position items for which the transferee has a right to sell or repledge.

Liabilities from repo transactions in the amount of CZK 75,376 million (2016: CZK 29,294 million), which are measured at amortised cost, represent an obligation to repay the borrowed funds.

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

in CZK million	2017			2016		
	Fair value of transferred assets	Fair value of associated liabilities	Net position	Fair value of transferred assets	Fair value of associated liabilities	Net position
Trading assets	1	1	–	–	–	–
Financial assets – available for sale	2,781	2,565	**216**	–	–	–
Financial assets – held to maturity	74,540	72,964	**1,576**	29,376	29,314	**62**
Total	**77,322**	**75,530**	**1,792**	**29,376**	**29,314**	**62**

39. Offsetting

Financial Assets Subject to Offsetting and Potential offsetting Agreements in 2017

in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
			Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	11,914	11,914	6,675	2,489	–	2,750
Reverse repurchase agreements	139,276	139,276	–	–	137,831	1,445
Total	**151,190**	**151,190**	**6,675**	**2,489**	**137,831**	**4,195**

Financial Liabilities Subject to Offsetting and Potential Offsetting Agreements in 2017

in CZK million	Gross amounts in balance sheet	Amounts set off against financial assets	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Derivatives	13,227	–	13,227	6,675	1,594	–	4,959
Repurchase agreements	182,607	–	182,607	–	–	182,607	–
Total	**195,834**	**–**	**195,834**	**6,675**	**1,594**	**182,607**	**4,959**

Financial Assets Subject to Offsetting and Potential offsetting Agreements in 2016

in CZK million	Gross amounts in balance sheet	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
			Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	13,875	13,875	8,244	3,801	–	1,830
Reverse repurchase agreements	4,535	4,535	–	–	4,606	(71)
Total	**18,410**	**18,410**	**8,244**	**3,801**	**4,606**	**1,759**

Financial Liabilities Subject to Offsetting and Potential Offsetting Agreements in 2016

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

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

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

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

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

40. Risk Management

Risk Management Strategy

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

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

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

Risk Management Organization and Decision Bodies

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

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

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

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

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

Risk management activities in the Bank's subsidiaries are undertaken by persons independent of the business units. The Strategic Risk Management Department of the Bank provides specialist guidance to and oversees the staff involved in managing credit risk in the subsidiaries and is responsible for monitoring the subsidiaries' portfolios. Market risks including interest rate risk and liquidity within the Group are managed by the Bank.

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

40.1 Risk and Capital Management

Overview

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

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

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

Risk Appetite Statement and Risk Materiality Assessment

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

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

Internal Capital Assessment Process and Stress Testing

With respect to the Internal Capital Adequacy Assessment Process ('ICAAP') the Group has been using the Erste Group Bank methodology, which serves as a uniform set of rules for capital management within the Group.

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

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

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

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

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

Statement of Capital for the Bank's Capital Adequacy Calculation on a Standalone Basis as Reported to the Regulator in Accordance with Applicable Rules* as of 31 December 2017 and as of 31 December 2016:

in CZK million	2017	2016
Tier 1 capital	96,460	94,203
Tier 1 + Tier 2 capital	99,696	97,217
Risk exposure to credit risk	450,850	411,494
Risk exposure to market risk	9,669	8,361
Risk exposure to operational risk	75,309	64,464
Total risk exposure	**535,828**	**484,319**
Capital adequacy ratio for the year (Tier 1 ratio)	**18.0%**	**19.5%**
Capital adequacy ratio for the year (Tier 1+ Tier 2 ratio)	**18.6%**	**20.1%**

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

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

40.2 Credit Risk

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

Credit Risk Management Methodology

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

Breakdown of the Portfolio for Credit Risk Management Purposes

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

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

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

- **Retail receivables** are receivables from individuals/ households and small enterprises with an annual turnover of up to CZK 60 million ('MSE'). The methods of managing the credit risk of retail receivables are based on statistical models calibrated using historical data.
- **Receivables from corporate counterparties** include receivables from small and medium sized enterprises with an annual turnover of between CZK 60 to 2,000 million ('SME') receivables from large businesses (with an annual turnover exceeding CZK 2,000 million) and public sector receivables, factoring receivables and lease receivables. While the methods of managing the credit risk of corporate receivables are based on statistical models (particularly for the portfolio of receivables from mid-size enterprises), great emphasis is also put on regular, discrete analysis of individual customers.
- **Receivables arising from specific products provided by the subsidiaries** represent specialised financial products that require their own risk management techniques reflecting their specifics. These largely include factoring receivables, leasing receivables, instalment sales, loans issued to finance the acquisition of securities and construction savings loans. The portfolios of these products are regularly monitored both on an individual basis (for individually significant exposures) and a portfolio basis.

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

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

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

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

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

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

Collection of Key Risk Management Information

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

Internal Rating Tools

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

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

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

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

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

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

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

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

In compliance with the regulatory requirements arising from BASEL III, rating instruments are subject to annual validations performed by the Credit Risk Controlling Department, Erste Group Bank Competence Centre and Internal Audit. The application of internal rating tools is limited for certain specialised products provided by the subsidiaries, hence the internal rating tools are not used by all of the entities included in the Group, specifically s Autoleasing a.s., Erste Factoring, a.s. and brokerjet České spořitelny, a.s. The principal reason relates to the lack of appropriate input data used in arriving at the internal rating and monitoring receivables which the clients are obliged to provide to the Group. As such, these products require an increased level of loan collateral.

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

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 III are met: full repayment unlikely, interest or principal payments on a material exposure more than 90 days past due, restructuring resulting in a loss to the lender, realisation of a loan loss, or initiation of bankruptcy proceedings. For purposes of analysing non-performing positions, Group applies the customer view. Accordingly, if an 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 decreased from 1.40% (or CZK 10.411 million) in 2016 to 1.08% (or CZK 12.043 million) in 2017. This can be explained by effect of diversification between industry sectors which exceeded increase coming from strong single-name concentration (especially to the Czech Government).

In terms of expected loss riskiness portfolio improved from 0.24% in 2016 to 0.12% in 2017, mainly because of increased exposures in fully collateralized repurchase operations. In terms of comparison of VaR to Tier 1 capital (on consolidated level) the indicator increased from 11.05% in 2016 to 12.49% in 2017.

Structure of Approval Authorities

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

Risk Parameters

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

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

All models are back tested at least annually and validated by the Group's specialists who are independent of the Risk Managemen t Department.

Impairment Allowance for Loan Losses

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

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

Management of Credit Risk in the Trading Portfolio

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

Collateral

The Group defines collateral as assets that can be realized in case the primary source of repayment fails. Collateralisation of the Group's receivables represents the Group's protection as a creditor

that may be used as a secondary source of payment. The selection of individual collateral instruments required to secure a specific deal depends on the Group's loan products, requirements and professional assessment by the Group's responsible employees. The possibility to pledge the collateral is always assessed before the collateral is accepted by the Group.

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

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

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

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

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

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

Credit Risk Pricing

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

Stress Testing

The Group regularly performs stress testing of the sensitivity of its portfolio to the deterioration of the credit quality of receivables. In addition to the sensitivity of the portfolio to stress changes in the PD and LGD risk factors, the Group performs scenario analyses modelling the impact of adverse developments in macroeconomic factors (such as changes in the economic growth rate, changes in interest rates and changes in inflation). The breakdown of credit risk by industries is shown in Note 40.2.

Forborne Exposures

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

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

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

Write-offs

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

a) Structure of 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	2017	2016
Credit risk NET exposures relating to on-balance sheet items		
Other demand deposits	2,100	2,236
Financial assets held for trading – derivatives	11,301	13,357
Financial assets held for trading – debt securities	132	7,587
Financial assets designated at fair value through profit or loss – debt securities	354	394
Available-for-sale financial assets – debt securities	53,566	79,919
Loans and receivables to credit institutions	157,525	22,328
Loans and receivables to customers	638,694	577,453
General governments	17,171	19,117
Other financial corporations	18,306	10,286
Non-financial corporations	240,747	217,410
Households	362,470	330,640
Held-to-maturity investments	163,679	167,899
Derivatives – Hedge accounting	613	519
Credit risk exposure relating to off-balance sheet items		
Irrevocable financial guarantees given	19,461	19,465
Irrevocable loan commitments given	115,052	100,971
Total	**1,162,477**	**992,128**

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

The resulting credit exposure as at 31 December 2017 and 2016 represents a worst case scenario, without taking into account any collateral held or other related credit enhancements. For presented assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 68.5% of the total exposure is derived from loans and advances to financial institutions and customers (2016: 60.5%); 18.7% represents investments in debt securities (2016: 25.8%).

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

Collateral securing the above receivables is as follows:

in CZK million	2017	2016
Loans and advances to credit institutions	133,663	–
Loans and advances to customers	299,061	274,305
Trading assets	–	4,042
Total	**432,724**	**278,347**

Type of collateral securing the above receivables is as follows:

in CZK million	2017	2016
Guarantees	20,704	22,066
Real estate	257,469	232,494
Other (securities & other financial assets)	154,551	23,787
Total	**432,724**	**278,347**

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

b) 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 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	–	–	16,026	–	–	–	–	14	2,394	18,434
Mining	–	–	1,657	–	–	–	–	30	67	1,754
Manufacturing	–	–	61,659	–	–	–	2,098	145	19,584	83,486
Energy and water supply	–	–	22,363	–	–	–	1,719	349	3,180	27,611
Construction	–	–	9,352	–	–	–	–	3	13,987	23,342
Trade	–	–	44,588	–	–	–	–	74	10,133	54,795
Transport and communication	–	–	16,000	–	–	–	3,870	266	7,310	27,446
Hotels and restaurants	–	–	5,377	–	–	–	–	21	1,119	6,517
Financial and insurance services	2,100	157,562	18,494	11,475	41	354	9,009	8,260	3,478	210,773
Real estate and housing	–	–	74,653	3	–	–	–	134	10,231	85,021
Services	–	–	22,141	–	–	–	84	19	5,425	27,669
Public administration	–	–	16,044	152,206	91	–	36,786	2,548	6,815	214,490
Education, health and art	–	–	6,095	–	–	–	–	51	1,114	7,260
Private households	–	–	336,644	–	–	–	–	–	49,676	386,320
Total	**2,100**	**157,562**	**651,093**	**163,684**	**132**	**354**	**53,566**	**11,914**	**134,513**	**1,174,918**

Gross Credit Risk Exposure by Industry and Financial Instrument in 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**

Credit Risk Exposure by Basel 3 Exposure Class and Financial Instrument

The assignment of obligors to Basel 3 exposure classes is based on legal regulations. For reasons of clarity, individual Basel 3 exposure classes are aggregated in the table below and in other tables in section 'Credit risk'. Additionally to central governments, central banks, international organisations, and multinational development banks, the aggregated exposure class 'sovereigns' contains regional and local governments as well as public sector entities. Institutions include banks and recognised investment firms.

Gross Credit Risk Exposure by Basel 3 Exposure Class and Financial Instrument in 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
Sovereign	–	135,515	15,842	159,494	91	289	40,272	2,817	6,813	361,133
Institutions	2,100	22,047	–	3,716	41	–	3,417	7,875	583	39,779
Corporates	–	–	247,824	474	–	65	9,877	1,222	68,390	327,852
Retail	–	–	387,427	–	–	–	–	–	58,727	446,154
Total	**2,100**	**157,562**	**651,093**	**163,684**	**132**	**354**	**53,566**	**11,914**	**134,513**	**1,174,918**

Gross Credit Risk Exposure by Basel 3 Exposure Class and Financial Instrument in 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
Sovereign	–	–	17,827	163,690	4,246	331	67,009	4,175	4,468	261,746
Institutions	2,236	21,047	–	3,359	205	–	3,925	6,335	569	37,676
Corporates	–	1,292	220,003	854	3,136	63	8,985	3,354	69,711	307,398
Retail	–	–	355,162	–	–	–	–	12	45,688	400,862
Total	**2,236**	**22,339**	**592,992**	**167,903**	**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 31 December 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 31 Dec 2017	**1,083,756**	**69,989**	**6,485**	**14,688**	**1,174,918**
Share of credit risk exposure	92,2%	6,0%	0,6%	1,2%	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	168,020	2,175	2,544	(5,504)	167,235
Change	18,3%	3,2%	64,6%	-27,3%	16,6%

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

Gross Credit Risk Exposure by Industry and Risk Category in 2017

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	14,446	3,460	194	334	**18,434**
Mining	1,577	177	–	–	**1,754**
Manufacturing	70,185	8,097	2,047	3,157	**83,486**
Energy and water supply	24,529	2,408	72	602	**27,611**
Construction	17,617	3,863	915	947	**23,342**
Trade	42,338	9,165	957	2,335	**54,795**
Transport and communication	22,682	4,478	106	180	**27,446**
Hotels and restaurants	3,577	2,550	171	219	**6,517**
Financial and insurance services	207,511	3,014	1	247	**210,773**
Real estate and housing	71,071	12,850	277	823	**85,021**
Services	20,595	6,055	330	689	**27,669**
Public administration	213,888	602	–	–	**214,490**
Education, health and art	5,960	1,172	17	111	**7,260**
Private households	367,780	12,098	1,398	5,044	**386,320**
Total	**1,083,756**	**69,989**	**6,485**	**14,688**	**1,174,918**

Gross Credit risk Exposure by Industry and Risk Category in 2016

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	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**

d) Financial Assets Past Their Due Dates

As at 31 December 2017 and 2016, the Group reports the following financial assets which are past their due dates, but not individually impaired:

As at 31 December 2017 in CZK million					Credit risk exposure
	Total	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
General governments	4	–	–	–	–
Credit institutions	12	–	–	–	–
Other financial corporations	101	–	–	–	–
Non-financial corporations	1,682	266	156	17	16
Households	1,660	608	359	6	8
Total	**3,459**	**874**	**515**	**23**	**24**

As at 31 December 2016 in CZK million					Credit risk exposure
	Total	Thereof 31-60 days past due	Thereof 61-90 days past due	Thereof 91-180 days past due	Thereof more than 180 days past due
General governments	12	–	–	–	–
Credit institutions	9	–	1	–	–
Other financial corporations	23	–	–	–	–
Non-financial corporations	3,179	228	77	19	4
Households	1,748	572	278	–	–
Total	**4,973**	**800**	**356**	**19**	**4**

e) Analysis of Individually Impaired Financial Assets

in CZK million	2017	2016
General governments	4	14
Credit institutions	12	11
Other financial corporations	236	168
Non-financial corporations	7,402	10,040
Households	5,534	7,755
Total	**13,188**	**17,988**

f) Exposures with Forbearance Measures – Quantitative Information

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

Analysis of Performing and Non-performing Forborne Exposures

2017

in CZK million	Forborne exposures	Performing forborne exposure	Non-perfroming forborne exposure	of which: Defaulted
Non-financial corporations	1,584	184	1,400	1,328
Households	2,491	978	1,513	1,297
Total	**4,075**	**1,162**	**2,913**	**2,625**

2016

in CZK million	Forborne exposures	Performing forborne exposure	Non-perfroming forborne exposure	of which: Defaulted
General governments	7	4	3	2
Non-financial corporations	2,566	491	2,075	1,902
Households	3,410	977	2,433	1,929
Total	**5,983**	**1,472**	**4,511**	**3,833**

Analysis of the Credit Quality of Financial Assets as Required by IFRS 7 Including Level of Impairment and Collateral as of 31 December 2017

in CZK million				Outstanding	Provisions	Collateral
	Neither past due nor impaired	Past due but not impaired	Impaired	Total forborne		
Households	991	229	1,271	2,491	753	763
Non-financial corporations	258	93	1,233	1,584	771	324
Total	**1,249**	**322**	**2,504**	**4,075**	**1,524**	**1,087**

Loans in category "past due but not impaired" are not considered impaired due to collateralization.

Analysis of the Credit Quality of Financial Assets as Required by IFRS 7 Including Level of Impairment and Collateral as of 31 December 2016

in CZK million				Outstanding	Provisions	Collateral
	Neither past due nor impaired	Past due but not impaired	Impaired	Total forborne		
General governments	5	–	2	7	–	–
Households	895	612	1,903	3,410	1,206	1,060
Non-financial corporations	322	428	1,816	2,566	1,074	797
Total	**1,222**	**1,040**	**3,721**	**5,983**	**2,280**	**1,857**

The Carrying Amount of Forborn Assets in Comparison with Other Assets Remaining the Portfolio

in CZK million			2017			2016
	Total portfolio	Forborne portfolio	Share on total portfolio	Total portfolio	Forborne portfolio	Share on total portfolio
Central banks	135,515	–	0.0%	–	–	–
General governments	17,170	–	0.0%	19,117	7	0.0%
Credit institutions	20,142	–	0.0%	21,023	–	0.0%
Other financial corporations	18,307	–	0.0%	10,286	–	0.0%
Non-financial corporations	239,977	813	0.3%	216,617	1,493	0.7%
Households	362,470	1,738	0.5%	330,640	2,203	0.7%
Total	**793,581**	**2,551**	**0.3%**	**597,683**	**3,703**	**0.6%**

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

Level of the Collective and Specific Impairment Allowance Held Against Forborne Assets

in CZK million	2017			2016		
	Specific allowances	Collective allowances	Total	Specific allowances	Collective allowances	Total
Households	687	66	753	1,128	78	1,206
Non-financial corporations	743	28	771	1,008	66	1,074
Total	**1,430**	**94**	**1,524**	**2,136**	**144**	**2,280**

Reconciliation from the Opening Balance to the Closing Balance of Forborne Assets

2017

in CZK million	General governments	Non-financial corporations	Households	Total
Opening balance (1 January 2017)	7	2,566	3 410	5 983
Inflow (+)	–	331	357	688
Outflow (–)	(5)	(164)	(384)	(553)
Changes in outstanding (+/–)	(2)	(1,150)	(891)	(2,043)
Closing balance (31 December 2017)	**–**	**1,583**	**2,492**	**4,075**

2016

in CZK million	General governments	Non-financial corporations	Households	Total
Opening balance (1 January 2016)	5	3,091	3,781	6,877
Inflow (+)	2	362	677	1,041
Outflow (–)	(1)	(124)	(255)	(380)
Changes in outstanding (+/–)	1	(763)	(793)	(1,555)
Closing balance (31 December 2016)	**7**	**2,566**	**3,410**	**5,983**

Loss from the Forborne Exposures

2017

in CZK million	Loss	Direct write-offs
Non-financial corporations	69	–
Households	16	–
Total	**85**	**–**

2016

in CZK million	Loss	Direct write-offs
Non-financial corporations	43	–
Households	125	–
Total	**168**	**–**

Interest Income from the Forborne Exposures

in CZK million	2017	2016
General governments	–	–
Non-financial corporations	78	93
Households	212	236
Total	**290**	**329**

2017

in CZK million	Modification	Refinancing	Total
Households	2,458	33	2,491
Non-financial corporations	1,449	135	1,584
Total	**3,907**	**168**	**4,075**

2016

in CZK million	Modification	Refinancing	Total
General governments	7	–	7
Households	3,376	33	3,410
Non-financial corporations	2,490	77	2,566
Total	**5,873**	**110**	**5,983**

40.3 Market Risk

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

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

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

The 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; 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; 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 (VaR) to estimate and manage the market risk of open positions held and to determine the maximum losses expected on these positions. The VaR values are calculated in a group Market Risk System (MRS) on a confidence level of 99% and one day horizon. The MRS uses historical simulation for the VaR calculation based on two years history. VaR on different probability level and/or different time horizon is derived from the VAR 99% on 1 day horizon using the scaling assuming

a normal distribution of profit and losses. For other purposes the VaR is also scaled up to one month or one year time period and probability level 99.9%. 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.

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

Apart the VAR limit also Earnings at Risk measure is calculated and checked against the EaR limit on monthly basis

The table below summarizes the VaR values as at 31 December 2017 and 2016 on the confidence level of 99%. The table has been extended because of the inclusion of credit spread risk into the relevant positions of the banking book and the trading book portfolios. The table shows only the Bank's amounts:

As at 31 December 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	10	–	10	–	–	–	–	–
Monthly value	45	(1)	45	–	–	–	–	–
Average of daily values per year	15	(1)	15	1	–	–	–	–
Average of monthly values per year	69	(5)	69	3	1	–	1	–
Banking book								
Daily value	319	(58)	280	5	–	–	–	91
Monthly value	1,494	(272)	1,312	25	1	–	–	427
Average of daily values per year	450	(53)	453	4	–	2	–	44
Average of monthly values per year	2,112	(250)	2,124	19	1	11	–	207

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. The Scenarios are based on the historical extremes and experts' opinion of the Macroeconomic Analyses Department. The stress testing is undertaken on a monthly basis and its results are reported to FMRMC. In the Comprehensive Stress testing the complex scenario impact on the Group is analysed on quarterly basis. The Group monitors financial news, analyses market movements and prepares for different scenarios with respect to the position of the economy.

Interest Rate Risk

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

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

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

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

The following table is based on the exposure of the Group to interest rates for derivative and non-derivative instruments as of the reporting date. The model assumes a fixed structure of the statement of financial position according to interest rate sensitivity. The determined changes which occurred at the beginning of the year are constant during the reported period, i.e. the model is based on the assumption that the funds released as a result of the payment or sale of interest rate assets and liabilities will be re-invested in assets and liabilities with the same interest rate sensitivity and residual maturity. A new calculation method which also takes credit spreads into account was implemented from 2014. The following table shows the impact on the income statement and other comprehensive income of the Group if the CZK or EUR yield curves sharply increased/decreased by 100 points at the beginning of the respective year and other interest rates remained unchanged.

in CZK million	**2018**		**2017**	
	Interest rate increase	**Interest rate decrease**	**Interest rate increase**	**Interest rate decrease**
CZK				
Income statement	1,039	(1,972)	2,345	(1,578)
Other comprehensive income	(4,108)	4,107	(1,252)	1,336
EUR				
Income statement	(61)	272	6	179
Other comprehensive income	347	(306)	(348)	386

Foreign Currency Risk

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

Foreign currency exposures are primarily carried by the Bank and real estate companies within the Group as they generate the bulk of their rental income in EUR. The foreign currency risk of other Group entities is limited. With regard to real estate companies, the Group uses 'inherent' hedging where the companies exposed to foreign currency risk as a result of EUR denominated rental income are refinanced by loans denominated in EUR.

Equity Risk

To monitor and manage the equity risk inherent in the trading and Banking books, the Bank uses VaR methodology and sensitivity analysis which is based on the exposure to the risk of changes in the price of shares as of the reporting date. The exposure to equity risk is limited only to warehousing of client orders. Market Making activities were transferred to Erste Group Bank

Commodity Risk

The Bank closed the business with commodity derivatives by the end of 2017. The commodity instruments appeared solely in the trading portfolio as supporting instruments for client transactions and open positions were secured on a 'back-to-back' basis with a third party.

40.4 Liquidity Risk

Definition and Overview

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.

Methods and Instruments Employed

Short-term insolvency risk is monitored by calculating the survival period for significant currencies. This analysis determines the maximum period during which the entity can survive a severe combined market and idiosyncratic crisis while relying on its pool of liquid assets. The monitored worst-case scenario simulates very limited money market and capital market access and at the same time customers' deposits significant outflow. Furthermore, the simulation assumes increased drawdown on guarantees and loan commitments dependent on the type of the customer, as well as the potential outflows from collateralised derivative transactions estimating the effect from collateral outflow in case of adverse market movements. Bank reports LCR to the national regulator according to the Delegated Act. At the end of 2017, both LCR DA and NSFR for the Bank were significantly above 100%.

Bank also reports Additional Liquidity Monitoring Metrics (ALMM) to the national regulator, which complements already existing Basel III liquidity risk ratios in the form of several detailed liquidity risk reports/measures.

Methods and Instruments of Risk Mitigation

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

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

Analysis of Liquidity Risk

Liquidity Gap

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

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

The following table shows the liquidity gaps as of 31 December 2017 and 31 December 2016

In CZK million	< 1 month		1 –12 months		1–5 years		> 5 years	
	2017	2016	2017	2016	2017	2016	2017	2016
Liquidity GAP	237,558	201,007	(17,997)	(131,391)	(216,100)	6,263	71,321	8,369

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

Counterbalancing Capacity

The Group regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserve at the central banks as well as unencumbered central bank eligible assets and other liquid securities, including changes from repos, reverse repos and securities lending transactions. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation.

The term structure of the Group's counterbalancing capacity as of year-end 2017 and year-end 2016 are shown in the tables below:

As at 31 December 2017 in CZK million	**< 1 week**
Cash, excess reserve	261,307
Liquid assets	127,274
Counterbalancing capacity	**388,581**

As at 31 December 2016 in CZK million	**< 1 week**
Cash, excess reserve	155,872
Liquid assets	176,820
Counterbalancing capacity	**332,692**

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

Financial Liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as of 31 December 2017 and 31 December 2016 respectively, were as follows:

As at 31 December 2017 in CZK million	**Carrying amounts**	**Contractual cash flows**	**< 1 month**	**112 months**	**15- years**	**> 5 years**
Non-derivative liabilities	**1,179,929**	**1,188,115**	**904,282**	**150,996**	**87,720**	**45,117**
Deposits by banks	295,232	299,283	111,113	79,982	67,808	40,380
Customer deposits	881,996	886,025	791,538	70,939	19,567	3,981
Debt securities in issue	1,805	1,911	899	75	345	592
Other financial liabilities	896	896	732	–	–	164
Derivative liabilities	**11,414**	**12,241**	**–**	**1,491**	**588**	**10,162**
Contingent liabilities	**134,513**	**134,513**	**134,513**	**–**	**–**	**–**
Financial guarantees	19,461	19,461	19,461	–	–	–
Irrevocable commitments	115,052	115,052	115,052	–	–	–
Total	**1,325,856**	**1,334,869**	**1,038,795**	**152,487**	**88,308**	**55,279**

As at 31 December 2016 in CZK million	**Carrying amounts**	**Contractual cash flows**	**< 1 month**	**112 months**	**15- years**	**> 5 years**
Non-derivative liabilities	**911,350**	**912,920**	**768,216**	**93,206**	**39,503**	**11,995**
Deposits by banks	114,282	114,446	51,166	33,809	19,900	9,571
Customer deposits	786,876	788,047	716,031	51,015	19,271	1,730
Debt securities in issue	9,173	9,408	–	8,382	332	694
Other financial liabilities	1,019	1,019	1,019	–	–	–
Derivative liabilities	**14,509**	**14,509**	**583**	**1,424**	**7,540**	**4,962**
Contingent liabilities	**120,436**	**120,436**	**120,436**	**–**	**–**	**–**
Financial guarantees	19,465	19,465	19,465	–	–	–
Irrevocable commitments	100,971	100,971	100,971	–	–	–
Total	**1,046,295**	**1,047,865**	**889,235**	**94,630**	**47,043**	**16,957**

The presentation of maturities of contractual undiscounted cash flows from financial guarantees and irrevocable commitments has been amended in order to reflect the first moment when these contingent liabilities can be exercised.

40.5 Operational Risk

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

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

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

The Group successfully passed validation for managing of operational risk according to Advanced Measurement Approaches (AMA). Based on this method a capital charge related to operational risk is properly computed and allocated since July 1st, 2009.

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

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

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

Information Disclosure and Transparency

The Company rigorously endeavours to prevent the misuse of insider information that might allow persons who have special relationships with the Company to enjoy unauthorised gains in dealing with the Company's securities. Board of Directors members and parties close to them are obliged to promptly notify the Czech National Bank of transactions with securities issued by the Company or with investment instruments derived from such securities, which they perform on their own account. Erste Bank Group's rules for securities trading are applied to ensure identical terms and conditions for all members of the Board of Directors of Erste Group Bank companies – members of the Company's Board of Directors as well as designated employees are obliged to inform the Company's Compliance Department of dealings with Erste Group Bank's shares or derivatives and to comply with an imposed trading moratorium during a stipulated period. Compliance department periodically monitors fulfillment of above obligations.

Compliance

The Company has established a Compliance Department whose principal activities include ensuring compliance of the Company's internal regulations with valid legal and regulatory requirements and their observance and ensuring compliance of the employees' conduct with the legal regulations, internal regulations, Code of Ethics and other adopted standards and rules governing employee conduct. Compliance is involved in all aspects of Company activities and administration and forms a part of its corporate culture. The Compliance Department evaluates insider information included in the Watch List and Restricted List of investment instruments as well as any dealings with investment instruments recorded in these lists. The Compliance Department informs the Company's Board of Directors and Supervisory Board of its activities on a regular basis. A list of persons with access to insider information is available with the Compliance department; the list is regularly updated.

The Compliance department also maintain Whistleblowing channels for ensuring protection of Whistleblowers reporting non-ethical or non-legal behaviour.

AML unit as integral part of Compliance department ensures meeting Company´s obligations in the area of anti money laundering

and terrorist financing and also secures the compliance of the Company's operations with sanction regimes enforced by the Czech Republic, EU, UN and OFAC.

40.6 Own Funds and Capital Requirements

Regulatory Scope of Application

Among others, CS fulfils hereinafter the disclosure requirements according to the Regulation (EU) No. 575/2013 on prudential requirements for credit institutions and investment firms (Capital Requirements Regulation – CRR for short), in detail Articles 436 (b) – (e) CRR and Articles 437 (1) (a), (d), (e) and (f) CRR.

Regulatory Requirements

Since 1 January 2014, CS has been calculating the regulatory capital and the regulatory capital requirements according to Basel 3. The requirements were implemented within the EU by the CRR and the Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (Capital Requirement Directive – CRD IV for short). The CRD IV was enacted in national law in the Banking Act and the CNB´s Decree No. 163/2014 Coll. on the performance of the activities of banks, credit unions and investment firms, as well as within various technical standards issued by the European Banking Authority (EBA).

All requirements as defined in the CRR, the Banking Act and in technical standards issued by EBA are fully applied by the Group for regulatory purposes and for the disclosure of regulatory information.

Accounting Principles

The financial and regulatory figures published by CS are based on IFRS regulatory capital components. Eligible capital components are derived from the balance sheet and income statement which were prepared in accordance with IFRS. Adjustments to the accounting figures are considered due to the different definitions in the scopes of consolidation (for details see the following chapter "Comparison of consolidation for accounting purposes and regulatory purposes" for items where the regulatory treatment is not equal to the accounting requirements).

The uniform closing date of the consolidated financial statements and consolidated regulatory figures of CS is the 31 December of each respective year.

Comparison of Consolidation for Accounting Purposes and Regulatory Purposes

Disclosure requirements: Art. 436 (b) CRR.

Scope of Consolidation

Details regarding the financial scope of consolidation are disclosed in chapter B "Significant accounting policies" especially under section "Basis of consolidation".

The regulatory scope of consolidation is used as a synonym for the scope of consolidation that follows the regulatory requirements for consolidation as defined by the CRR.

Regulatory Scope of Consolidation

The regulatory scope of consolidation is defined in Part One, Title II, chapter 2 Section 3 of the CRR.

The definition of entities to be consolidated for regulatory purposes are mainly defined in Article 4 (1) (3) and (16) to (27) CRR in conjunction with the Articles 18 and 19 CRR. Based on the relevant sections in Article 4 CRR, entities to be consolidated are determined based on the business activity of the relevant entities.

Main differences between the accounting scope and the regulatory scope based on the different requirements as defined within IFRS and CRR as well as the Banking Act:

- Based on the CRR mainly credit institutions pursuant to Article 4 (1) (1) CRR, investment firms pursuant to Article 4 (1) (2) CRR, ancillary services undertakings pursuant to Article 4 (1) (18) CRR and financial institutions pursuant to Article 4 (1) (26) CRR have to be considered within the regulatory scope of consolidation. Under IFRS all other entities not required to be consolidated under CRR, must be included in the financial scope of consolidation, as far as they fall under IFRS 10.
- Exclusion of entities from the regulatory scope of consolidation can be applied based on Article 19 CRR. According to Article 19 (1)CRR, entities can be excluded from the regulatory scope if their total assets and off-balance sheet items are less than the lower amount of either EUR 10 Million or 1% of the total amount and off-balance sheet items of the parent company. CS makes use of Article 19 (1) CRR.
- According to Article 19 (2) CRR, entities can also be excluded if the limits defined in Article 19 (1) CRR are exceeded, but are not relevant for regulatory purposes. Exclusion of entities based on Article 19 (2) CRR needs the prior approval of the competent authorities. CS does not apply Article 19 (2) CRR.

The difference between the accounting and the regulatory scope of consolidation shows in the difference between the IFRS balance sheet and the regulatory balance sheet as shown in Table 5.

Consolidation Methods

For the calculation of consolidated own funds, CS generally applies the same consolidation methods as used for accounting purposes. The difference applies only to Article 18 (4) CRR, which requires proportional consolidation of entities and financial institutions managed by an undertaking included in the consolidation together with one or more undertakings not included in the consolidation, where the liability of those undertakings is limited to the share of the equity held by the institution. CS does not apply proportional consolidation for any entity.

Consideration of Consolidation Methods for the Calculation of Consolidated Own Funds Pursuant to the CRR

The amounts used for the calculation of the own funds derive from the balance sheet based on the definition of the regulatory scope of consolidation pursuant to the CRR. Amounts that relate to the own shares as well as to the minority interests in fully consolidated entities are therefore determined based on the regulatory scope of consolidation according to CRR. Minority interests are calculated based on the requirements as defined in Articles 81 to 88 CRR. Minority interests that relate to entities other than credit institutions are excluded from the own funds. Minority interests that relate to credit institutions are limited to capital requirements that relate to the minority interests in the relevant credit institutions. CS made use of Article 84 CRR. Amounts that relate to minority interests in other comprehensive income are included in the consolidated own funds of CS according to the CRR provisions.

Consideration of Non-consolidated Financial Sector Entities and Deferred Tax Assets that Rely on Future Profitability Arising from Temporary Differences within the Calculation of Consolidated Common Equity Tier 1 of CS

Carrying amounts representing the investments in financial sector entities as defined in Article 4 (27) CRR that are not fully consolidated or considered by using the at equity consolidation method for regulatory purposes have to be deducted from the own funds based on the requirements as defined in Articles 36 (1) (h), 45 and 46 CRR for non-significant investments and Articles 36 (1) (i) CRR, Article 43, 45, 47 and 48 CRR for significant investments. For these purposes, non-significant investments are defined as investments in financial sector entities in which the participation is equal to or less than 10% of common equity Tier 1 (CET 1) of the relevant financial sector entities, while significant investments are defined as investments that are above 10% of the CET 1 of the relevant financial sector entities.

To determine the participation in the relevant financial sector entities, these participations are calculated based on the direct, indirect and synthetic holdings in the relevant entities.

According to Article 46 (1) (a) CRR, holdings in non-significant investments have to be deducted only if the total amount for such investments, including additional tier 1 items according to Art, 56 (c) and 59 CRR and Tier 2 items according to Art, 66 (c) and 70 CRR, exceeds a defined threshold of 10% in relation to CET1 of the reporting institution. Deduction shall be applied to the amount that exceeds the 10% threshold. Amounts that are equal to or less than 10% of the CET1 of the reporting institution are considered with the applicable risk weights according part 3, title II, chapter 2 respectively chapter 3 and if necessary according to the requirements of part 3, title IV within the RWAs based on the requirements according to Article 46 (4) CRR

For the deduction of significant investments in the CET1 of financial sector entities, a threshold is defined in Article 48 (2) CRR. According to Article 48 (2) CRR, significant investments in the CET1 of financial sector entities have only to be deducted if they exceed 10% of the CET1 of the reporting institution. If the 10% threshold is exceeded, the deduction is limited to the amount by which the defined threshold is exceeded. The remaining amount has to be considered within the calculation of the RWAs. The risk weight (RW) is defined at 250% according to Article 48 (4) CRR.

In addition to the aforementioned threshold, a combined threshold for the deduction of significant investments according to Article 36 (1) (i) CRR and for deferred tax assets that rely on future profitability and arise from temporary differences according to Article 36 (1) (c) CRR as well as according to Article 38 CRR is defined in Article 48 (2) CRR. The combined threshold according to Article 48 (2) CRR is defined at 17.65% of the CET1 of the reporting institution. If the threshold is exceeded, the exceeding amount has to be deducted from the CET1 of the reporting institution. The remaining amount has to be considered within the RWAs. A 250% RW shall be applied for the amount not exceeding the 17.65% threshold according to Article 48 (4) CRR.

Beside the 17.65% combined threshold, a 10% threshold related to the CET1 capital of the reporting institution is applied for deferred tax assets that rely on future profitability and arise from temporary differences according to Article 48 (3) CRR. In case the amount for deferred tax assets that rely on future profitability and which arise from temporary differences exceeds the threshold of 10% of CET1 of the reporting institution the exceeding amount has to be deducted from the CET1 of the reporting institution. The amount that is equal to or less than the threshold as defined in Article 48 (3) CRR has to be considered within the calculation of RWAs with a 250% risk weight (RW) according to Article 48 (4) CRR.

CS did not exceed any of the aforementioned thresholds at the reporting date. Hence, direct, indirect and synthetic investments in financial sector entities were not deducted from the consolidated own funds of CS and therefore are considered in RWAs.

Threshold Calculations According to Articles 46 and 48 CRR

in CZK million	Dec 17	Dec 16
Non-significant investments in financial sector entities		
Threshold (10% of CET1)	9,281	9,073
Holdings in CET1	504	217
Distance to threshold	**8,777**	**8,856**
Significant investments in financial sector entities		
Threshold (10% of CET1)	9,281	9,073
Holdings in CET1	6	6
Distance to threshold	**9,275**	**9,067**
Deferred tax assets		
Threshold (10% of CET1)	9,281	9,073
Deferred tax assets that are dependent on future profitability and arise from temporary differences	1,000	214
Distance to threshold	**8,281**	**8,858**
Combined threshold for deferred tax assets and significant investments		
Threshold (17.65% of CET1)	16,381	16,013
Deferred tax assets that are dependent on future profitability and arise from temporary differences and CET1 instruments of financial sector entities where the institution has a significant investment	1,006	220
Distance to threshold	**15,375**	**15,793**

Presentation of the Scope of Consolidation

Number of Entities within the Different Scopes of Consolidation

Dec 17	**IFRS**		**CRR**			
	Full	**Equity**	**Full**	**Proportional**	**De Minimis**	**Equity**
Credit institutions	2	–	2	–	–	–
Financial institutions, financial holding companies and mixed financial holding companies	11	–	11	–	2	–
Ancillary service undertakings, investment firms and asset management companies	7	1	7	–	3	–
Others	5	–	–	–	–	–

Dec 16	**IFRS**		**CRR**			
	Full	**Equity**	**Full**	**Proportional**	**De Minimis**	**Equity**
Credit institutions	2	–	2	–	–	–
Financial institutions, financial holding companies and mixed financial holding companies	11	–	11	–	2	–
Ancillary service undertakings, investment firms and asset management companies	8	1	8	–	3	–
Others	8	–	–	–	–	–

The number of companies consolidated pursuant to IFRS was 26 as of 31 December 2017 (30 as of 31 December 2016). The number of companies consolidated pursuant to regulatory capital requirements, except those entities which are covered by Art. 19 (1) and (2) CRR), was 20 as of 31 December 2017 (21 as of December 2016).

Impediments to the Transfer of Own Funds

Disclosure requirements: Art. 436 (c) CRR

Currently there are no restrictions or significant impediments to the transfer of financial funds or regulatory capital within the Group of credit institutions of CS. Further details can be found in chapter B "Accounting and Measurement Methods".

Total Capital Shortfall of All Subsidiaries Not Included in the Consolidation

Disclosure requirements covered: Art. 436 (d) (e) CRR

As of 31 December 2017, there was no capital shortfall at any of the companies CS included in consolidation.

Own Funds

Own funds according to the CRR consist of common equity tier 1 (CET1), additional tier 1 (AT1) and tier 2 (T2). In order to determine the capital ratios, each respective capital component – after application of all regulatory deductions and filters – is considered in relation to the total risk.

The regulatory minimum capital ratios including the regulatory buffers amount to 10.0% for CET 1 (4.5% for CET1, 2.5% capital conservation buffer, 3.0% buffer for systemic vulnerability and for systemic concentration risk and 0.0% countercyclical capital buffer), 11.5% for tier 1 capital (sum from CET1 and AT1) and 13.5% for total own funds.

The capital buffer requirements are set out in the section 12 of the Banking Act and specified in Title II of CNB´s Decree No. 163/2014 Coll. on the performance of the activities of banks, credit unions and investment firms.

According to section 12n of the Banking Act CS has to establish a capital conservation buffer in the amount of 2.5%.

According to section 12i of the Banking Act and CNB´s decision CS has to establish a systemic risk buffer in the amount of 3%.

The capital buffer requirement for the countercyclical capital buffer is regulated as follows:

- The institution specific request for the countercyclical buffer results from the weighted average of the rates of the countercyclical capital buffer that apply in the jurisdictions where significant credit risk positions are situated multiplied by the total amount of risk in accordance with Art. 92 (3), of CRR.
- For the calculation of the weighted average the countercyclical buffer quota for the national area as defined by the respective authority is multiplied with the result out of the comparison of the capital requirement related to significant credit risk positions within the national area and the total capital requirement as defined within Part 3, Title II and IV of CRR.
- If the competent authority of another member state or a third country for the national legal area determines a rate of over 2.5%, a rate of 2.5% has to be applied.
- If the responsible third country authority increases a national buffer rate, this rate is valid twelve months after the date on which the relevant third country authority has announced a change in the buffer rate; however, this does not apply if the rate decreases.

The CRD IV enables Member States to require banks to create and maintain three types of buffers – the capital conservation buffer, the systemic risk buffer and the countercyclical capital buffer – as from 2014. The CNB decided to implement these buffer requirements already during 2014. It will adopt a differentiated approach to the individual buffers. As regards the capital conservation buffer, the CNB intended to apply it to all institutions in the full amount of 2.5% of common equity Tier 1 from the start. The systemic risk buffer is applied to only four institutions including CS. With regard to the countercyclical capital buffer, the CNB Bank Board decided in late 2014 to set it initially at zero, with banks applying the zero rate for the next two years. In December 2015 CNB set countercyclical capital buffer at 0.5% starting 2017.

Overview of Capital Requirements and Buffers

	Dec 17	Dec 16
Pillar 1		
Minimum CET 1 requirement	4.50%	4.50%
Capital conservation buffer	2.50%	2.50%
Countercyclical capital buffer	0.48%	0.00%
O-SII capital buffer	0.00%	0.00%
Systemic risk buffer (SRB)	3.00%	3.00%
Combined buffer requirement (CBR)	5.98%	5.50%
Minimum Tier 1 requirement	6.00%	6.00%
Minimum Own Funds requirement	8.00%	8.00%
Pillar 2		
Pillar 2 requirement (P2R)	1.80%	4.10%
Total CET 1 requirement for Pillar 1 and Pillar 2	**11.83%**	**n.a.**
Total Tier 1 requirement for Pillar 1 and Pillar 2	**13.78%**	**15.60%**
Total Capital requirement for Pillar 1 and Pillar 2	**15.78%**	**n.a.**

The combined buffer requirement is the sum of the capital conservation buffer, the countercyclical capital buffer and the maximum of the O-SII capital buffer or the systemic risk buffer.

Capital Structure According to EU Directive 575/2013 (CRR)

in CZK million	Article pursuant to CRR	Dec 17	Dec 16
Common equity tier 1 capital (CET1)			
Capital instruments eligible as CET1	26 (1) (a) (b), 27 to 30, 36 (1) (f), 42	14,081	14,081
Own CET1 instruments	36 (1) (f), 42	–	–
Retained earnings	26 (1) (c), 26 (2)	82,358	79,214
Interim profit	26 (2)	2,663	1,566
Accumulated other comprehensive income	4 (1) (100), 26 (1) (d)	(510)	2,708
Other reserve funds	26 (1) (e)	387	385
Prudential filter: cash flow hedge reserve	33 (1) (a)	1,920	(293)
Prudential filter: cumulative gains and losses due to changes in own credit risk on fair valued liabilities	33 (1) (b)	(3)	(3)
Prudential filter: fair value gains and losses arising from the institution's own credit risk related to derivative liabilities	33 (1) (c), 33 (2)	(34)	(198)
Value adjustments due to the requirements for prudent valuation	34, 105	(499)	(347)
Other intangible assets	4 (1) (115), 36 (1) (b), 37 (a)	(4,818)	(4,060)
IRB shortfall of credit risk adjustments to expected losses	36 (1) (d), 40, 158, 159	(2,737)	(2,328)
Development of unaudited risk provisions during the year (EU No 183/2014)		1	–
Common equity tier 1 capital (CET1)	**50**	**92,809**	**90,725**
Additional tier 1 capital (AT1)			
Capital instruments eligible as AT1	51 (a), 52 to 54, 56 (a), 57	8,107	8,107
Additional tier 1 capital (AT1)	**61**	**8,107**	**8,107**
Tier 1 capital – total amount of common equity tier 1 (CET1) and additional tier 1 (AT1)	**25**	**100,916**	**98,832**
Tier 2 capital (T2)			
Capital instruments and subordinated loans eligible as T2	62 (a), 63 to 65, 66 (a), 67	1,121	1,121
IRB excess of provisions over expected losses eligible	62 (d)	2,142	1,933
Other transitional adjustments to T2	476, 477, 478, 481	–	–
Tier 2 capital (T2)	**71**	**3,263**	**3,054**
Total own funds	**4 (1) (118) and 72**	**104,179**	**101,886**
Capital requirement	**92 (3), 95, 96, 98**	**44,630**	**40,571**
CET1 capital ratio	**92 (2) (a)**	**16.64%**	**17.89%**
Tier 1 capital ratio	**92 (2) (b)**	**18.09%**	**19.49%**
Total capital ratio	**92 (2) (c)**	**18.67%**	**20.09%**

The capital structure table above is based on EBA´s final draft for implementing technical standards on disclosure for own funds published in the Official Journal of the European Union on 20 December 2013. Positions, which are not relevant for CS are not disclosed Basel 3 final figures (fully loaded) are calculated based on the current requirements according to CRR. Changes are possible due to final Regulatory Technical Standards (RTS) that are not yet available. The percentage rates of the transitional provisions refer to the current year.

With the approval granted by the CNB on 8 February 2018, CS considers the annual profit within its own funds.

Risk Structure According to EU Directive 575/2013 (CRR)

in CZK million	Article pursuant to CRR	Dec 17		Dec 16	
		Total risk (calc. base)	Capital requirement	Total risk (calc. base)	Capital requirement
Total Risk Exposure Amount	92 (3), 95, 96, 98	557,871	44,630	507,137	40,571
Risk weighted assets (credit risk)	92 (3) (a) (f)	459,151	36,732	421,028	33,682
Standardised approach		26,324	2,106	22,916	1,833
IRB approach		432,826	34,626	398,112	31,849
Trading book, foreign FX risk and commodity risk	92 (3) (b) (i) and (c) (i) and (iii), 92 (4) (b)	9,670	774	8,361	669
Operational Risk	92 (3) (e), 92 (4) (b)	85,270	6,822	73,913	5,913
Exposure for CVA	92 (3) (d)	3,781	302	3,835	307
Other exposure amounts (incl. Basel 1 floor)	**3, 458, 459, 500**	**–**	**–**	**–**	**–**

Own Funds Reconciliation

For the disclosure of own funds, CS follows the requirements under Article 437 CRR as well as the requirements defined in the Implementing Technical Standards (EU) No 1423/2013, which were published in the Official Journal of the European Union on 20 December 2013.

Based on the requirements defined by the EBA in the Implementing Technical Standards, the following information must be provided:

- A full reconciliation of CET1 items – Additional Tier 1 (AT1) items, Tier 2 (T2) items, filters and deductions applied pursuant to Articles 32 36, 56, 66 and 79 CRR – to the own funds of the institution's balance sheet in accordance with Article 437 (1) (a) CRR (see the following tables: Balance sheet, Total equity, Intangible assets, Tax assets and liabilities, Subordinated liabilities).
- A table designed by the EBA to show the capital structure of regulatory capital. Presentation of this table that shows the details on the capital structure of CS Group including the capital components as well as any regulatory deductions and prudential filters.

Disclosures in this table cover the disclosure requirements as defined in Article 437 (1) (d) CRR, separate disclosure of the nature and amounts of each prudential filter applied pursuant to Articles 32 to 35 CRR, each deduction according to Art. 36, 56 and 66 CRR as well as items not deducted in accordance with Art. 47, 48, 56, 66 and 79 CRR.

Balance Sheet Reconciliation

Disclosure requirements: Art. 437 (1) (a) CRR

The table below represents the difference between the financial scope of consolidation and the regulatory scope of consolidation:

Balance Sheet

in CZK million			Dec 17			Dec 16
	IFRS	Effects – scope of consolidation	CRR	IFRS	Effects – scope of consolidation	CRR
Assets						
Cash and cash balances	280,221	(10)	280,211	173,100	(39)	173,061
Financial assets – held for trading	11,433	8	11,441	20,944	100	21,044
Derivatives	11,301	8	11,309	13,357	100	13,457
Other trading assets	132	–	132	7,587	–	7,587
Financial assets – at fair value through profit or loss	407	–	407	423	–	423
Financial assets – available for sale	55,283	(36)	55,247	81,274	–	81,274
Financial assets – held to maturity	163,679	–	163,679	167,899	–	167,899
Loans and receivables	796,219	1,684	797,903	599,782	1,705	601,487
Loans and receivables to banks	157,525	(12)	157,513	22,328	(11)	22,317
Loans and receivables to customers	638,694	1,696	640,390	577,454	1,716	579,170
Derivatives – hedge accounting	613	–	613	519	–	519
Property and equipment	9,913	–	9,913	10,456	–	10,456
Investment properties	2,372	(2,372)	–	2,390	(2,390)	–
Intangible assets	4,854	–14	4,840	4,284	(11)	4,273
Investments in associates	762	704	1,466	786	467	1,253
Current tax assets	341	–	341	611	–	611
Deferred tax assets	1,000	–	1,000	136	–	136
Assets held for sale	19	–	19	320	(197)	123
Other assets	2,107	(561)	1,546	3,602	(391)	3,211
Total assets	**1,329,223**	**(597)**	**1,328,626**	**1,066,526**	**(756)**	**1,065,770**
Liabilities and equity						
Financial liabilities – held for trading	11,414	66	11,480	17,982	179	18,161
Derivatives	11,414	66	11,480	13,877	179	14,056
Other trading liabilities	–	–	–	4,105	–	4,105
Financial liabilities – at fair value through profit or loss	1,240	–	1,240	1,997	–	1,997
Deposits from customers	1,240	–	1,240	1,997	–	1,997
Financial liabilities measured at amortised costs	1,179,929	148	1,180,077	911,350	42	911,392
Deposits from banks	295,232	(90)	295,142	114,282	(92)	114,190
Deposits from customers	881,996	239	882,235	786,875	134	787,009
Debt securities issued	1,805	–	1,805	9,173	–	9,173
Other financial liabilities	896	–	896	1,019	–	1,019
Derivatives – hedge accounting	1,813	–	1,813	452	–	452
Provisions	2,778	–	2,778	2,909	–	2,909
Current tax liabilities	89	(20)	69	109	(27)	82
Deferred tax liabilities	220	(69)	151	188	(54)	134
Liabilities associated with assets held for sale	–	–	–	125	(125)	–
Other liabilities	10,765	(499)	10,266	9,684	(188)	9,496
Total equity	**120,975**	**(223)**	**120,752**	**121,730**	**(583)**	**121,147**
Equity attributable to non-controlling interests	165	2	167	166	5	171
Equity attributable to owners of the parent	120,810	(225)	120,585	121,564	(588)	120,976
Total liabilities and equity	**1,329,223**	**(597)**	**1,328,626**	**1,066,526**	**(756)**	**1,065,770**

The following tables represent, as far as possible, a reconciliation between the IFRS balance sheet items to the items of CET1, AT1 and T2, as well as information on the regulatory adjustments arising from correction items in accordance with Art. 32 to 35 CRR and the deductions according to Art. 36, 56, 66 and 79 CRR.

The last column contains a letter that sets the derived amount from IFRS figures with the appropriate eligible amount of own funds presentation during the transitional provisions in conjunction.

Total Equity

in CZK million Dec 17	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
Subscribed capital	15,200	–	15,200	(1,121)	14,079	
Ordinary shares	14,079	–	14,079	–	14,079	a1
IPriority sharese	1,121	–	1,121	(1,121)	–	
Capital reserve	12	–	12	(10)	2	b
Capital instruments and the related share premium accounts	15,212	–	15,212	(1,131)	14,081	
Retained earnings	98,004	(228)	97,776	(12,367)	85,409	c
Other comprehensive income (OCI)	(509)	(1)	(510)	1,920	1,410	d
Cash flow hedge reserve	(1,920)	–	(1,920)	1,920	–	
Available for sale reserve	–	(381)	(381)	–	(381)	
Currency translation	(236)	37	(199)	–	(199)	
Deferred tax	(764)	–	(764)	–	(764)	
Other	2,411	343	2,754	–	2,754	
Equity attributable to the owners of the parent	**112,707**	**(229)**	**112,478**	**(11,578)**	**100,900**	
Additional Tier 1 (AT1)	8,107	–	8,107	(8,107)	–	
Equity attributable to non-controlling interests	161	6	167	(167)	–	
Total equity	**120,975**	**(223)**	**120,752**	**(19,852)**	**100,900**	

in CZK million Dec 16	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
Subscribed capital	15,200	–	15,200	(1,121)	14,079	
Ordinary shares	14,079	–	14,079	–	14,079	a1
IPriority sharese	1,121	–	1,121	(1,121)	–	
Capital reserve	12	–	12	(10)	2	b
Capital instruments and the related share premium accounts	15,212	–	15,212	(1,131)	14,081	
Retained earnings	95,553	(605)	94,948	(13,782)	81,166	c
Other comprehensive income (OCI)	2,692	16	2,708	(293)	2,415	d
Cash flow hedge reserve	293	–	293	(293)	0	
Available for sale reserve	–	(608)	(608)	–	(608)	
Currency translation	(209)	54	(155)	–	(155)	
Deferred tax	2,926	–	2,926	–	2,926	
Other	(318)	570	252	–	252	
Equity attributable to the owners of the parent	**113,457**	**(589)**	**112,868**	**(15,206)**	**97,662**	
Additional Tier 1 (AT1)	8,107	–	8,107	(8,107)	–	
Equity attributable to non-controlling interests	166	6	172	(172)	–	
Total equity	**121,730**	**(583)**	**121,147**	**(23,485)**	**97,662**	

Intangible Assets

in CZK million Dec 17	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
Intangible assets	4,854	(14)	4,840	(22)	4,818	e
Intangible assets	**4,854**	**(14)**	**4,840**	**(22)**	**4,818**	

in CZK million Dec 16	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
Intangible assets	4,284	(11)	4,273	(213)	4,060	e
Intangible assets	**4,284**	**(11)**	**4,273**	**(213)**	**4,060**	

Details regarding the development of intangible assets are disclosed under Note 25 Intangible assets.

Deferred Taxes

in CZK million Dec 17	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
Deferred tax assets (DTA) that rely on future profitability and do not arise from temporary differences net of associated tax liabilities						
Deferred tax assets that rely on future profitability and arise from temporary differences	1,000	–	1,000	–	1,000	f
Deferred tax assets	**1,000**	**–**	**1,000**	**–**	**1,000**	

in CZK million Dec 16	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
Deferred tax assets (DTA) that rely on future profitability and do not arise from temporary differences net of associated tax liabilities						
Deferred tax assets that rely on future profitability and arise from temporary differences	136	–	136	78	214	f
Deferred tax assets	**136**	**–**	**136**	**78**	**214**	

Details regarding deferred tax assets are disclosed under Note 26 Tax assets and liabilities.

Based on the threshold definition accordingto Art. 48 CRR deferred tax assets that rely on future profitability and arise from temporary differences are not deductible for CS at 31 December 2017. In accordance with Art. 48 (4) CRR the non-deductible amount is risk weighted with 250% and considered within the credit risk.

Subordinated Liabilities and Additional Tier 1 Issuances

in CZK million Dec 17	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
Subordinated issues, deposits and supplementary capital	–	–	–	1,121	1,121	
Prioriry shares	–	–	–	1,121	1,121	a2
Additional Tier 1 (AT1) issuances	–	–	–	8,107	8,107	g
Subordinated liabilities	**–**	**–**	**–**	**9,228**	**9,228**	

in CZK million Dec 16	IFRS	Effects – scope of consolidation	CRR	Regulatory adjustments	Own funds	Own funds disclosure table – reference
Subordinated issues, deposits and supplementary capital	–	–	–	1,121	1,121	
Prioriry shares	–	–	–	1,121	1,121	a2
Additional Tier 1 (AT1) issuances	–	–	–	8,107	8,107	g
Subordinated liabilities	**–**	**–**	**–**	**9,228**	**9,228**	

CS did not reported subordinated debt at the year-end 2017 and 2016. The amount reported in the table above represents priority shares and the hybrid capital issued by CS.

Transitional Provisions

The Transitional Provisions which are applied by CS, are based on CRR-Supplementary Regulation according to respective measures of a general nature passed by CNB.

Own Funds Template During the Transitional Period

Disclosure requirements: Art. 437 (1) (d) (e) CRR

CS does not consider Art. 437 (1) (f) CRR for the calculation of consolidated own funds. The table below presents the composition of the regulatory capital during the transitional period based on the Implementing Technical Standards on the disclosure of own funds published in the Official Journal of the EU.

In column (A), the current amount, which considers all the transitional requirements, is disclosed. Column (C) discloses the residual amount, implying full CRR implementation.

Transitional Own Funds Disclosure Template

	in CZK million	Dec 2017	Dec 2016	CRR article reference	Amounts subject to preregulation CRR treatment or prescribed residual amount of CRR	Reference to reconciliation tables
		A1	A2	B	C	D
	Common equity tier 1 (CET1) capital					
1	Common equity tier 1 (CET1) capital: instruments and reserves	14,081	14,081	26 (1), 27, 28, 29, EBA list 26 (3)	–	
	of which: ordinary shares	14,079	14,079	EBA list 26 (3)	–	a1
	of which: share premium	2	2		–	b
2	Retained earnings	82,745	79,599	26 (1) (c)	–	c
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	(510)	2,708	26 (1)	–	d
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	2,664	1,567	26 (2)	–	c
6	**CET1 capital before regulatory adjustments**	**98,980**	**97,955**		**–**	
7	Additional value adjustments (negative amount)	(499)	(347)	34, 105	–	
8	Intangible assets (net of related tax liability) (negative amount)	(4,818)	(4,060)	36 (1) (b), 37, 472 (4)	–	e
11	Fair value reserves related to gains or losses on cash flow hedges	1,920	(293)	33 (a)	–	d
12	Negative amounts resulting from the calculation of expected loss amounts	(2,738)	(2,329)	36 (1) (d), 40, 159, 472 (6)		
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(36)	(201)	33 (b)	–	
28	**Total regulatory adjustments to Common equity tier 1 (CET1)**	**(6,171)**	**(7,230)**		**–**	
29	**CET1 capital**	**92,809**	**90,725**		**–**	
	Additional tier 1 (AT1) capital					
30	Capital instruments and the related share premium accounts	8,107	8,107	51, 52	–	g
31	**Classified as equity under applicable accounting standards**	**8,107**	**8,107**			
36	**AT1 capital before regulatory adjustments**	**8,107**	**8,107**		**–**	
43	**Total regulatory adjustments to Additional tier 1 (AT1) capital**	**–**	**–**		**–**	
44	**Additional tier 1 (AT1) capital**	**8,107**	**8,107**		**–**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**100,916**	**98,832**		**–**	
	Tier 2 (T2) capital					
46	Capital instruments and the related share premium accounts	1,121	1,121	62, 63	–	a2
50	Credit risk adjustments	2,142	1,933	62 (c) (d)	–	
51	**Tier 2 (T2) capital before regulatory adjustment**	**3,263**	**3,054**			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**–**	**–**		**–**	
58	**Tier 2 (T2) capital**	**3,263**	**3,054**		**–**	
59	**Total capital (TC = T1 + T2)**	**104,179**	**101,886**		**–**	
60	Total risk weighted assets	557,871	507,137		–	
	Capital ratios and buffers					
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	16.64	17.89	92 (2) (a), 465	–	
62	Tier 1 (as a percentage of total risk exposure amount)	18.09	19.49	92 (2) (b), 465	–	
63	Total capital (as a percentage of total risk exposure amount	18.67	20.09	92 (2) (c)	–	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	58,477	50,729	CRD 128, 129, 140	–	
65	capital conservation buffer requirement	13,947	12,678		–	
66	countercyclical buffer requirement	2,690	16		–	
67	systemic risk buffer requirement	16,736	15,214		–	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	8.64	9.89	CRD 131	–	
	Amounts below the thresholds for deduction (before risk weighting)					
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 1 % threshold and net of eligible short positions)	504	217	36 (1) (h), 45, 46, 472 (10), 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	–	
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 1 % threshold and net of eligible short positions)	6	6	36 (1) (i), 45, 48, 470, 472 (11)	–	
75	Deferred tax assets arising from temporary difference (amount below 1 % threshold, net of related tax liability where the conditions in Article 38 (3) are met)	1,000	214	36 (1) (c), 38, 48, 470, 472 (5)	–	f
	Applicable caps on the inclusion of provisions in Tier 2					
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	329	286	62	–	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating based approach (prior to the application of the cap)	2,142	1,933	62	–	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings based approach	2,597	2,389	62	–	

The own funds table above shows only those positions which are relevant for CS Group, whereas numbering follows complete template.

41. Hedge Accounting

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

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

Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilize net interest income. Interest rate swaps are the most common derivatives used to hedge variable cash flows of floating assets.. By using cross currency interest rate swaps, the Bank hedge currency risk of its foreign currency assets. Floors or caps are used to secure the targeted level of interest income in a changing interest rate.

In the reporting period, CZK 52 million (2016: CZK 11 million) was taken from the cash flow hedge reserve and recognised as expense in the income statement; while CZK 2,370 million (2016: CZK 362 million) was recognised directly in other comprehensive income.

As at 31 December 2017, the loss on hedging derivatives used for fair value hedging was loss CZK 22million (2016: loss CZK 115 million); the gain due to changes in the fair value of hedged items was loss 0 CZK million (2016: gain CZK 108 million).

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

in CZK million	**2017**		**2016**	
	Positive fair value	**Negative fair value**	**Positive fair value**	**Negative fair value**
Hedging instrument – fair value hedge	12	20	21	12
Hedging instrument – cash flow hedge	601	1,793	498	440
Total	**613**	**1,813**	**519**	**452**

At the end of 2017 the Bank had 180 cash flow hedge structures with maturity from 2018 to 2027. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor/USD Libor) or fixed rate in respect of cash flow hedges where FX risk is being hedged. Summary of total nominal hedged in CF hedge structures according their maturity can be seen in the following table:

Maturity	**Nominal hedged In CZK million**	**Nominal hedged In EUR million**	**Nominal hedged In USD million**
2018	2,000	50	–
2019	2,350	44	–
2020	1,800	60	–
2021	6,211	558	–
2022	10,462	157	–
2023	18,078	430	50
2024	7,200	55	–
2025	7,050	–	–
2026	540	–	–
2027	71	–	–
Total	**55,761**	**1,354**	**50**

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

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

42. Fair Value of Assets and Liabilities

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 parametres.

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 measurement of fair value at The Group, a.s. 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, a.s. uses only valuation models which have been tested internally and for which the valuation parameters (such as interest rates, exchange rates, volatilities and credit spreads) have been determined independently.

Securities

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

Credit value adjustments (CVA) for counterparty risk and debt value adjustments (DVA) for the own default credit risk are applied to OTC derivatives. For the CVA, the adjustment is driven by the expected positive exposure of all derivatives and the credit quality of the counterparty. DVA is driven by the expected negative exposure and the Group's credit quality. Modeling of the expected exposure is based on option replication strategies for most of the counterparties and products. For Ministry of Finance of the Czech Republic and for counterparties with Credit Support Annex ('CSA') agreements in place with higher threshold amounts Monte Carlo approach is applied, netting is considered. For CSA counterparties with small threshold amounts no CVA/DVA was taken into account. The methodology for the remaining entities and products is determined by market value plus add-on considerations. The probability of default of counterparties which are not traded in an active market is determined from internal PDs mapped to a basket of liquid titles being present in the central European market. Thereby market based valuation concepts have been incorporated. Counterparties with liquid bond or CDS markets are valued by the respective single-name market based PD derived from the prices. The 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 (90) million (2016: (287)) and the total DVA-adjustment amounts to CZK 32 million (2016: CZK 178 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. As decribed above in case that individual valuation parameters are not observable in the market the valuation parameters are estimated on the basis of reasonable assumptions (i.e. for example in case of some equity instruments valuation is based on the predicted dividends used in the dividend discount model).

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	
	2017	2016	2017	2016	2017	2016	2017	2016
Assets								
Financial assets – held for trading	55	53	11,273	19,834	105	1,057	11,433	20,944
Derivatives	–	–	11,196	12,300	105	1,057	11,301	13,357
Other trading assets	55	53	77	7,534	–	–	132	7,587
Financial assets designated at fair value through profit or loss	12	29	289	314	106	80	407	423
Financial assets – available for sale	42,183	67,650	9,541	10,710	3,559	2,914	55,283	81,274
Equity instruments	–	74	–	–	1,717	1,281	1,717	1,355
Debt securities	42,183	67,576	9,541	10,710	1,842	1,633	53,566	77,919
Derivatives Hedge Accounting	–	–	613	519	–	–	613	519
Total assets	**42,250**	**67,732**	**21,716**	**31,377**	**3,770**	**4,051**	**67,736**	**103,160**
Liabilities								
Financial liabilities held for trading	–	–	11,405	17,967	9	15	11,414	17,982
Derivatives	–	–	11,405	13,862	9	15	11,414	13,877
Other trading liabilities	–	–	–	4,105	–	–	–	4,105
Financial liabilities designated at fair value through profit or loss	–	–	1,240	1,997	–	–	1,240	1,997
Deposits from customers	–	–	1,240	1,997	–	–	1,240	1,997
Debt securities issued	–	–	–	–	–	–	–	–
Derivatives Hedge Accounting	–	–	1,813	452	–	–	1,813	452
Total liabilities	**–**	**–**	**14,458**	**20,416**	**9**	**15**	**14,467**	**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	2017		2016	
	Level 1	Level 2	Level 1	Level 2
Securities				
Net transfer from Level 1	–	–	–	–
Net transfer from Level 2	–	–	–	–
Net transfer from Level 3	(74)	(1,177)	(442)	269
Purchases/sales/expiries	(25,408)	(7,473)	1,526	7,057
Changes in derivatives	–	(1,010)	–	(641)
Total year-to-date change	**(25,482)**	**(9,660)**	**1,084**	**6,685**

The reclassification from Level 1 to Level 3 resulted from the fact that quoted prices for equity securities does not exists as of 31 December 2017.

Unquoted bonds were reclassified from Level 2 to Level 3 as a result that quoted prices (observable inputs) were not available as at 31 December 2017.

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 comprehensive income	Purchases	Sales/ Settlements	Transfer into Level 3	Transfer out of Level 3	Currency translation	2017
Assets									
Financial assets – held for trading	1,057	(101)	–	–	(13)	(1)	(837)	–	105
Derivatives	1,057	(101)	–	–	(13)	(1)	(837)	–	105
Financial assets designated at fair value through profit or loss	80	23	–	–	4	–	–	(1)	106
Financial assets – available for sale	2,914	–	(101)	112	(15)	2 265	(1 617)	1	3 559
Total assets	**4,051**	**(78)**	**(101)**	**112**	**(24)**	**2 264**	**(2 454)**	**–**	**3 770**

in CZK million	Dec 2015	Gain/loss in profit or loss	Gain/loss in other comprehensive income	Purchases	Sales/ Settlements	Transfer into Level 3	Transfer out of Level 3	Currency translation	2016
Assets									
Financial assets – held for trading	1,198	39	–	28	(31)	–	(177)	–	**1,057**
Derivatives	1,198	39	–	28	(31)	–	(177)	–	1,057
Financial assets designated at fair value through profit or loss	90	22	–	103	(135)	–	–	–	80
Financial assets – available for sale	1,720	–	317	50	(1 586)	2,413	–	–	2,914
Total assets	**3,008**	**61**	**317**	**181**	**(1,752)**	**2,413**	**(177)**	**–**	**4,051**

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. In 2017 and in 2016 available for sale financial assets (equities and bonds) for which valuation models are based on non- observable inputs were transferred into Level 3.

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

in CZK million	2017	2016
	Unrealized gain/loss in profit or loss	Unrealized gain/loss in profit or loss
Assets		
Financial assets held for trading	(101)	39
Financial assets designated at fair value through profit or loss	23	22
Total	**(78)**	**61**

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

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

Sensitivity Analysis for Level 3 Measurements

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

in CZK million	Positive fair value changes when applying alternative valuation parameters		Negative fair value changes when applying alternative valuation parameters	
	Dec 2017	Dec 2016	Dec 2017	Dec 2016
Derivatives	9	25	(8)	(25)
Income statement	9	25	(8)	(25)
Debt securities	65	51	(87)	(68)
Other comprehensive income	65	51	(87)	(68)
Equity instruments	64	60	(129)	(120)
Income statement	–	1	(1)	(2)
Other comprehensive income	64	59	(128)	(118)
Total	**138**	**136**	**(224)**	**(213)**
Income statement	**9**	**26**	**(9)**	**(27)**
Other comprehensive income	**129**	**110**	**(215)**	**(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%.

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

Financial Instruments whose Fair Value is Disclosed in the Notes

The following table shows fair values and fair value hierarchy of financial instruments whose fair value is disclosed in the notes for the year-end 2017 and for the year-end 2016. For assets without contractual maturities (e.g. cash and cash equivalents), the carrying amount approximates their fair value.

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	280,221	280,221	–	–	–
Financial assets – held to maturity	163,679	189,419	159,613	29,806	–
Loans and receivables to credit institutions	157,525	157,924	–	1,874	156,050
Loans and receivables to customers	638,694	636,784	–	–	636,784
Liabilities					
Financial liabilities measured at amortised costs	1,179,929	1,192,947	–	16,113	1,176,834
Deposits from banks	295,232	295,008	–	–	295,008
Deposits from customers	881,997	880,032	–	–	880,032
Debt securities issued	1,805	17,012	–	16,113	899
Other financial liabilities	895	895	–	–	895
Financial Guarantees And Commetments					
Financial guarantees	19,461	(5)	–	–	(5)
Irrevocable commitments	115,052	(275)	–	–	(275)

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

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

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

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

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

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

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

Fair Values of Non-financial Assets

The following table shows fair values and fair value hierarchy of non-financial instruments at the year-end 2017 and 2016:

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 whose Fair Value is disclosed in the notes					
Investment property	2,372	2,372	–	–	2 372
Assets whose Fair Value is presented in the Balance sheet					
Assets held for sale (IFRS 5)	19	19	–	–	19

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 whose Fair Value is disclosed in the notes					
Investment property	2,390	2,569	–	–	2,569
Assets whose Fair Value is presented in the Balance sheet					
Assets held for sale (IFRS 5)	320	320	–	197	123

Investment Property

The valuations of investment property is based on the valuation of accredited independent valuer with a recognised and relevant professional qualification. The valuation of investment property is carried out using the comparative and investment methods. The assessment is made on the basis of a comparison and analysis of appropriate comparable investment and rental transactions, together with evidence of demand within the vicinity of the relevant property. The characteristics of such similar transactions are then applied to the property, taking into account size, location, terms, covenant and other material factors.

Assets held for sale (real-estate funds being sold) are measured at fair value on non-recurring basis when their carrying amount is impaired down to fair value less costs to sell. The valuation techniques using the same inputs and techniques as described above for Investment Property

43. Financial Instruments per Category According to IAS 39

The Group classifies financial instruments into trading and banking (investment) portfolios in accordance with BASEL III rules as per CNB Regulation No. 163/2014 Coll., on the performance of the activityof banks, savings and lending associates and securities traders (henceforth 'Regulation 163/2014'). The Group applies various techniques to the management of the risk within the banking and trading books (refer to Note 40).

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

As of 31 December 2017 **in CZK million**								**Category of financial instruments**	
	Loans and receivables	**Held to maturity**	**Trading**	**Designated at fair value**	**Available for sale**	**Financial liabilities at amortised cost**	**Derivatives designated as hedging instruments**	**Finance lease according to IAS 17**	**Total**
ASSETS									
Cash and cash balances	280,221	–	–	–	–	–	–	–	280,221
Loans and receivables to credit institutions	157,525	–	–	–	–	–	–	–	157,525
Loans and receivables to customers	620,683	–	–	–	–	–	–	18,011	638,694
Derivative financial instruments	–	–	11,301	–	–	–	613	–	11,914
Trading assets	–	–	132	–	–	–	–	–	132
Financial assets – at fair value through profit or loss	–	–	–	407	–	–	–	–	407
Financial assets – available for sale	–	–	–	–	55,283	–	–	–	55,283
Financial assets – held to maturity	–	163,679	–		–	–	–	–	163,679
Total financial assets	**1,058,429**	**163,679**	**11,433**	**407**	**55,283**	**–**	**613**	**18,011**	**1,307,855**
LIABILITIES									
Deposits from banks	–	–	–	–	–	881,997	–	–	881,997
Deposits from customers	–	–	–	1,240	–	1,805	–	–	3,045
Debt securities in issue	–	–	–	–	–	895	–	–	895
Other financial liabilities	–	–			–	1,813	–	–	1,813
Derivative financial instruments	–	–	11,414	–	–	–	2,778	–	14,192
Trading liabilities	–	–	–	–	–	–	–		–
Total financial liabilities	**–**	**–**	**11,414**	**1,240**	**–**	**886,510**	**2,778**	**–**	**901,942**

As of 31 December 2016 **in CZK million**								**Category of financial instruments**	
	Loans and receivables	**Held to maturity**	**Trading**	**Designated at fair value**	**Available for sale**	**Financial liabilities at amortised cost**	**Derivatives designated as hedging instruments**	**Finance lease according to IAS 17**	**Total**
ASSETS									
Cash and cash balances	173,100	–	–	–	–	–	–	–	173,100
Loans and receivables to credit institutions	22,328	–	–	–	–	–	–	–	22,328
Loans and receivables to customers	562,301	–	–	–	–	–	–	15,152	577,453
Derivative financial instruments	–	–	13,357	–	–	–	519	–	13,876
Trading assets	–	–	7,587	–	–	–	–	–	7,587
Financial assets – at fair value through profit or loss	–	–	–	423	–	–	–	–	423
Financial assets – available for sale	–	–	–	–	81,274	–	–	–	81,274
Financial assets – held to maturity	–	167,899	–	–	–	–	–	–	167,899
Total financial assets	**757,729**	**167,899**	**20,944**	**423**	**81,274**	**–**	**519**	**15,152**	**1,043,940**
LIABILITIES									
Deposits from banks	–	–	–	–	–	114,282	–	–	114,282
Deposits from customers	–	–	–	1,997	–	786,876	–	–	788,873
Debt securities in issue	–	–	–	–	–	9,173	–	–	9,173
Other financial liabilities	–	–	–	–	–	1,019	–	–	1,019
Derivative financial instruments	–	–	13,877	–	–	–	452	–	14,329
Trading liabilities	–	–	4,105	–	–	–	–	–	4,105
Total financial liabilities	**–**	**–**	**17,982**	**1,997**	**–**	**911,350**	**452**	**–**	**931,781**

44. Audit Fees and Other Consultancy Fees

The following table contains fundamental audit fees and other fees charged by the auditors (of Česká spořitelna, a.s. and its subsidiaries; the auditors primarily being Ernst & Young Audit, s.r.o. for 2016 and PricewaterhouseCoopers, s.r.o. for 2017) in the financial years 2017 and 2016:

in CZK million	2017	2016
Audit fees	19	50
Other consultancy fees	6	166
Total	**25**	**216**

45. Contingent Assets and Liabilities

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

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

Legal Disputes

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

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

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

If, in connection with the litigation, the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation, the Group recognises a provision for legal disputes (refer to Note 32).

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

Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of clients' authorisations to extend credit in the form of loans, guarantees or letters of credit. The credit risk attached to commitments to extend credit represents a potential loss for the Group. The Group estimates the potential loss on the basis of historical developments of CCFs, PDs and LGDs. CCFs indicate the likelihood of the Group paying out on a guarantee or having to grant a loan on the basis of an issued commitment to extend credit.

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

In 2017, the Group recorded impairment allowances for off-balance sheet risks to cover potential losses that may be incurred in connection with these off-balance sheet transactions. As at 31 December 201, the aggregate balance of these allowances was CZK 784 million (2016: CZK 725 million). Refer to Note 32.

in CZK million	2017	2016
Amounts owed under guarantees and letters of credit	19,461	19,465
Undrawn loan commitments	115,052	100,971
Total	**134,513**	**120,436**

46. Analysis of Remaining Maturities

The breakdown of the Group's assets and liabilities based on contractual maturities as at 31 December 2017 and 2016 was as follows:

in CZK million	2017		2016	
	< 1 Year	> 1 Year	< 1 Year	> 1 Year
Cash and cash balances	280,221	–	173,100	–
Financial assets held for trading	11,357	76	20,651	293
Financial assets designated at fair value through profit or loss	–	407	14	409
Available-for-sale financial assets	2,916	52,367	9,033	72,241
Loans and receivables	258,720	537,499	122,983	476,798
Held-to-maturity investments	11,330	152,349	13,097	154,802
Derivatives – Hedge accounting	613	–	519	–
Tangible assets	–	9,913	–	10,456
Investment property	–	2,372	–	2,390
Intangible assets	–	4,854	–	4,284
Investments in associates	–	762	–	753
Tax assets	341	1,000	611	136
Assets held for sale	19	–	320	–
Other assets	2,107	–	3,636	–
TOTAL ASSETS	**567,624**	**761,599**	**343,964**	**722,562**
Financial liabilities held for trading	11,414	–	17,982	–
Financial liabilities designated at fair value through profit or loss	1,240	–	1,997	–
Financial liabilities measured at amortised cost	652,868	527,061	435,576	475,774
Derivatives – Hedge accounting	1,813	–	452	–
Provisions	–	1,950	–	2,006
Commitments and guarantees given	–	784	–	725
Other provisions	–	44	1	177
Tax liabilities	89	220	109	188
Liabilities associated with assets held for sale	–	–	125	–
Other liabilities	10,674	91	9,554	130
TOTAL LIABILITIES	**678,098**	**530,150**	**465,796**	**479,000**

47. Details of the Companies Wholly or Partly Owned by the Group a.s. as of 31 December 2017

The tables below present material, fully consolidated subsidiaries, investments in associates accounted for at equity and other investments.

Company name, registered office		2017 Interest in %	2016 Interest in %
Fully consolidated subsidiaries			
Credit institutions			
Stavební spořitelna České spořitelny, a.s.	Prague	100.0%	100.0%
Other financial institutions			
brokerjet České spořitelny, a.s. v likvidaci	Prague	100.0%	100.0%
CEE Property Development Portfolio 2 a.s. ('CPDP 2 a.s.')	Prague	100.0%	100.0%
CEE Property Development Portfolio B.V. ('CPDP B.V.')	The Netherlands	20.0%	20.0%
CS Property Investment Limited ('CSPIL')	Cyprus	100.0%	100.0%
Czech and Slovak Property Fund B.V. ('CSPF B.V.')	The Netherlands	20.0%	20.0%
Czech TOP Venture Fund B.V.('CTVF B.V.')	The Netherlands	84.0%	84.0%
Česká spořitelna – penzijní společnost, a.s.	Prague	100.0%	100.0%
Erste Leasing, a.s.	Znojmo	100.0%	100.0%
Factoring České spořitelny, a.s.	Prague	100.0%	100.0%
MOPET CZ a.s.	Prague	100.0%	100.0%
REICO investiční společnost České spořitelny, a.s.	Prague	100.0%	100.0%
s Autoleasing SK, s.r.o.	Slovakia	100.0%	100.0%
s Autoleasing, a.s.	Prague	100.0%	100.0%
Other			
BGA Czech, s.r.o.	Prague	100.0%	100.0%
CP Praha s.r.o.	Prague	100.0%	100.0%
CPDP 2003 s.r.o.	Prague	100.0%	100.0%
CPDP Logistics Park Kladno I a.s.	Prague	0.0%	100.0%
CPDP Logistics Park Kladno II a.s.	Prague	0.0%	100.0%
CPDP Prievozská a.s.	Slovakia	0.0%	100.0%
CPP Lux S.A.R.L.	Luxemburg	99.9%	99.9%
ČS do domu, a.s. v likvidaci	Prague	100.0%	100.0%
Erste Corporate Finance, a.s.	Prague	100.0%	100.0%
Energie ČS, a.s.	Prague	100.0%	100.0%
Erste Grantika Advisory, a.s.	Brno	100.0%	100.0%
Euro Dotácie, a.s.	Slovakia	0.0%	66.0%
Realitní společnost České spořitelny, a.s.	Prague	100.0%	100.0%
s IT Solutions CZ, s.r.o. v likvidaci	Prague	100.0%	100.0%
Holding Card Service, s.r.o.	Prague	69.0%***	69.0%***
Věrnostní program iBOD, a.s.	Prague	100.0%	100.0%
Other investments			
Other financial institutions			
DINESIA a.s.	Prague	100.0%	100.0%
Other			
CBCB – Czech Banking Credit Bureau, a.s.	Prague	20.0%	20.0%
Erste Group Shared Services (EGSS), s.r.o.	Hodonín	40.0%	40.0%
Investičníweb s.r.o	Prague	100.0%	100.0%
ÖCI-Unternehmensbeteiligungs G.m.b.H.	Austria	0.0%	40.0%
Procurement Services CZ, s.r.o.	Prague	40.0%	40.0%
První certifikační autorita, a.s.	Prague	23.3%	23.3%
RVG Czech, s.r.o	Prague	100.0%	100.0%
S SERVIS, s.r.o.	Znojmo	100.0%	100.0%
Global Payments, s.r.o.	Prague	10.0%	10.0%
Trenčín Retail Park 1 a.s.	Slovakia	0.0%	100.0%
Trenčín Retail Park 2 a.s.	Slovakia	0.0%	100.0%

***) Starting 2016 Fully consolidated entity.

The Group fully consolidates the investments in the real estate funds CPDP B.V., and CSPF B.V. in its consolidated financial statements. While the Group holds 20% of the issued share capital of CPDP B.V., and CSPF B.V., and does not have a majority of voting rights or Board representation, it has provided significant additional funding to the funds for investment purposes which results in the Group receiving substantially all of the rewards and bearing substantially all of the risks of the investment.

During the year ended 31 December 2017, the portfolio of subsidiary and associate undertakings underwent the following changes:

- In April ČS do domu, a.s. announced its liquidation
- In April the Bank increased the total capital of Věrnostní program iBOD, a.s. by CZK 135 million
- In May the Group sold ist share in ÖCI-Unternehmensbeteiligungs G.m.b.H.
- In May the bank increased its investment in MOPET CZ, a.s. by CZK 7 million
- In May CPDP Prievozská, a.s. sale was finalized
- In June the Group returned part of the share premium of EUR 3 million back to CS Property Investment Limited
- In June Erste Grantika Advisory, a.s. sold its interest in Euro Dotácie, a.s.
- In July the liquidation of Trenčín Retail Park 1 a.s. and Trenčín Retail Park 2 a.s.was completed
- In August the Group return part of invested resources in the amount of CZK 200 million back to CEE Property Development Portfolio 2 a.s.
- In September the bank increased its investment in MOPET CZ, a.s. by CZK 24 million
- In November the bank increased its investment in Erste Leasing, a.s. by CZK 500 million
- In December the liquidation of ČS do domu, a.s. was finalized, but the fact was acknowledged by the Commercial Register
  as of 8th January 2018
- In December the liquidation of CPDP Logistics Park Kladno I a.s. and CPDP Logistics Park Kladno II a.s. was completed

Other changes:

In January 2018 the Bank increased its interest in Holding Card Service, s.r.o. from CZK 423,4 million to CZK 582,4 million (of which contribution in kind was CZK 159 million). Contribution in kind represents the Group 10% share in Global Payments, s.r.o.

This means that as of January 2018 the direct ownership of the Group in Global Payments, s.ro. was fully transferred into Holding Card Service, s.r.o.

During the year ended 31 December 2016, the portfolio of subsidiary and associate undertakings underwent the following changes:

- In January CS Investment Limited was liquidated
- In January, June and December Czech and Slovak Property Fund B.V. and CS Property Investment Limited returned part of share premium to the Bank.
- In August s IT Solutions SK, spol. s r.o. was liquidated
- In October group sold 100% of its interests in companies BECON s.r.o., Nové Butovice Development s.r.o., Campus Park a.s., Gallery MYŠÁK a.s.
- In October the company Erste Energy Services, a.s. changed name to Energie ČS, a.s.
- In 2016 the Group gained significant influence over its investment in Global Payments s.r.o. (through its subsidiary Holding Card Service s.r.o.).
- In September 2016 the Bank increased its interest in Holding Card Service, s.r.o. from CZK 0,2 million to CZK 423,4 million (of which contribution in kind was CZK 423 million). At the same time Slovenska sporitelna, a.s. invested in Holding Card Service, s.r.o. CZK 190,2 million. Due to the fact that Slovenska sporitelna, a.s. invested in Holding Card Service, s.r.o. the % holding of the Bank decreased from 100% to 69%.

Other changes:

Starting 1 January 2017 s IT Solution CZ, s.r.o. and Brokerjet begun the liquidation of their businesses.

48. Net Debt Reconciliation

The table below sets out an analysis of debt of the Group (i.e. debt securities issued) and the movements in the Group's debt (i.e. debt securities issued) for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

Cash-flows from Debt Securities Issued

in CZK million	
Openning balance of debt securities issued as of 31 December 2016 (Note 31)	9,173
Cash-flows reported within the cash-flow from financing activities	(7,663)
Non-cash adjustments	295
Closing balance of debt securities issued as of 31 December 2017	1,805

49. Events after theBalance Sheet Date

There are no events after the balance sheet date.

Separate Financial Statements

for the Year Ended 31 December 2017

Prepared in Accordance with International Financial Reporting Standards as Adopted by the European Union

Statement of Comprehensive Income of Česká spořitelna, a.s.

for the Year Ended 31 December 2017

Income Statement

in CZK million	Notes	2017	2016
Net interest income	1	23,714	23,857
Interest income	1	25,654	25,857
Interest expense	1	(1,940)	(2,000)
Net fee and commission income	2	7,864	8,254
Fee and commission income	2	10,917	11,655
Fee and commission expense	2	(3,053)	(3,401)
Dividend income	3	752	436
Net trading result	4	2,682	2,750
Result from financial assets and liabilities designated at fair value through profit or loss	4	(42)	(59)
Rental income from other operating leases	5	83	87
Personnel expenses	6	(8,569)	(8,113)
Other administrative expenses	6	(6,528)	(6,784)
Depreciation and amortisation	6	(1,877)	(1,889)
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	(101)	(1,403)
Other operating result	9	(73)	(875)
Pre-tax result from continuing operations		**18,174**	**17,684**
Taxes on income	10	(3,172)	(3,176)
Net result for the period		**15,002**	**14,508**

Statement of Comprehensive Income

in CZK million	Notes	2017	2016
Net result for the period		**15,002**	**14,508**
Items that may be reclassified to profit or loss			
Available for sale reserve			
Gain/(loss) during the period	10	(1,207)	(844)
Cash flow hedge reserve			
Gain/(loss) during the period	10	(2,732)	257
Deferred taxes relating to items that may be reclassified			
Gain/(loss) during the period	10, 25	748	110
Total		**(3,191)**	**(477)**
Total other comprehensive income		**(3,191)**	**(477)**
Total comprehensive income for the year		**11,811**	**14,031**

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

Statement of Financial Position of Česká spořitelna, a.s.

as of 31 December 2017

in CZK million	Notes	2017	2016
Assets			
Cash and cash balances	12	259,837	151,877
Financial assets – held for trading		11,439	21,045
Derivatives	13	11,308	13,458
Other trading assets	14,18	131	7,587
thereof pledged as collateral	37	1	–
Financial assets – designated at fair value through profit or loss	15,18	360	394
Financial assets – available for sale	16,18	55,007	80,979
thereof pledged as collateral	37	2,781	-
Financial assets – held to maturity	17,18	156,309	159,874
thereof pledged as collateral	37	76,335	30,950
Loans and receivables to credit institutions	19	157,025	21,823
Loans and receivables to customers	20	597,326	538,359
Derivatives – hedge accounting	21	613	519
Property and equipment	22	9,532	10,070
Intangible assets	23	4,482	3,994
Investments in subsidaries and associates	24	9,397	8,200
Current tax assets	25	337	578
Deferred tax assets	25	719	-
Non-current assets and disposal groups classified as held for sale	27	19	123
Other assets	26	1,135	1,176
Total assets		**1,263,537**	**999,011**

in CZK million	Notes	2017	2016
Liabilities and equity			
Financial liabilities – held for trading		11,480	18,161
Derivatives	13	11,480	14,056
Other trading liabilities	28	–	4,105
Financial liabilities – designated at fair value through profit or loss	29	1,240	1,997
Deposits from customers		1,240	1 997
Financial liabilities measured at amortised cost	30	1,121,201	851,018
Deposits from banks		298,413	120,019
Deposits from customers		813,731	711,400
Debt securities issued		8,478	18,859
Other financial liabilities		579	740
Derivatives – hedge accounting	21	1,813	452
Provisions	31	2,672	2,796
Deferred tax liabilities	25	–	55
Other liabilities	32	9,515	8,580
Total equity	**33**	**115,616**	**115,952**
Subscribed capital		15,200	15,200
Additional paid-in capital		12	12
Other capital instruments		8,107	8,107
Retained earnings and other reserves		92,297	92,633
Total liabilities and equity		**1,263,537**	**999,011**

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

These separate financial statements were prepared by the Bank and authorized for issue by the Board of Directors on 13 March 2018 and are subject to approval at the General Meeting of shareholders.

Tomáš Salomon
Chairman of the Board of Directors

Wolfgang Schopf
Vice-chairman of the Board of Directors

Statement of Changes in Total Equity

for the Year Ended 31 December 2017

in CZK million	Subscribed capital	Capital reserves	Retained earnings	Other capital instruments	Statutory reserve	Cash flow hedge reserve	Available for sale reserve	Total equity
As of 1 January 2016	**15,200**	**12**	**85,626**	**8,107**	**3,040**	**87**	**3,264**	**115,336**
Dividends paid	-	-	(13,423)	-	-	-	-	(13,423)
Other changes	-	-	8	-	-	-	-	8
Transfers	-	-	3,040	-	(3,040)	-	-	-
Total comprehensive income	-	-	14,508	-	-	207	(684)	14,031
Net result for the period	-	-	14,508	-	-	-	-	14,508
Other comprehensive income	-	-	-	-	-	207	(684)	(477)
Change in cash flow hedge reserve	-	-	-	-	-	257	-	257
Change in revaluation reserve	-	-	-	-	-	-	(844)	(844)
Change in tax	-	-	-	-	-	(50)	160	110
As of 31 December 2016	**15,200**	**12**	**89,759**	**8,107**	**-**	**294**	**2,580**	**115,952**
As of 1 January 2017	**15,200**	**12**	**89,759**	**8,107**	**-**	**294**	**2,580**	**115,952**
Dividends paid	-	-	(12,152)	-	-	-	-	(12,152)
Other changes	-	-	5	-	-	(1)	1	5
Total comprehensive income	-	-	15,002	-	-	-	-	15,002
Net result for the period	-	-	15,002	-	-	-	-	15,002
Other comprehensive income	-	-	-	-	-	(2,213)	(978)	(3,191)
Change in cash flow hedge reserve	-	-	-	-	-	(2,732)	-	(2,732)
Change in revaluation reserve	-	-	-	-	-	-	(1,207)	(1,207)
Change in tax	-	-	-	-	-	519	229	748
As of 31 December 2017	**15,200**	**12**	**92,614**	**8,107**	**-**	**(1,920)**	**1,603**	**115,616**

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

Cash Flow Statement

for the Year Ended 31 December 2017

in CZK million	Notes	2017	2016
Pre-tax result from continuing operations		**18,174**	**17,684**
Non-cash adjustments for items in net profit/loss for the year			
Allocation to and release of provisions (including risk provisions)	8,9,31	719	2,158
Depreciation, amortisation, impairment and reversal of impairment, revaluation of assets	6	1,877	1,889
Gains/(losses) from the sale of assets		(248)	(1,181)
Change in fair values of derivatives		843	(125)
Accrued interest, amortisation of discount and premium		(829)	(2,056)
Other adjustments		(269)	751
Changes in assets and liabilities from operating activities after adjustment for non-cash components			
Deposits with CNB		(4,722)	4,077
Loans and advances to credit institutions		(136,843)	10,048
Loans and advances to customers		(66,201)	(44,831)
Trading assets		7,463	(6,986)
Financial assets – at fair value through profit or loss		40	(5)
Financial assets – available for sale : debt instruments		24,113	(4,346)
Financial assets – held to maturity		2,502	(10,704)
Derivatives – hedge accounting		(2,732)	257
Other assets from operating activities		206	392
Deposits by banks		185,578	24,055
Customer deposits		105,242	74,713
Trading liabilities		(3,945)	2,058
Other liabilities from operating activities		762	2,927
Payments for taxes on income		(2,957)	(3,753)
Cash flow from operating activities		**128,773**	**67,022**
Financial assets – available for sale : equity instruments		(315)	870
Proceeds of disposal			
Property and equipment and intangible assets	22,23	475	1,345
Acquisition of			
Property and equipment, intangible assets and investment properties	22,23	(2,780)	(1,900)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)		(665)	(330)
Disposal of subsidiaries	24	282	1,259
Cash flow from investing activities		**(3,003)**	**1,244**
Capital increases		4	8
Dividends paid to equity holders of the parent		(12,033)	(13,292)
Dividends paid to non-controlling interests		(119)	(131)
Proceeds from bonds issued	46	997	553
Repurchase of bonds in issue	46	(11,611)	(9,705)
Cash flow from financing activities		**(22,762)**	**(22,567)**
Cash and cash equivalents at beginning of period		**129,913**	**84,214**
Cash flow from operating activities		128,773	67,022
Cash flow from investing activities		(3,003)	1,244
Cash flow from financing activities		(22,762)	(22,567)
Effect of currency translation		890	–
Cash and cash equivalents at end of period	**12**	**233,811**	**129,913**
Cash flows related to taxes, interest and dividends			
Payments for taxes on income (included in cash flow from operating activities)		(2,957)	(3,753)
Interest received		25,442	25,135
Dividends received		752	436
Interest paid		(2,139)	(2,398)
Dividends paid		(12,152)	(13,423)

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

Notes to the Financial Statements of Česká spořitelna, a.s.

for the Year Ended 31 December 2017

A. General Information

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

The Bank's majority shareholder is Erste Group Bank AG ('Erste Group Bank') , having its registered office address at Am Belvedere 1, 1100, Vienna and which is the ultimate parent. The Bank together with subsidiaries and associated companies forms the Group. Information on the parent company's shareholder structure is published in the financial statements of Erste Group Bank AG for the year 2017.

The Bank is subject to the regulatory requirements of the Czech National Bank ('CNB'), the banking Act and EU guidelines/regulations. These regulations include those pertaining to minimum capital adequacy requirements, categorization of exposures and off-balance sheet commitments, credit risk connected with clients of the Bank, liquidity, interest rate risk, foreign currency positions and operating risk.

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

B. Significant Accounting Policies

a) Basis of Preparation of Financial Statements

The separate financial statements of the Bank for the 2017 financial year and the related comparative information were prepared in compliance with applicable International Financial Reporting Standards as adopted by the European Union ('IFRS') on the basis of IAS Regulation (EC) No. 1606/2002.

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

The separate financial statements have been prepared on a going concern basis. The Bank has not prepared the separate annual report and intends to include the required information in the consolidated annual report together with the consolidated financial statements. The Bank has also prepared consolidated financial statements in accordance with IFRS as adopted in EU for the Bank and its subsidiaries (the 'Group'). In the consolidated financial statements, subsidiaries have been fully consolidated. Users of these separate financial statements should read them together with the group's consolidated financial statements as at and for the year ended 31 December 2017 in order to obtain full information on the financial position, results of operations and changes in financial position of the group as a whole.

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

The financial statements have been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

b) Accounting and Measurement Methods

Foreign Currency Translation

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

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

(i) Transactions and Balances in Foreign Currency

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

Financial Instruments – Recognition and Measurement

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

Bank uses the following categories of financial instruments:

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

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

(i) Initial Recognition

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

(ii) Initial Measurement of Financial Instruments

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

(iii) Cash and Cash Balances

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

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

(iv) Derivative Financial Instruments

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

For presentation purposes derivatives are split into:

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

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

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

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

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

Changes in fair value (clean price) of derivatives in fair value hedges are recognised in the income statement in the line item 'Net trading and fair value result'. The effective part of changes in fair value

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

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

(v) Financial Assets and Financial Liabilities – Held for Trading

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

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

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

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

(vi) Financial Assets or Financial Liabilities Designated at Fair Value Through Profit or Loss

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

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

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

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

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

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

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

(vii) Financial Assets – Available for Sale

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

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

Unrealised gains and losses are recognised in other comprehensive income and reported in the 'Available for sale reserve' until the financial asset is disposed of or impaired. If available-for-sale assets are disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss and reported in the line item 'Gains/losses on

financial assets and liabilities not measured at fair value through profit or loss, net' in case of sale or in the line item 'Net impairment loss on financial assets' in case of impairment.

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

If the fair value of investments in non-quoted equity instruments cannot be measured reliably, they are recorded at cost less impairment. This is the case when the range of reasonable fair value estimates as calculated by valuation models is significant and the probabilities of the various estimates cannot be reasonably assessed. There is no market for such investments. In 2017, as part of IFRS 9 implementation, valuation models for investments in unquoted equities were developed. The Bank considers that these models deliver reliable fair value measurement. As a result, these investments were remeasured to fair value throughout 2017. The remeasurement effects are disclosed in Note 16 Financial assets – available for sale.

(viii) Financial Assets – Held to Maturity

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

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

(ix) Loans and Receivables

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

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

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

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

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

(x) Financial Liabilities Measured at Amortised Cost

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

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

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

(xi) 'Day 1' Profit

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

(xii) Relationships between Statement of Financial Position Items, Measurement Methods and Categories of Financial Instruments:

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

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

Embedded Derivatives

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

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

Embedded derivatives that are separated are accounted for as stand-alone derivatives and presented on the statement of financial position under the line item 'Derivatives' in financial assets – held for trading or financial liabilities – held for trading and under the line item 'Deposits from customers' in financial assets – designated at fair value throught profit or loss or financial liabilities – designated at fair value throught profit or loss.

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

Reclassifications of Financial Assets

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

Derecognition of Financial Assets and Financial Liabilities

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

- the contractual rights to receive cash flows from the asset have expired; or

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

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

Repurchase and Reverse Repurchase Agreements

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

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

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

Securities Lending and Borrowing

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

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

Impairment of Financial Assets and Credit Risk Losses of Contingent Liabilities

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

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

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

In order to maximise collection opportunities and minimise the number of defaults, the Bank renegotiates loans to customers in financial difficulties (referred to as forbearance cases). Both retail and corporate loans can be subject to forbearance. Under the Bank's forbearance policy, loan forbearance can be granted if the debtor is currently in default or if there is a high risk of default, there is evidence that the debtor made all efforts to pay according to the original contractual terms and it is expected that the debtor

is able to meet the revised terms. Revised terms could be extended maturity, instalment reduction, changing the timing of the interest payments, interest reduction or forgiveness, revolving exposure change to instalments.

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

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

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

(i) Financial Assets Carried at Amortised Cost

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

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

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

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

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

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

(ii) Available-for-sale Financial Assets

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

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

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

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

the income statement as part of an impairment loss under the line item 'Net impairment loss on financial assets'.

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

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

(iii) Contingent Liabilities

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

Hedge Accounting

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

(i) Fair Value Hedges

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

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

(ii) Cash flow Hedges

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

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

Offsetting Financial Instruments

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

Determination of Fair Value

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

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

Leasing

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

The Bank as a Lessor

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

The Bank as a Lessee

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

Property and Equipment

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

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

The estimated useful lives are as follows:

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

Land is not depreciated.

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

Intangible Assets

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

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

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

The estimated useful lives are as follows:

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

Brands are not amortised as they are assumed to have an indefinite useful life. An intangible asset has an indefinite useful life, if there are no legal, contractual, regulatory or other factors limiting that useful life. Brands are tested for impairment annually within the cash-generating unit to which they belong, and impairment is recognised if appropriate. Furthermore, each period brands are reviewed as to whether current circumstances continue to support the conclusion as to indefinite life. In the event of impairment, impairment losses are recognised in the statement of income under the line item 'Other operating result'.

Impairment of Non-financial Assets (Property and Equipment, Intangible Assets)

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

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

At each reporting date an assessment is made as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Bank estimates the asset's or CGU's recoverable amount. The previously recognised impairment loss is reversed

only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

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

Non-current Assets and Disposal Groups Held for Sale

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

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

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

Investments in Subsidiaries and Associates

Investments in subsidiaries, associates and joint ventures are measured at cost less any impairment loss. The transaction costs are capitalised as part of the cost of the investment. The transaction costs are the costs directly attributable to the acquisition of the investment such a profession fees for legal services, transfer taxes and other acquisition related costs.

Initial cost of the investments comprises also the contingent consideration. The subsequent remeasurement of the contingent consideration classified as financial liability is recognised in profit or loss.

The investments are tested for impairment whenever there are indicators that the carrying amount of an investment may not be recoverable. If the recoverable amount of an investment (the higher of its fair value less cost to sell and its value in use) is less than its carrying amount, the carrying amount is reduced to its recoverable amount.

The carrying amount of an investment is derecognised on disposal. The difference between the fair value of the sale proceeds and the disposed share of the carrying amount of the investment is recognised in profit or loss as gain or loss on disposal. The same applies if the disposal result in a step down from subsidiary to joint venture or an associate measured at cost.

Financial Guarantees

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

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

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

For intra-group guarantee, the fair value is estimated using the same valuation techniques stated above.

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

Provisions

Provisions are recognised when the Bank has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. On the statement of financial position, provisions are reported under the line item 'Provisions'. They include credit risk loss provisions for contingent liabilities (particularly financial guarantees and loan commitments) as well as provisions for litigation and restructuring. Expenses or income related to provisions are reported under the line item 'Other operating result'. However restructuring expenses are presented under line item Personnel expenses.

A provision for restructuring is recognized when the Bank has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly before the end of the reporting period. Any restructuring provision

only includes the direct expenditure arising from the restructuring which is necessarily entailed and is not associated with the ongoing activities of the Bank.

Taxes

(i) Current Tax

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

(ii) Deferred Tax

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

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

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

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

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

Share Capital

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

Fiduciary Assets

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

Dividends on Ordinary Shares

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

Recognition of Income and Expenses

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

(i) Net Interest Income

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

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

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

Furthermore negative interest from financial liabilities and financial assets are presented in "Net interest income".

(ii) Net Fee and Commission Income

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

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

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

(iii) Dividend Income

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

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

(iv) Net Trading Result

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

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

(v) Result from Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss

The gains and losses presented in this line item relate to changes in the clean price of assets and liabilities designated at fair value through profit or loss.

(vi) Rental Income from Investment Properties & Other Operating Leases

Rental income from other operating leases (i.e. mainly from real-estate and cars) is recognised on a straight-line basis over the lease term.

(vii) Personnel Expenses

Personnel expenses include wages and salaries, bonuses, statutory and voluntary social security contributions, staff-related taxes and levies. They also include service cost for severance payment.

Furthermore, restructuring provisions expenses are part of personnel expenses.

(viii) Other Administrative Expenses

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

(ix) Depreciation and Amortisation

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

(x) Gains/Losses on Financial Assets and Liabilities not Measured at Fair Value Through Profit or Loss, Net

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

(xi) Net Impairment Loss on Financial Assets

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

(xii) Other Operating Result

Other operating result reflects all other income and expenses not directly attributable to the Bank's ordinary activities.

Other operating result includes impairment losses or any reversal of impairment losses as well as results on the sale of property and equipment and intangible assets.

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

c) Significant Accounting Judgements, Assumptions and Estimates

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

Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not

available judgement is required to establish fair values. Disclosures for valuation models, the fair value hierarchy and fair values of financial instruments can be found in Note 41 Fair value of assets and liabilities.

Impairment of Financial Assets

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

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

d) Application of Amended and New IFRS/IAS

The accounting policies adopted are consistent with those used in the previous financial year except for standards and interpretations that became effective for financial years beginning on or after 1 January 2017. As regards new standards and interpretations and their amendments, only those that are relevant for the business of the Bank are listed below.

Effective Standards and Interpretations

The following standards and their amendments have become mandatory for our financial year 2017, endorsed by the EU:

- Amendments to IAS 7: Disclosure Initiative
- Amendments to IAS 12: Recognition of deferred tax assets for unrealised losses
- Annual Improvements to IFRSs 2014–2016 Cycle (amendments to IFRS 12)

Application of the above mentioned amendments did not have a significant impact on Bank's financial statements.

Standards and Interpretations Not Yet Effective

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

Following standards, amendments and interpretations are not yet endorsed by the EU:

- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
- Amendments to IAS 40: Transfers of Investment Property
- Annual Improvements to IFRSs 2015–2017 Cycle (amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23)
- IFRIC 22: Foreign Currency Transactions and Advance Consideration
- IFRIC 23: Uncertainty over Income Tax Treatments

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

Following standards, amendments and interpretations are already endorsed by the EU:

- IFRS 9: Financial Instruments
- IFRS 15: Revenue from Contracts with Customers including Amendments to IFRS 15: Effective date of IFRS 15 and IFRS 15: Revenue from Contracts with Customers
- IFRS 16: Leases
- Annual Improvements to IFRSs 2014–2016 Cycle (amendments to IAS 28 and IFRS 1)

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

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

IFRS 9 was issued in July 2014 and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 addresses the classification and measurement of financial assets and liabilities, introduces new principles for hedge accounting and a new impairment model for financial assets.

The Bank has reviewed its financial assets and financial liabilities in order to evaluate the impact of the first application of IFRS 9 on Bank's equity and regulatory capital as of 1 January 2018 ('transition impact'). This review involved iterative financial impact studies across the Bank which continued throughout 2017. Furthermore, starting with the second half of 2017, a fully-fledged parallel run of the IAS 39 production environment and the IFRS 9 test environment has been undertaken in multiple iterations. This parallel run provided significant benefits with regards to ensuring a technically correct transition to IFRS 9, but also with regards to refining the transition impact expectations. At the same time, the parallel run outputs bear an inherent degree of approximation that has been reducing along with different IFRS 9-driven functionalities being user-tested and transferred into production. Post-transition activities will continue throughout the year 2018, notably in respect of:

- finalisation of the testing and assessment of controls over new IT-systems and changes to their governance framework;
- validation and potential refinement of the models for expected credit loss calculations;
- updating the policy landscape at the Bank level, in all business lines directly or indirectly affected by IFRS 9.

IFRS 9 introduces two criteria for classification and measurement of financial assets: 1) an entity's business model for managing the financial assets, and 2) the contractual cash flow characteristics of the financial assets. As a result, a financial asset is measured at amortised cost ('AC') only if both of the following conditions are met: a) the asset is held within a business model whose objective

is to hold assets in order to collect contractual cash flows ('held to collect') and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ('SPPI') on the principal amount outstanding. Measurement at fair value through other comprehensive income ('FVOCI') is applicable to financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling the assets ('hold and sell') while the condition b) is also fulfilled. All other financial assets are measured at fair value through profit or loss ('FVTPL'). The main impacts resulting from the classification and measurement model upon transition to IFRS 9 are described below.

In respect of the business model criterion, the main changes relate to financial assets classified as available-for-sale and thus measured at FVOCI under IAS 39. Debt securities at a carrying amount of CZK 1,024 million will be classified as held to collect and measured at AC under IFRS 9 due to insignificant or infrequent sales expected.

In applying the business model criterion the Bank has to assess the expected selling activity of financial assets. At the Bank, sales due to increases in credit risk, sales close to assets' maturity, infrequent sales triggered by a non-recurring event (such as changes in regulatory environment, severe liquidity crisis) are considered as not contradicting the 'held to collect' business model. Other kinds of sales are expected to be insignificant as to their volume. As a result, sales are incidental in the 'held to collect' business model. On the other hand, in the 'hold and sell' business model the sales of debt securities are significant and frequent and thus they are integral to meeting the business model objectives. The Bank will carry out such sales in order to optimise the liquidity position or to realise the fair value gains or losses.

Regarding the contractual cash flows characteristics criterion the Bank concluded that the vast majority of its loan portfolio amounting to CZK 754,350 million which is currently classified as loans and receivables will continue to be measured at AC.

The carrying amount of loans that will be measured at FVTPL is CZK 2,2 billion. Further, investments in non-consolidated funds at a fair value amount of CZK 374 million classified as available-for-sale and measured at FVOCI under IAS 39 will be measured at FVTPL.

Investments in equity instruments at a carrying amount of approximately CZK 254 million currently categorised as available-for-sale will be categorised as FVTPL. The new standard provides an option to designate non-trading equity instruments at FVOCI at initial recognition without recycling into profit and loss upon impairment or derecognition. The Bank will make use of this option for some equity investments that represent strategic business relationships.

Regarding classification and measurement of financial liabilities, upon transition to IFRS 9, there were no changes with the impact into the valuation of portfolios. The Bank does not expect any effects of the new standard resulting from its accounting for hedges as it will continue to apply the requirements of IAS 39.

The new impairment model requires recognition of credit loss allowances ('CLA') based on expected credit losses ('ECL') rather than only incurred credit losses as is the case under IAS 39. It applies to credit risk exposures stemming from debt instruments classified at AC or FVOCI, lease receivables, financial guarantee contracts and certain loan commitments.

For credit risk exposures that are not credit-impaired at initial recognition, the Bank will recognise CLA at an amount equal to 12-month ECL (referred to as 'Stage 1') for as long as no significant increase in credit risk since initial recognition ('SICR') is identified at the reporting date. In other cases, the CLA is measured at lifetime ECL and the related instruments are referred to as 'Stage 2', unless they are found to be credit-impaired at the reporting date (referred to as 'Stage 3'). For purchased or originated credit-impaired financial assets ('POCI'), only adverse changes in lifetime ECL after the initial recognition are distinctly recognised as CLA, whilst favourable changes are recognized as impairment gains increasing the carrying amount of the related POCI assets. The measurement of ECL reflects a probability-weighted outcome, the time value of money and reasonable and supportable forward-looking information.

For lease receivables and trade receivables containing a significant financing component, IFRS 9 allows a simplified impairment approach, whereby credit loss allowances are always measured at lifetime ECL. The Bank will not apply this simplification.

In the area of ECL modelling and CLA calculation, the Bank has identified a number of key drivers, as follows:

a) the 'credit-impaired' definition
In respect of applying the 'credit-impaired' concept of IFRS 9, the Bank generally adopted the approach of aligning it with the regulatory concept of 'default' for lending exposures. If the default status exists already at an exposure's initial recognition (e.g. in the context of a significant distressed restructuring), then that exposure is recognised as POCI.

b) the SICR indicators applicable to not credit-impaired exposures
Across portfolios and product types, a number of quantitative and qualitative SICR indicators have been defined, in addition to the SICR indicator of 30 days-past-due.

Thus, SICR is quantitatively measured by reference to the adverse change, since instrument's initial recognition, in the current annualised remaining lifetime probability of default ('PD') and in the current 12-month PD. Significance of such change is assessed by reference to a combination of relative and absolute change thresholds. Current PDs are determined to reflect the current default risk as a 'point-in-time' measure. The thresholds are established at PD segment level or client rating level, as appropriate, and are subject to initial and on-going validation.

Qualitative SICR indicators include forbearance-type flags, a work-out transfer flag, information from early-warning-system that is not sufficiently reflected in the rating grades, as well as fraud indicators. The assignment of some specific qualitative indicators inherently relies on experienced credit risk judgment being exercised adequately and timely. Besides the qualitative indicators defined on client level, the assessment of significant increase in credit risk is performed on portfolio level if the increase in credit risk on individual instrument or client level is only available with a certain time lag or is observable exclusively on portfolio level.

Upon transition to IFRS 9 the SICR has to be determined in respect of PDs which existed at instruments' initial recognition. Where retrospective identification of PDs at initial recognition was not possible without undue cost or effort, the Bank implemented the following sequence of approximation methods: closest rating to initial recognition, re-rating based on historic data with current rating model, best possible rating for the relevant portfolio at the time, first available rating.

Application of the 'low credit risk exemption' allowed by IFRS 9 for 'investment grade' or other 'low risk'-deemed assets (and resulting in 12 months expected credit losses being calculated irrespective of SICR quantitative measures) will be limited to particular types of debt securities and counterparty categories, and only if supported by sufficient 'low risk' evidence at local level.

c) ECL modelling

The key risk parameters used in the measurement of ECLs – PD, loss given default ('LGD') and exposure at default ('EAD') – are derived from internally developed statistical models and other historical data that leverage regulatory models.

The PD describes a probability that a client will default on the related loan obligation. The 12-month PD reflects the estimated probability of default within one year from the reporting date, whilst the lifetime PD indicates the estimated probability of default until instrument's maturity and cumulates conditional marginal 12-month PD estimates attributable to each year until maturity. The PD estimation methods used in the Bank depend on the segmentation criteria defined by the relevant local strategic risk management units. The applicable estimation methods include average default rate analysis and internal/external migration matrices and consider adjustments to the point-in-time estimate.

The LGD captures the loss rate in the case of default. In general, the selection of estimation method depends on portfolio, and whether the loss curve is defined on LGD segment, client or account level. The LGD estimation methods applicable in the Bank include a simple scenario approach and an advanced multiple scenario approach. For defaulted exposures, the calculation methodology provides for a probability-weighted average of pre-defined work-out scenarios (cooperative or non-cooperative client).

The EAD that is attributable to any given future year throughout an on-balance exposure's remaining maturity is approximated on the basis of exposure's current gross carrying amount multiplied by an amortization coefficient that depends on exposure's contractual repayment type. For off-balance not credit-impaired exposures, the EAD approximation is based on the current nominal amount of the exposure, multiplied by the credit conversion factor.

d) Consideration of forward-looking information ('FLI')

Measurement of ECLs and SICR assessment require further consideration of FLI, which the Bank has addressed by introducing a baseline forecast and a number of alternative scenarios for selected macroeconomic variables. These are derived, together with their probabilities of occurrence, as a deviation from baseline forecasts, where the baseline forecasts are, with a few exceptions, internally determined by the Bank's research department. Given multiple scenarios, the 'neutral' PD (and also LGD, with a few exceptions) are adjusted through macro models which link relevant macroeconomic variables with risk drivers. Thus, the unbiased, probability-weighted ECL is derived with the weights representing the occurrence probabilities of each macroeconomic scenario. Typical macroeconomic variables may include real gross domestic product, unemployment rate, inflation rate, production index as well as market interest rates. The selection of variables also depends on the availability of reliable forecasts for the given local market.

e) Period of exposure to credit risk

Apart from using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank will measure ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options). This extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for revolving credit facilities with unspecified maturity and/or cancellable at short notice and for which the day-to-day internal credit risk management activities are customarily performed on a portfolio basis only, best estimates of the period of exposure to credit risk have been developed at entity level across the Bank, based on the available data history and expert judgement. Such estimates generally range from 2 to 4 years, with few exceptions, and vary depending on product type, client segment and lender entity. Retail credit cards and overdrafts are among the exposure types the most relevant for such estimates.

Transition to IFRS 9 is expected to result in an increase of the 2018 opening balance of credit loss allowances compared to the 2017 closing balance of loan loss provisions under IAS 39 (including provisions for off-balance exposures treated under IAS 37) by 14%. Equity impact resulting from the loan provision increase due to the initial application of IFRS 9 has been partly compensated by e.g. clarification of interest income under IFRS 9, deferred tax and re-measurement of financial assets due to the transfer between portfolios.

Overall, the IFRS 9 transition is expected to result in a before-tax decrease of Bank's equity by approximately CZK 1,082 million, thereof approximately CZK 785 million relates to retained earnings (accumulated effects which would have impacted profit or loss in previous periods, in connection with all financial instruments subject to classification-driven re-measurement and/or ECL calculation upon transition) and approximately CZK 297 million to accumulated OCI (accumulated effects which would have impacted other comprehensive income in previous periods, in connection with both financial assets classified at FVOCI and financial liabilities retrospectively designated at FVTPL upon transition). Further, the associated before-tax reduction of the CET 1 ratio is estimated in the amount of 7 basis points (Basel 3 phase-in). The related deferred tax impact depends on the fiscal treatment of the incremental differences between the tax values and the IFRS 9-based re-measured accounting values of the affected assets and liabilities, which can vary across the tax jurisdictions of the Bank and which, in several of these jurisdictions is yet to be decided by the relevant fiscal authorities. Currently, the Bank estimates that the consolidated deferred tax impact upon transition to IFRS 9 is likely to be favourable, meaning that it would mitigate the above estimates of decrease in accounting equity and CET 1. The Bank does not apply the transitional provisions for IFRS 9 acc. to Art. 473a CRR when calculating regulatory own funds.

The new standard also resulted in amended IFRS requirements regarding presentation and disclosure. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in 2018. In anticipation of such changes, the Bank has already implemented significant updates of the structure of the financial statements (both main components and explanatory notes). Such updates have also taken into account the applicable changes in the regulatory reporting requirements (notably FINREP related) as stipulated (or in advanced process of being decided) by the EU Commission or the relevant national regulators, respectively.

IFRS 15 Revenue from Contracts with Customers (IASB effective date: 1 January 2018)

IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2018. Clarifications to IFRS 15 were issued in April 2016. IFRS 15 specifies how and when an entity recognises revenue from contracts with customers. It also requires such entities to provide users of financial statements with more informative and more relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers. Also in the areas of variable considerations and capitalisation of cost IFRS 15 provides modified regulations. The standard is not focused on recognition of revenues from financial instruments. Hence, on the basis of the analyses performed throughout 2017, the application of this standard is not expected to have a significant impact on the Group's financial statement.

IFRS 16 Leases (IASB effective date: 1 January 2019)

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

The analysis and planning of proper IT solutions for the requirements of IFRS 16 have continued throughout 2017. At the same time the assessment of the contracts has been in focus. The role out of proper IT structure is planned to be realised in 2018.

Since the analysis of the impact of IFRS 16 has not yet been completed, no quantitative estimates with respect to the effects of the transition to IFRS 16 can be made at this time. The significant enhancement of the balance sheet due to implementation of IFRS 16 is expected.

Regarding the transition method the Bank is planning to follow the modified retrospective approach with recognition of the adjustments arising out of the first time application of IFRS 16, if any, in equity at the date of initial application. The applicable discount rate will be the one determined at the date of initial application.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (IASB effective date 1 January 2019)

Amendments to IAS 19 were issued in February 2018 and are effective for annual periods beginning on or after 1 January 2019. The amendments require that if a plan amendment, curtailment or settlement occurs, it is mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. Application of these amendments is not expected to have a significant impact on Bank's financial statements.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (IASB effective date 1 January 2019)

Amendments to IAS 28 were issued in October 2017 and are effective for annual periods beginning on or after 1 January 2019. The amendments clarify that a company applies IFRS 9 Financial Instruments including its impairment requirements to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. Application of these

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

Amendments to IAS 40: Transfers of Investment Property (IASB effective date: 1 January 2018)

Amendments to IAS 40 were issued in December 2016 and are effective for annual periods beginning on or after 1 January 2018. The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 and specify that such a transfer should only be made when there has been a change in use of the property. Application of these amendments is not expected to have a significant impact on Bank's financial statements.

Annual Improvements to IFRSs 2014–2016 Cycle (IASB effective date: 1 January 2018)

In December 2016, the IASB issued a set of amendments to various standards. The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018. Application of these amendments is not expected to have a significant impact on Bank's financial statements.

Annual Improvements to IFRSs 2015–2017 Cycle (IASB effective date: 1 January 2019)

In December 2017, the IASB issued a set of amendments to various standards. The amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 are effective for annual periods beginning on or after 1 January 2019. Application of these amendments is not expected to have a significant impact on Bank's financial statements.

IFRIC 22: Foreign Currency Transactions and Advance Consideration (IASB effective date: 1 January 2018)

IFRIC 22 was issued in December 2016 and is effective for annual periods beginning on or after 1 January 2018. The interpretation relates to considerations denominated in a foreign currency received or paid in advance of the recognition of the related asset, expense or income. It clarifies, that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability in such cases. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. Application of the interpretation is not expected to have a significant impact on Bank's financial statements.

IFRIC 23: Uncertainty over Income Tax Treatments (IASB effective date: 1 January 2019)

IFRIC 23 was issued in June 2017 and is effective for annual periods beginning on or after 1 January 2019. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. An entity is required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. If the entity concludes that it is not probable that a particular tax treatment is accepted by a taxation authority, the entity has to use the most likely amount or the expected value of the tax treatment. Otherwise the treatment used in the tax filings is applied. An entity has to reassess its judgements and estimates if facts and circumstances change. Application of the interpretation is not expected to have a significant impact on Bank's financial statements.

C. Notes to the Statement of Comprehensive Income and the Statement of Financial Position of Česká spořitelna, a.s.

1. Net Interest Income

in CZK million	2017	2016
Interest income		
Financial assets held for trading	1,553	1,088
Financial assets designated at fair value through profit or loss	15	13
Available-for-sale financial assets	658	725
Loans and receivables	18,877	19,594
Held-to-maturity investments	3,916	4,222
Derivatives – Hedge accounting, interest rate risk	224	115
Other assets	25	8
Negative interest from financial liabilities measured at amortised costs	386	92
Total interest income	**25,654**	**25,857**
Interest expenses		
Financial liabilities held for trading	(1,015)	(977)
Financial liabilities measured at amortised cost	(897)	(1,130)
Derivatives – Hedge accounting, interest rate risk	6	110
Other liabilities – Negative interest from loans and receivables	(34)	(3)
Total interest expenses	**(1,940)**	**(2,000)**
Net interest income	**23,714**	**23,857**

For financial assets or liabilities that are not measured at fair value through profit or loss, the total interest income amounted to CZK 24,086 million (2016: CZK 24,756 million) and the total interest expense to CZK (924) million (2016: CZK (1,023) million). Net interest income for these items is therefore CZK 23,162 million (2016: CZK 23,733 million). Interest income on impaired financial assets amounted to CZK 124 million (2016: CZK 295 million).

2. Net Fee and Commission Income

in CZK million	2017	2016
Securities	**1,301**	**1,066**
Own issues	75	132
Transfer orders	1,208	909
Other	18	25
Clearing and settlement	166	206
Asset management	123	91
Custody	190	151
Payment services	**4,023**	**4,556**
Card business	356	486
Other	3,667	4,070
Customer resources distributed but not managed	**840**	**648**
Insurance products	635	451
Building society brokerage	97	131
Other	108	66
Lending business	**1,297**	**1,653**
Guarantees given, guarantees received	85	176
Loan commitments given/received, Other lending business	1,212	1,477
Other	(76)	(117)
Net fee and commission income	**7,864**	**8,254**
Fee and commission income	**10,917**	**11,655**
Fee and commission expenses	**(3,053)**	**(3,401)**

The fee and commission income and expense, which are presented in this table, are not an integral part of the effective interest rate.

3. Dividend Income

in CZK million	2017	2016
Financial assets – designated at fair value through profit or loss	11	19
Financial assets – available for sale	38	32
Dividend income from equity investments	703	385
Dividend income	**752**	**436**

4. Net Trading and Fair Value Result

Net trading result

in CZK million	2017	2016
Securities and derivatives trading	829	1,399
Foreign exchange transactions	1,905	1,362
Result from hedge accounting	(52)	(11)
Net trading result	**2,682**	**2,750**

Result from Financial Assets and Liabilities Designated at Fair Value Through Profit or Loss

in CZK million	2017	2016
Result from measurement/sale of financial assets designated at fair value through profit or loss	(21)	(22)
Result from measurement/sale of financial liabilities designated at fair value through profit or loss	(21)	(37)
Result from financial assets and liabilities designated at fair value through profit or loss	**(42)**	**(59)**

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

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

The portion of trading gains resulting from trading assets transferred to Erste Group Bank and reported within Net trading result is as follows:

in CZK million	2017	2016
Realised and unrealised gains on trading assets	656	572
Foreign exchange trading	174	211
Total	**829**	**783**

5. Rental Income from Other Operating Leases

in CZK million	2017	2016
Other operating leases (real estate and cars)	83	87
Rental income from other operating leases	**83**	**87**

6. General Administrative Expenses

in CZK million	2017	2016
Personnel expenses	**(8,569)**	**(8,113)**
Wages and salaries	(6,108)	(5,800)
Compulsory social security	(1,956)	(1,802)
Other personnel expenses	(505)	(511)
Other administrative expenses	**(6,528)**	**(6,784)**
Deposit insurance contribution	(182)	(165)
IT expenses	(2,472)	(2,816)
Expenses for office space	(1,385)	(1,384)
Office operating expenses	(604)	(590)
Advertising / marketing	(880)	(822)
Legal and consulting costs	(237)	(346)
Sundry administrative expenses	(768)	(661)
Depreciation and amortisation	**(1,877)**	**(1,889)**
Software and other intangible assets	(908)	(849)
Owner occupied real estate	(624)	(693)
Office furniture and equipment and sundry property and equipment	(345)	(347)
General administrative expenses	**(16,974)**	**(16,786)**

Personnel expenses include expenses of CZK 1,956 million (2016: CZK 1,802 million) for the statutory defined contribution scheme. The Bank has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Board of Directors and Supervisory Board Remuneration

in CZK million	2017	2016
Remuneration	74	79

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

Headcount of Full Time Employees per Reporting Date

	2017	2016
Staff	9,549	9,270

7. Gains/Losses on Financial Assets and Liabilities Not Measured at Fair Value Through Profit or Loss, Net

in CZK million	2017	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	(2)	–
From repurchase of liabilities measured at amortised cost	(4)	–
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 the amount of 1,423 million CZK was reported as of 31 December 2016.

8. Net Impairment Loss on Financial Assets Not Measured at Fair Value Through Profit or Loss

in CZK million	2017	2016
Loans and receivables	(101)	(1,406)
Allocation to risk provisions	(8,764)	(3,078)
Release of risk provisions	8,104	1,225
Direct write-offs	(27)	(39)
Recoveries recorded directly to the income statement	586	486
Financial assets – held to maturity	–	3
Net impairment loss on financial assets not measured at fair value through profit or loss	**(101)**	**(1,403)**

9. Other Operating Result

in CZK million	2017	2016
Other operating expenses	**(1,882)**	**(2,411)**
Allocation to other provisions	(1)	(1,479)
Allocation to provisions for commitments and guarantees given	(1,449)	(506)
Other taxes	(5)	(28)
Recovery and resolution fund	(427)	(398)
Other operating income	**1,809**	**1,536**
Release of other provisions	127	1,438
Release of provisions for commitments and guarantees given	1,393	192
Result from properties/movables/other intangible assets other than goodwill	413	(69)
Result from other operating expenses/income	(124)	(25)
Other operating result	**(73)**	**(875)**

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

Due to the existence of the impairment's indication in 2017 the Bank recognized in the line "Result from properties/movables/other intangible assets other than goodwill" impairment loss of non-financial assets (buildings) in the amount of CZK 702 million.

Based on the EU Directive and the related binding Delegated Act, banks in the EU are obliged to contribute to the Single Resolution Mechanism (SRM) from 2015. The rules were incorporated into the Czech law in December 2015 with the effective day 1 January 2016. The new law reflects the definition of SRM contributions and the changes in the deposit insurance premium calculation. In 2016 the final annual contribution paid to resolution fund in the amount of CZK 427 million was reported within the line "Recovery and resolution fund" (2016: CZK 398 million).

10. Taxes on Income

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

in CZK million	2017	2016
Current tax expense / income	(3,198)	(3,520)
current period	(3,198)	(3,520)
Deferred tax expense / income	26	344
current period	26	344
Total	**(3,172)**	**(3,176)**

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

in CZK million	2017	2016
Pre-tax profit/loss	18,174	17,684
Income tax expense for the financial year at the domestic statutory tax rate (19%)	(3,453)	(3,360)
Non-taxable income	491	693
Non-deductible expenses	(359)	(529)
Other	149	20
Total	**(3,172)**	**(3,176)**
Effective tax rate	**17.46%**	**17.96%**

In 2016 non-taxable income was positively influenced by the income from sale of merchant acquiring business.

Tax effects relating to each component of other comprehensive income:

in CZK million	2017			2016		
	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount
Available for sale reserve	**(1,207)**	**229**	**(978)**	**(844)**	**161**	**(683)**
Unrealized profits / (losses) on revaluation	(996)	189	(807)	582	(110)	472
Reclassification adjustments to the income statement	(211)	40	(171)	(1,426)	271	(1,155)
Cash flow hedge reserve	**(2,732)**	**519**	**(2,213)**	**257**	**(51)**	**206**
Gains and losses on the hedging instruments	(2,763)	525	(2,238)	257	(51)	206
Reclassification adjustments to the income statement	31	(6)	25	–	–	–
Other comprehensive income	**(3,939)**	**748**	**(3,191)**	**(587)**	**110**	**(477)**

11. Appropriation of Profit

Management of the Bank has proposed that total dividends of CZK 11,704 million be declared in respect of the profit for the year ended 31 December 2017, which represents 77 CZK per both ordinary and preference share (2016: CZK 11,552 million, that is, CZK 76 per both ordinary and preference share). The declaration of dividends is subject to the approval of the Annual General Meeting. Dividends paid to shareholders are subject to a withholding tax of 15% or a percentage set out in the relevant double tax treaty. Dividends paid to shareholders that are tax residents of an European Union member country and whose interest in a subsidiary's share capital is no less than 10% and that hold the entity's shares for at least one year are not subject to withholding tax.

Management of the Bank proposed that AT1 (see Note 33 Total equity for descriprition of AT1) distribution would be CZK 604,4 million (2016: CZK 623,7 million) from total nominal value of EUR 300 million. In 2016 management of the Bank further transferred the whole balance of the Bank's Legal and statutory reserve in the amount of CZK 3,040 million into Retained earnings. Both AT1 distribution and transfer of the Bank's Legal and statutory reserve were subject to the approval of the Annual General Meeting.

12. Cash and Cash Balances

in CZK million	2017	2016
Cash on hand	25,103	24,144
Cash balances at central banks	233,786	126,612
Other demand deposits	948	1,121
Cash and cash balances	**259,837**	**151,877**

A portion of 'Cash balances with central banks' includes mandatory reserve deposits in the amount of CZK 11,158 million (2016: CZK 6,262 milion), which do not form part of cash and cash equivalents. Mandatory reserve deposits accrue interest at the CNB's two week repo rate.

The Bank is authorised to make withdrawals of minimum reserve deposits in an amount that exceeds the actual average level of minimum reserve deposits for the relevant holding period calculated pursuant to the CNB's regulations. Other demand deposits consist of current accounts and overnight deposits with credit institutions.

Cash and Cash Equivalents

in CZK million	2017	2016
Cash on hand	25,104	24,144
Nostro accounts at central banks (net of mandatory reserve deposits)	222,628	120,350
Treasury bills and treasury bonds with maturity of less than three months	7	–
Nostro accounts with credit institutions	948	1,121
Loro accounts with credit institutions (Note 30)	(14,876)	(15,702)
Total cash and cash equivalents	**233,811**	**129,913**

13. Derivatives – Held for Trading

in CZK million	2017			2016		
	Notional value	Positive fair value	Negative fair value	Notional value	Positive fair value	Negative fair value
Derivatives held in the trading book	**649,223**	**10,063**	**(9,572)**	**579,486**	**11,649**	**(11,450)**
Interest rate	307,607	6,569	(6,146)	315,486	8,974	(8,684)
Equity	–	–	–	550	24	(7)
Foreign exchange	341,616	3,485	(3,367)	260,863	2 461	(2,492)
Commodity	–	9	(59)	2,587	190	(267)
Derivatives held in the banking book	**51,871**	**1,245**	**(1,908)**	**62,537**	**1,809**	**(2,606)**
Interest rate	9,429	756	(28)	14,708	1,155	(19)
Foreign exchange	42,442	489	(1,880)	47,829	654	(2,587)
Total	**701,094**	**11,308**	**(11,480)**	**642,023**	**13,458**	**(14,056)**

14. Other Trading Assets

in CZK million	2017	2016
Equity instruments	–	–
Debt securities	131	351
General governments	90	97
Credit institutions	41	254
Loans and advances	–	7,236
Other trading assets	**131**	**7,587**

Money-market instruments classified as trading assets (i.e. reported within Other trading assets) amounted to CZK 0 million (2016: CZK 7,236 million).

15. Financial Assets Designated at Fair Value Through Profit and Loss

in CZK million	2017	2016
Equity instruments	6	17
Debt securities	289	314
Credit institutions	289	314
Loans and advances	65	63
Financial assets designated at fair value through profit and loss	**360**	**394**

16. Financial Assets – Available for Sale

in CZK million	2017	2016
Equity instruments	1,657	1,314
Debt securities	53,350	79,665
General governments	36,571	61,738
Credit institutions	6,902	8,978
Other financial corporations	2,106	2,257
Non-financial corporations	7,771	6,692
Financial assets – available for sale	**55,007**	**80,979**

Equity instruments classified as available for sale amounted to CZK 1,657 million CZK (2016: 1,314 million CZK). Equity instruments consist of stocks and other equity instruments.

17. Financial Assets – Held to Maturity

in CZK million	Gross carrying amount		Collective allowances		Net carrying amount	
	2017	2016	2017	2016	2017	2016
General governments	144,836	147,242	–	–	144,836	147,242
Credit institutions	11,004	11,782	(4)	(3)	11,000	11,779
Other financial corporations	471	851	(1)	–	470	851
Non-financial corporations	3	3	–	(1)	3	2
Financial assets – held to maturity	**156,314**	**159,878**	**(5)**	**(4)**	**156,309**	**159,874**

18. Securities

in CZK million	Loans and advances to customers and credit institutions		Trading assets		Financial assets						Total	
					At fair value through profit or loss		Available for sale		Held to maturity			
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Bonds and other interest-bearing securities	**2,638**	**2,099**	**131**	**351**	**289**	**314**	**53,350**	**79,665**	**156,309**	**159,874**	**212,717**	**242,303**
Listed	–	–	54	53	–	–	41,967	67,322	142,532	145,366	184,533	212,741
Unlisted	2,638	2,099	77	298	289	314	11,383	12,343	13,777	14,508	28,164	29,562
Equity-related securities	**–**	**–**	**–**	**–**	**7**	**17**	**1,312**	**1,256**	**–**	**–**	**1,319**	**1,273**
Listed	–	–	–	–	–	–	–	74	–	–	–	74
Unlisted	–	–	–	–	7	17	1,312	1,182	–	–	1,319	1,199
Equity holdings	**–**	**–**	**–**	**–**	**–**	**–**	**345**	**58**	**–**	**–**	**345**	**58**
Total	**2,638**	**2,099**	**131**	**351**	**296**	**331**	**55,007**	**80,979**	**156,309**	**159,874**	**214,381**	**243,634**

Securities lending and repurchase transactions are disclosed in Note 37 Transfers of financial assets – repurchase transactions and securities lending.

19. Loans and Receivables to Credit Institutions

in CZK million As of 31 December 2017	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
Debt securities	1,892	–	(24)	1,868
Credit institutions	1,892	–	(24)	1,868
Loans and receivables	155,170	–	(13)	155,157
Central banks	135,515	–	–	135,515
Credit institutions	19,655	–	(13)	19,642
Total	**157,062**	**–**	**(37)**	**157,025**

in CZK million As of 31 December 2016	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	20,523	(2)	(3)	20,518
Credit institutions	20,523	(2)	(3)	20,518
Total	**21,835**	**(2)**	**(10)**	**21,823**

As at 31 December 2017, the Bank granted financial institutions and central banks loans of CZK 139,276 million (2016: CZK 4,535 million) under reverse repurchase transactions which were collateralised by securities amounting to CZK 137,831 million (2016: CZK 4,606 million).

Allowances for Loans and Receivables to Credit Institutions

in CZK million	As of Dec 16	Allocations	Release	Exchange rate and other changes	As of Dec 17
Specific allowances	**(2)**	**(4)**	**5**	**1**	**–**
Loans and receivables	(2)	(4)	5	1	–
Credit institutions	(2)	(4)	5	1	–
Collective allowances	**(10)**	**(55)**	**27**	**1**	**(37)**
Debt securities	(7)	(27)	10	–	(24)
Credit institutions	(7)	(27)	10	–	(24)
Loans and receivables	(3)	(28)	17	1	(13)
Credit institutions	(3)	(28)	17	1	(13)
Total	**(12)**	**(59)**	**32**	**2**	**(37)**

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

20. Loans and Receivables to Customers

Loans and receivables to customers

in CZK million As of 31 December 2017	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
Debt securities with customers	774	–	(4)	770
Non-financial corporations	774	–	(4)	770
Loans and receivables to customers	607,310	(8,558)	(2,196)	596,556
General governments	17,176	–	(11)	17,165
Other financial corporations	36,306	(134)	(51)	36,121
1Non-financial corporations	230,139	(5,176)	(1,593)	223,370
Households	323,689	(3,248)	(541)	319,900
Total	**608,084**	**(8,558)**	**(2,200)**	**597,326**

in CZK million As of 31 December 2016	Gross carrying amount	Specific allowances	Collective allowances	Net carrying amount
Debt securities with customers	795	–	(2)	793
Non-financial corporations	795	–	(2)	793
Loans and receivables to customers	551,152	(11,515)	(2,071)	537,566
General governments	19,124	(1)	(10)	19,113
Other financial corporations	25,333	(145)	(33)	25,155
Non-financial corporations	209,837	(6,092)	(1,395)	202,350
Households	296,858	(5,277)	(633)	290,948
Total	**551,947**	**(11,515)**	**(2,073)**	**538,359**

Allowances for Loans and Receivables to Customers

in CZK million	As of Dec 16	Allocations	Use	Release	Interest income from impaired loans	Transfer between allowances	Exchange rate and other changes (+/–)	As of Dec 17	Recoveries of amounts previously written off	Amounts written off
Specific allowances	**(11,515)**	**(5,895)**	**3,249**	**5,700**	**124**	**(296)**	**75**	**(8,558)**	**586**	**(27)**
Loans and receivables to customers	(11,515)	(5,895)	3,249	5,700	124	(296)	75	(8,558)	586	(27)
General governments	(1)	(4)	–	5	–	–	–	–	–	–
Other financial corporations	(145)	(70)	69	10	–	–	2	(134)		
Non-financial corporations	(6,092)	(3,267)	694	3,410	78	(72)	73	(5,176)	41	–
Households	(5,277)	(2,554)	2,486	2,275	46	(224)	–	(3,248)	545	(27)
Collective allowances	**(2,073)**	**(2,810)**	**–**	**2,372**	**–**	**296**	**15**	**(2,200)**	**–**	**–**
Debt securities with customers	(2)	(4)	–	2	–	–	–	(4)	–	–
Non-financial corporations	(2)	(4)	–	2	–	–	–	(4)	–	–
Loans and receivables to customers	(2,071)	(2,806)	–	2,370	–	296	15	(2,196)	–	–
General governments	(10)	(15)	–	15	–	(1)	–	(11)	–	–
Other financial corporations	(33)	(74)	–	56	–	–	–	(51)	–	–
Non-financial corporations	(1,395)	(1,705)	–	1,430	–	62	15	(1,593)	–	–
Households	(633)	(1,012)	–	869	–	235	–	(541)	–	–
Total	**(13,588)**	**(8,705)**	**3,249**	**8,072**	**124**	**–**	**90**	**(10,758)**	**586**	**(27)**

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

There were no provisions for doubtful debts related to the outstanding balances with Related Parties.

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.

21. Derivatives – Hedge Accounting

in CZK million	As of 31 December 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	**11,893**	**12**	**(20)**	**4,453**	**21**	**(12)**
Interest rate	11,893	12	(20)	4,453	21	(12)
Cash flow hedge	**90,690**	**601**	**(1,793)**	**45,997**	**498**	**(440)**
Interest rate	61,560	253	(1,686)	29,898	455	(54)
Foreign exchange	29,130	347	(107)	16,099	43	(386)
Total	**102,583**	**613**	**(1,813)**	**50,450**	**519**	**(452)**

22. Property and Equipment

a) At Cost

Property and Equipment – Acquisition and Production Costs

in CZK million	Land and buildings (used by the Bank)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Property and equipment
Balance as of 1 Jan 2016	**20,423**	**4,527**	**1,794**	**26,744**
Additions in current year (+)	280	235	204	719
Disposals (–)	(987)	(330)	(230)	(1,547)
Reclassification (+/–)	–	8	(8)	–
Balance as of 31 Dec 2016	**19,716**	**4,440**	**1,760**	**25,916**
Additions in current year (+)	979	224	176	1,379
Disposals (–)	(1,632)	(445)	(75)	(2,152)
Reclassification (+/–)	–	91	(91)	–
Assets held for sale (–)	(126)	–	–	(126)
Balance as of 31 Dec 2017	**18,937**	**4,310**	**1,770**	**25,017**

b) Accumulated Depreciation

Property and Equipment – Accumulated Depreciation

in CZK million	Land and buildings (used by the Bank)	Office and plant equipment / other fixed assets	IT assets (Hardware)	Property and equipment
Balance as of 1 Jan 2016	**(9,891)**	**(3,436)**	**(1,470)**	**(14,797)**
Depreciation (–)	(693)	(227)	(120)	(1,040)
Disposals (+)	838	321	223	1,382
Impairment (–)	(1,389)	(2)	–	(1,391)
Reclassification (+/–)	–	–	–	–
Balance as of 31 Dec 2016	**(11,135)**	**(3,344)**	**(1,367)**	**(15,846)**
Depreciation (–)	(624)	(227)	(118)	(969)
Disposals (+)	1,422	429	74	1,925
Impairment (–)	(702)	–	–	(702)
Assets held for sale (+)	107	–	–	107
Balance as of 31 Dec 2017	**(10,932)**	**(3,142)**	**(1,411)**	**(15,485)**

c) Carrying Amounts

Property and Equipment

in CZK million	Land and buildings (used by the Bank)	Office and plant equipment/ other fixed assets	IT assets (Hardware)	Property and equipment
Balance as of 1 Jan 2016	**10,532**	**1,091**	**324**	**11,947**
Balance as of 31 Dec 2016	**8,581**	**1,096**	**393**	**10,070**
Balance as of 31 Dec 2017	**8,005**	**1,168**	**359**	**9,532**

The balances as at 31 December 2017 shown above include CZK 1,064 million (2016: CZK 397 million) in property and equipment under construction.

The acquisition cost of fully depreciated tangible assets still in use was CZK 4,527 million as at 31 December 2017 (2016: CZK 4,450 million).

23. Intangible Assets

a) At Cost

Acquisition and Production Costs

in CZK million	Software acquired	Other (licenses, patents, etc.)	Intangible assets
Balance as of 1 Jan 2016	**10,425**	**5,616**	**16,041**
Additions in current year (+)	1,099	81	1,180
Disposals (–)	(393)	(251)	(644)
Reclassification (+/–)	511	(511)	–
Balance as of 31 Dec 2016	**11,642**	**4,935**	**16,577**
Additions in current year (+)	1,216	185	1,401
Disposals (–)	(283)	(2,393)	(2,676)
Reclassification (+/–)	(10)	10	–
Balance as of 31 Dec 2017	**12,565**	**2,737**	**15,302**

b) Amortisation

Amortisation

in CZK million	Software acquired	Other (licenses, patents, etc.)	Intangible assets
Balance as of 1 Jan 2016	**(7,054)**	**(5,312)**	**(12,366)**
Amortisation charge (–)	(751)	(98)	(849)
Disposals (+)	394	250	644
Impairment (–)	(12)	–	(12)
Reclassification (+/–)	(683)	683	–
Balance as of 31 Dec 2016	**(8,106)**	**(4,477)**	**(12,583)**
Amortisation charge (–)	(835)	(73)	(908)
Disposals (+)	283	2,393	2,676
Impairment (–)	(5)	–	(5)
Reclassification (+/–)	49	(49)	–
Balance as of 31 Dec 2017	**(8,614)**	**(2,206)**	**(10,820)**

c) Carrying Amounts

in CZK million	Software acquired	Other (licenses, patents, etc.)	Intangible assets
Balance as of 1 Jan 2016	**3,371**	**304**	**3,675**
Balance as of 31 Dec 2016	**3,536**	**458**	**3,994**
Balance as of 31 Dec 2017	**3,951**	**531**	**4,482**

Other intangible assets include licenses and know-how. In addition, the item includes CZK 1,105 million in intangibles under construction as at 31 December 2017 (2016: CZK 1,251 million).

The acquisition cost of fully amortised intangible assets still in use was CZK 2,372 million as at 31 December 2017 (2016: CZK 4,679 million).

24. Investments in Subsidaries and Associates

As of 31 December 2017	Share capital in MCZK/ TEUR	Currency	Ownership %	Voting power in %	Net Carrying amount in MCZK
Investments in subsidaries					
brokerjet ČS, a.s. v likvidaci	120.0	CZK	100%	100%	45
CEE Property Development Portfolio B.V.	20.0	EUR	20%	20%	–
CEE Property Development Portfolio 2 a.s.	2.0	CZK	100%	100%	1,387
CS Property Investment Limited	120.0	EUR	100%	100%	33
Czech and Slovak Property Fund B.V.	30.0	EUR	20%	20%	303
Czech TOP Venture Fund B.V.	19.0	EUR	84%	84%	–
Erste Grantika Advisory, a.s.	7.0	CZK	100%	100%	–
Factoring ČS, a.s.	114.0	CZK	100%	100%	985
ČS do domu, a.s. v likvidaci**)	4.0	CZK	100%	100%	–
Česká spořitelna – penzijní společnost, a.s.	350.0	CZK	100%	100%	841
MOPET CZ, a.s.	102.0	CZK	100%	100%	–
REICO investiční společnost ČS, a.s.	25.0	CZK	100%	100%	130
s Autoleasing, a.s.	500.0	CZK	100%	100%	2,013
s IT Solutions CZ, s.r.o. v likvidaci	0.2	CZK	100%	100%	28
Erste leasing, a.s.	200.0	CZK	100%	100%	1,242
Stavební spořitelna ČS, a.s.	750.0	CZK	100%	100%	1,515
Věrnostní program iBOD, a.s.	2.0	CZK	100%	100%	135
Holding Card Service, s.r.o.	614.0	CZK	69%	69%	423
Energie ČS, a.s.	2.0	CZK	100%	100%	174
Subtotal					**9,254**
Investments in associates					
Erste Group Shared Services (EGSS), s.r.o.	0.2	CZK	40%	40%	–
Procurement Services CZ, s.r.o.	0.2	CZK	40%	40%	–
Global Payments s.r.o. *)	1,590.0	CZK	10%	10%	159
Subtotal					**159**
Foreign exchange differences hedges relating to equity investments denominated in EUR					(16)
Total					**9,397**

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

**) In December the liquidation of ČS do domu, a.s. was finalized, but the fact was acknowledged by the Commercial Register as of 8th January 2018

As of 31 December 2016	Share capital in MCZK/ TEUR	Currency	Ownership %	Voting power in %	Net Carrying amount in MCZK
Investments in subsidaries					
brokerjet ČS, a.s.	120.0	CZK	100%	100%	45
CEE Property Development Portfolio B.V.	20.0	EUR	20%	20%	–
CEE Property Development Portfolio 2 a.s.	2.0	CZK	100%	100%	1,036
CS Property Investment Limited.**)	120.0	EUR	100%	100%	145
Czech and Slovak Property Fund B.V. **)	30.0	EUR	20%	20%	101
Czech TOP Venture Fund B.V.	19.0	EUR	84%	84%	30
Energie ČS, a.s.	2.0	CZK	100%	100%	–
Erste Grantika Advisory, a.s.	7.0	CZK	100%	100%	–
Factoring České spořitelny, a.s.	114.0	CZK	100%	100%	985
ČS do domu, a.s.	4.0	CZK	100%	100%	–
Česká spořitelna – penzijní společnost, a.s.	350.0	CZK	100%	100%	841
MOPET CZ, a.s.	102	CZK	100%	100%	–
Realitní společnost ČS, a.s.	2.0	CZK	100%	100%	–
REICO investiční společnost ČS, a.s.	25.2	CZK	100%	100%	130
s Autoleasing, a.s.	500.0	CZK	100%	100%	1,964
s IT Solutions CZ, s.r.o.	0.2	CZK	100%	100%	28
Erste Leasing, a.s.	200.0	CZK	100%	100%	742
Stavební spořitelna ČS, a.s.	750.0	CZK	100%	100%	1,515
Věrnostní program iBOD, a.s.	2.0	CZK	100%	100%	–
Holding Card Service, s.r.o.	614	CZK	69%	69%	423
Subtotal					**7,985**
Investments in associates					
Erste Group Shared Services (EGSS), s.r.o.	0.2	CZK	40%	40%	0.08
ÖCI-Unternehmensbeteiligungs	18.2	EUR	40%	40%	0.19
Procurement Services CZ, s.r.o.	0.2	CZK	40%	40%	0.08
Global Payments s.r.o.*)	1 590.0	CZK	10%	10%	159
Subtotal					**160**
Other					
CBCB-Czech Banking Credit Bureau, a.s.	1.2	CZK	20%	20%	0.24
První certifikační autorita, a.s.	20.0	CZK	23.25%	23.25%	7.94
Erste Corporate Finance, a.s.	6.0	CZK	100%	100%	15
Investicniweb s.r.o	0.1	CZK	100%	100%	3
Subtotal					**26**
Foreign exchange differences hedges relating to equity investments denominated in EUR					29
Total					**8,200**

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

In 2017 s IT Solution CZ, sr.o. and Brokerjet started the liqudiation of their businesses.

**) Decrease in carrying amount due to the fact that part of the share premium was returned back to Česka spořitelna, a.s.

Gross carrying amount of investments and subsidiaries was as of 31 December 2017 CZK 12,028 million (2016: CZK 13,008 million). Allowances for investments and subsidiaries amounted as of 31 December 2017 to CZK 2,615 million (2016: CZK 4,837 million).

Name of company	Registered office	Principal activities
Investments in subsidaries		
brokerjet ČS, a.s. v likvidaci	Prague	Investment services
CEE Property Development Portfolio B.V.	The Netherlands	Real estate investment
CEE Property Development Portfolio 2 a.s.	Prague	Real estate investment
CS Property Investment Limited	Cyprus	Investments in securities, issuance of loans
Czech and Slovak Property Fund B.V.	The Netherlands	Real estate investment
Czech TOP Venture Fund B.V.	The Netherlands	Management and financing services
Energie ČS, a.s.	Prague	Electricity and gas trading
Erste Grantika Advisory, a.s.	Brno	Business consulting
Factoring České spořitelny, a.s.	Prague	Factoring
ČS do domu, a.s v likvidaci.	Prague	Financial advisory network
Česká spořitelna – penzijní společnost, a.s.	Prague	Pension insurance
MOPET CZ, a.s.	Prague	Mobile payment services
REICO investiční společnost ČS, a.s.	Prague	Real estate investment
s Autoleasing, a.s.	Prague	Leasing
s IT Solutions CZ, s.r.o. v likvidaci	Prague	Provision of software and advisory involving hardware and software
Erste leasing, a.s.	Znojmo	Leasing
Stavební spořitelna ČS, a.s.	Prague	Construction savings bank
Věrnostní program iBOD, a.s.	Prague	Management of loyalty program
Holding Card Service, s.r.o.	Prague	Property Management
Investments in associates		
Global Payments s.r.o.	Prague	Payment services
Procurement Services CZ, s.r.o.	Prague	Provision of procurement services
Erste Group Shared Services (EGSS), s.r.o.	Hodonín	Foreign payments services

25. Tax Assets and Liabilities

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

in CZK million	Tax assets 2017	Tax assets 2016	Tax liabilities 2017	Tax liabilities 2016	Net variance 2017			Net variance 2016		
					Total	Through profit or loss	Through other comprehensive income	Total	Through profit or loss	Through other comprehensive income
Temporary differences relate to the following items:										
Loans and advances to credit institutions and customers	364	–	–	345	19	19	–	(6)	(6)	–
Financial assets – available for sale	(375)	–	–	(604)	229	–	229	161	–	161
Property and equipment	132	–	–	19	113	113		275	275	–
Sundry provisions	87	–	–	193	(106)	(106)		62	62	–
CF hedge	450	–	–	(69)	519	–	519	(38)	13	(51)
Other	61			61	–	–	–	–	–	–
Total deferred taxes	**719**	**–**	**–**	**(55)**	**774**	**26**	**748**	**454**	**344**	**110**
Current taxes	**337**	**578**	**–**	**–**						
Total taxes	**1,056**	**578**	**–**	**(55)**						

26. Other Assets

in CZK million	2017	2016
Prepayments and accrued income	238	207
Sundry assets	897	969
Other assets	**1,135**	**1,176**

'Sundry assets' consist mainly of not invoiced receivables from customers relations of CZK 398 million (2016: CZK 432 million).

27. Assets Held for Sale and Liabilities Associated with Assets Held for Sale

in CZK million	2017	2016
Assets held for sale	19	123

Having met the qualifying criteria of IFRS 5, tangible assets in the amount of CZK 19 million (2016: CZK 123 million) are presented for the financial year ending 31 December 2017 under the balance sheet line item 'Assets held for sale.

28. Other Trading Liabilities

in CZK million	2017	2016
Deposits	–	4,105
Other financial corporations	–	4,009
Non financial corporations	–	96
Other trading liabilities	**–**	**4,105**

The amount of other trading liabilities concluded with trading intention (i.e. short-term profit taking) was as of 31 December 2017 CZK 0 million (2016: CZK 4,105 million).

29. Financial Liabilities Designated at Fair Value Through Profit and Loss

in CZK million	2017	2016
Deposits	1,240	1,997
Non financial corporations	2	2
Households	1,238	1,995
Financial liabilities designated at fair value through profit and loss	**1,240**	**1,997**

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

in CZK million	Amount of change in fair values attributable to changes in credit risk for the period		Amount of cumulative change in fair values attributable to changes in credit risk	
	2017	2016	2017	2016
Financial liabilities – at fair value through profit or loss				
Deposits from customers	–	(4)	3	3

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

30. Financial Liabilities Measured at Amortised Costs

in CZK million	2017	2016
Deposits	**1,112,144**	**831,419**
Deposits from banks	298,413	120,019
Deposits from customers	813,731	711,400
Debt securities issued	**8,478**	**18,859**
Bonds	8,478	18,859
Other financial liabilities	579	740
Financial liabilities measured at amortised costs	**1,121,201**	**851,018**

In 2017 Other financial liabilities included mainly Payables to securities clearing entities of CZK 367 million (2016: CZK 519 million).

Deposits from Banks

in CZK million	2017	2016
Current accounts/Overnight deposits	14,876	15,701
Term deposits	127,621	76,444
Repurchase agreements	155,916	27,874
Deposits from banks	**298,413**	**120,019**

Deposits from Customers

in CZK million	2017	2016
Current accounts/Overnight deposits	747,763	681,129
General governments	62,372	55,874
Other financial corporations	32,814	20,570
Non financial corporations	125,131	123,545
Households	527,446	481,140
Term deposits	39,278	28,858
General governments	30	69
Other financial corporations	11,276	866
Non financial corporations	2,896	1,159
Households	25,076	26,764
Repurchase agreements	26,690	1,413
General governments	–	1,413
Other financial corporations	26,306	–
Non-financial corporations	384	–
Deposits from customers	**813,731**	**711,400**
General governments	62,402	57,356
Other financial corporations	70,396	21,436
Non financial corporations	128,411	124,704
Households	552,522	507,904

All deposits are from customers and entities within the Czech Republic.

Debt Securities Issued – Bonds

in CZK million	ISIN	Date of issue	Maturity	Interest rate	Bonds Traded on regulated market Yes/No	2017	2016
Mortgage bonds	CZ0002001134	August 2007	August 2017	floating	Yes	–	3,002
Mortgage bonds	CZ0002001191	October 2007	October 2022	floating	Yes	2,002	2,001
Mortgage bonds	CZ0002001282	November 2007	November 2017	5.90%	Yes	–	2,064
Mortgage bonds	CZ0002001407	December 2007	December 2022	floating	Yes	4,000	3,999
Mortgage bonds	CZ0002001415	November 2007	November 2023	6.15%	Yes	1,135	1,158
Mortgage bonds	CZ0002001423	December 2007	December 2017	5.85%	Yes	–	4,986
Mortgage bonds	CZ0002001647	December 2007	December 2017	3.90%	Yes	–	876
Mortgage bonds	CZ0002001654	December 2007	December 2022	floating	No	60	70
Mortgage bonds	CZ0002002744	December 2012	December 2021	2.75%	No	81	83
Mortgage bonds	CZ0002002751	December 2012	June 2023	3.25%	No	178	183
Mortgage bonds	CZ0002002777	December 2012	June 2018	1.75%	No	40	42
Mortgage bonds	CZ0002002785	December 2012	December 2019	2.50%	No	80	83
Bonds	CZ0003701054	September 2005	September 2017	x)	Yes	–	292
Promissory note	1950087	December 2017	January 2018			400	–
Promissory note	1950084	December 2017	January 2018			500	–
Cumulative change in carrying amount due to fair value hedging						2	20
Bonds issued						**8,478**	**18,859**

x) Bonds were issued with a combined yield.

Of the aggregate carrying value of the mortgage bonds, CZK 447 million (2016: CZK 455 million) was hedged against interest rate risk through interest rate swaps linked to a market floating rate. In accordance with the applicable accounting policies, these mortgage bonds are remeasured at fair value to the extent of the hedged interest rate risk.

The ISIN CZ0003701054 issues included share index option which was presented at fair value.

Information about issues of mortgage bonds and bonds which are traded on the official regulated market meaning the Prague Stock Exchange ('PSE') is included in table above. The difference between the nominal values of the issued mortgage bonds and the carrying amounts of the relevant issues in the above table arises from the difference in valuation.

Assets in cover pools used for covered bond issuance amounted to CZK 110,768 million (2016: CZK 95,680 million). The main holders of debt securities issues are companies belonging into Ceska sporitelna group.

31. Provisions

in CZK million	2017	2016
Restructuring	107	149
Pending legal issues	1,758	1,764
Commitments and guarantees given	768	716
Provisions for guarantees – off balance (defaulted customers)	423	431
Provisions for guarantees – off balance (non defaulted customers)	345	285
Other provisions	39	167
Provisions for onerous contracts	8	15
Other	31	152
Provisions	**2,672**	**2,796**

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

Provision for 'Pending legal issues' are explained in detail in Note 44 Contingent assets and liabilities.

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

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

Provisions 2017

in CZK million	As of Dec 16	Allocations	Use	Releases	Reclas-sification	Exchange rate changes – Input	As of Dec 17
Provision for restructuring	149	–	(42)	–	–	–	107
Pending legal issues	1,764	–	(2)	(4)	–	–	1,758
Commitments and guarantees given	716	1,449	(2)	(1,393)	–	(2)	768
Provisions for guarantees – off balance sheet (defaulted customers)	431	768	(2)	(749)	(24)	(1)	423
Provisions for guarantees – off balance sheet (non-defaulted customers)	285	681	–	(644)	24	(1)	345
Other provisions	167	628	(614)	(142)	–	–	39
Provisions for onerous contracts	15	1	(5)	(3)	–	–	8
Other	152	627	(609)	(139)	–	–	31
Provisions	**2,796**	**2,077**	**(660)**	**(1,539)**	**–**	**(2)**	**2,672**

Provisions 2016

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

In 2016, due to the completion of significant legal dispute the Bank decided to release provision in the amount of CZK 1,432 million, due to worsen situation in case of other significant legal dispute the Bank decided to create provision in the amount of CZK 1,421 million.

As the Bank's position in the significant legal disputes did not change in 2017, the provision for legal issues and tax litigation remained at almost same amount.

Starting January 2017 the bank reports the net allocation (release) of provisions for commitments and guarantees given based on the level of each transaction separately. In 2016 the balances of provisions for commitments and guarantees given (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 these provisions.

32. Other Liabilities

in CZK million	2017	2016
Deferred income and accrued expenses	160	161
Sundry liabilities	9,355	8,419
Other liabilities	**9,515**	**8,580**

Sundry liabilities consist mainly of unbilled supplies of CZK 1,212 million (2016: CZK 972 million), costs of staff bonuses for 2017 amounting to CZK 1,590 million (2016: CZK 1,422 million) and liabilities from payments clearing in the amount of CZK 3 million (2016: CZK 1,177 million).

In 2017 sundry liabilities consist also items from the settlement of internal payment transactions in the amount of CZK 2,936 million (2016: CZK 2,518 million) and payables to creditors in the amount of CZK 836 million (2016: CZK 1,111 million).

33. Total Equity

in CZK million	2017	2016
Subscribed capital	15,200	15,200
Share capital	15,200	15,200
Additional paid-in capital	12	12
Other capital instruments	8,107	8,107
Retained earnings and other reserves	92,297	92,633
Total equity[1)]	**115,616**	**115,952**

Details on equity are provided in Section III, Statement of Changes in Total Equity

As of 31 December 2017, subscribed capital consists of 140,788,787 voting ordinary shares and 11,211,213 preference shares. Additional paid-in capital represents the amount by which the issue price of the shares exceeded their par value. Retained earnings and other reserves represent accumulated net profit brought forward, as well as income and expenses recognized in other comprehensive income.

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

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

Due to the fact, that the AT1 do not represent financial liabilities in terms of IAS 32.11, they should be classified as equity instruments.

Classification of the AT1 within financial liabilities is not met from the following reasons:

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

Number of Shares and Share Capital

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

	2017		2016	
	Number of shares	in CZK million	Number of shares	in CZK million
Ordinary shares of CZK 100 each	140,788,787	14,079	140,788,787	14,079
Preference shares of CZK 100 each	11,211,213	1,121	11,211,213	1,121
Share capital	**152,000,000**	**15,200**	**152,000,000**	**15,200**

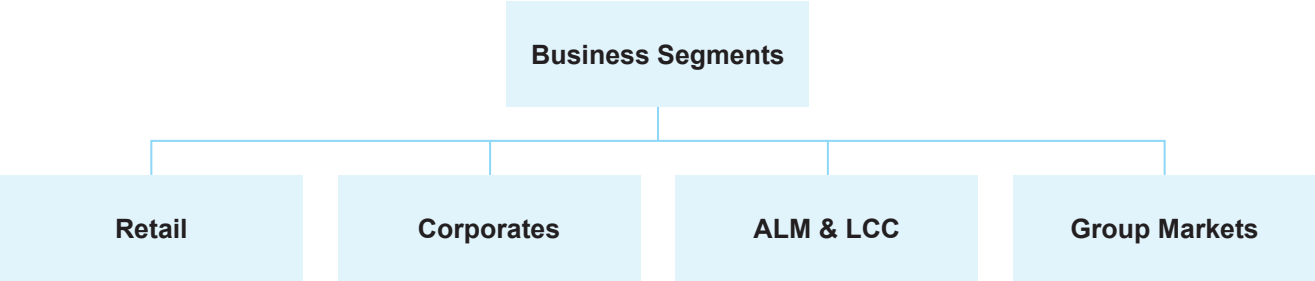
Preference shareholders are not entitled to vote at the annual shareholders' meeting. They have a right to receive dividends each year if the Bank is profitable. The amount of the dividend is proposed by the Board of Directors and subject to approval at the annual shareholders' meeting. In the case of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

34. Segment Reporting

The Banks's segment reporting is compliant with IFRS 8 Operating Segments, which adopts the management approach. Segment information is prepared on the basis of internal management reporting that is regularly reviewed by the chief operating decision maker to assess the performance of the segments and make decisions regarding the allocation of resources. Within the Bank the function of the chief operating decision maker is exercised by the Management Board of Česká spořitelna, a.s.

Structure of Business Segments

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



Retail

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

Corporates

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

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

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

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.

Public Sector consists of the following three sets of customers: public sector, public corporations and non-profit sector.

Public sector includes such customers as central ministries and state funded funds and agencies, non-profit entities established by or under control of central government entities, regional governments and organizations funded by them, state capitals, public health and social insurance companies. In general, Public sector excludes banks and non-bank financial institutions (FI), pension funds, bond issuing agencies (incl. government debt agencies), asset management based organizations which are part of the Group Markets segment.

Public corporations includes all non-financial state companies and corporations with more than 50% share of state or regional governments or municipals excluding stock exchange listed companies.

Non-profit sector comprises the following private non-profit companies: central authorities of churches, labor unions and nationally significant foundations, private schools and humanitarian organizations.

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

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

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 (LCC) 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.

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 Bank	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Net interest income	18,397	18,917	4,848	4,534	1	285	468	121	23,714	23,857
Net fee and commission income	5,879	6,272	1,094	1,091	(360)	(174)	1,251	1,065	7,864	8,254
Dividend income	–	–	–	–	752	436	–	–	752	436
Net trading and fair value result	1,336	1,306	762	731	(411)	(292)	953	946	2,640	2,691
Rental income from investment properties & other operating leases	–	–	–	–	83	87	–	–	83	87
General administrative expenses	(13,298)	(13,075)	(2,320)	(2,416)	(733)	(553)	(623)	(742)	(16,974)	(16,786)
thereof: depreciation and amortization	(1,703)	(1,709)	(124)	(127)	(8)	(10)	(42)	(43)	(1,877)	(1,889)
Gains/losses from financial assets and liabilities not measured at fair value through profit or loss, net	–	–	–	–	269	1,423	–	–	269	1,423
Net impairment loss on financial assets not measured at fair value through profit or loss	(5)	(458)	25	(1,077)	(127)	140	6	(8)	(101)	(1,403)
Other operating result	(107)	31	(270)	(353)	546	(553)	(242)	–	(73)	(875)
Pre-tax result from continuing operations	**12,202**	**12,993**	**4,139**	**2,510**	**20**	**799**	**1,813**	**1,382**	**18,174**	**17,684**
Taxes on income	(2,319)	(2,468)	(787)	(477)	278	31	(344)	(262)	(3,172)	(3,176)
Net result for the period	**9,883**	**10,525**	**3,352**	**2,033**	**298**	**830**	**1,469**	**1,120**	**15,002**	**14,508**
Net result attributable to owners of the parent	9,883	10,525	3,352	2,033	298	830	1,469	1,120	15,002	14,508
Operating income	25,612	26,495	6,704	6,356	65	342	2,672	2,132	35,053	35,325
Operating expenses	(13,298)	(13,075)	(2,320)	(2,416)	(733)	(553)	(623)	(742)	(16,974)	(16,786)
Operating result	**12,314**	**13,420**	**4,384**	**3,940**	**(668)**	**(211)**	**2,049**	**1,390**	**18,079**	**18,539**
Risk-weighted assets (credit risk, eop)	144,943	134,107	224,141	222,348	27,993	22,429	8,826	11,787	405,903	390,671
Average allocated capital	17,153	16,366	16,376	16,007	79,319	81,476	2,973	1,619	115,821	115,468
Cost/income ratio	51.9%	49.3%	34.6%	38.0%	1127.7%	161.7%	23.3%	34.8%	48.4%	47.5%
Return on allocated capital	57.6%	64.3%	20.5%	12.7%	0.4%	1.0%	49.4%	69.2%	13.0%	12.6%
Total assets (eop)	**369,148**	**335,047**	**233,854**	**217,474**	**594,951**	**422,313**	**65,585**	**24,176**	**1,263,538**	**999,011**
Total liabilities excluding equity (eop)	**584,021**	**540,102**	**157,227**	**148,563**	**198,311**	**151,675**	**208,363**	**42,718**	**1,147,922**	**883,059**

Eop = end of period

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

Intersegment transactions are conducted on an arm's length basis. Intersegment settlements are subject of funds transfer pricing dependent on market interest rates. Due to the specifics of the banking business the internal charges are not reported separately and Board of Directors primarily refers to net interest income of operating segments. Non-manageable general administrative expenses are reallocated to operating segments as indirect costs.

35. Leases

a) Finance Leases

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

b) Operating Leases

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

Operating Leases from the View of the Bank as Lessee

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

in CZK million	2017	2016
< 1 year	530	585
1–5 years	920	515
> 5 years	311	253
Total	**1,761**	**1,353**

Lease payments from operating leases recognised as expense in the period amounted to CZK 594 million (2016: CZK 625 million).

36. Related Party Transactions

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

Parties are considered to be related if one party has the ability to control the other or exercise significant influence over the other in making financial or operational decisions. The Group is controlled by Erste Group Bank AG.

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

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

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

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

Loans and Advances to and Amounts Owed to Related Parties

in CZK million	2017				2016			
	Erste Group Bank AG	Investments in subsidaries	Other related parties	Members of the Board of Directors and Supervisory Board	Erste Group Bank AG	Investments in subsidaries	Other related parties	Members of the Board of Directors and Supervisory Board
Assets								
Cash and cash balances	661	–	54	–	657	–	58	–
Financial assets – held for trading	5,078	8	–	–	3,910	103	–	–
Loans and receivables to credit institutions	14,908	–	–	–	15,268	–	–	–
Loans and receivables to customers	–	19,873	307	22	–	16,935	191	15
Derivatives Hedge Accounting	377	–	–	–	90	–	–	–
Other assets	21	67	36	–	17	92	36	–
Liabilities								
Financial liabilities held for trading	2,949	66	–	–	4,308	179	–	–
Financial liabilities measured at amortised costs	250,028	13,005	2,860	39	73,329	19,527	841	32
Derivatives Hedge Accounting	69	–	–	–	40	–	–	–
Other Liabilities	89	162	233	–	110	120	198	–
Profit&Loss statement								
Net interest income	501	8	5	–	606	(25)	21	–
Net fee and commision income	39	415	693	–	(4)	182	517	–
Dividend income	–	697	–	–	–	375	4	–
Net trading result	4,568	(38)	–	–	124	(148)	1	–
Rental income from investment properties & other operating lease	–	24	17	–	–	27	10	–
Other administrative expenses	(296)	(52)	(606)	(74)	(259)	(901)	(447)	(79)
Other operating result	25	93	8	–	15	84	17	–
Loans commitments, financial guarantees and other commitments given	**22**	**5,924**	**74**	**–**	**16**	**5,530**	**68**	**–**
Loan commitments, financial guarantees and other commitments received	**20**	**–**	**3**	**–**	**977**	**–**	**–**	**–**

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

Financial liabilities measured at amortized costs as at 31 December 2017 include primarily repurchase agreements in CZK 155,916 million and term deposits of CZK 103,706 million.

The repurchase agreements are mainly denominated in CZK (CZK 104,584 million as at 31 December 2017) and EUR (CZK 48,922 million as at 31 December 2017), the interest rates on repurchase agreements are in the range of 0,2% to 7,5% and maturity of these transactions is up to 12 months.

The term deposits are mainly denominated in CZK (CZK 101,565 million as at 31 December 2017) and EUR (CZK 1,903 million as at 31 December 2017), the interest rates on term deposits are in the range of 2,7% to 7,4% and maturity of these transactions is up to 52 months.

Both financial assets held for trading and financial liabilities held for trading as at 31 December 2017 include derivative instruments only (currency and interest rate derivative instruments). The net trading result consists primarily of foreign currency gains/ losses from derivative transactions and also currency revaluation result from other balance sheet positions with related parties denominated in foreign currencies.

Loans and receivables to credit institutions – Erste Group Bank AG include primarily standard money-market deposits, denominated in EUR (CZK 7,882 million as at 31 December 2017) and CZK (CZK 5,000 million as at 31 December 2017).

Loans and receivables to customers – Investments in subsidiaries include long-term and short-term loans denominated in CZK with average interest rates of 0.69% and 1.03 %. to Erste Leasing, a.s. and s Autoleasing, a.s. respectively.

37. Transfers of Financial Assets – Repurchase Transactions and Securities Lending

in CZK million	2017		2016	
	Carrying amount of transferred assets	Carrying amount of associated liabilities	Carrying amount of transferred assets	Carrying amount of associated liabilities
Repurchase agreements				
Trading assets	1	1	–	–
Financial assets – available for sale	2,781	2,565	–	–
Financial assets – held to maturity	70,119	72,810	25,658	29,294
Total – repurchase agreements	**72,901**	**75,376**	**25,658**	**29,294**
Securities lendings				
Loans and advances to customers	7,578	7,578	–	–
Financial assets – held to maturity	6,216	6,402	5,292	5,834
Total – securities lendings	**13,794**	**13,980**	**5,292**	**5,834**
Total	**86,695**	**89,356**	**30,950**	**35,128**

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

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

in CZK million	2017			2016		
	Fair value of transferred assets	Fair value of associated liabilities	Net position	Fair value of transferred assets	Fair value of associated liabilities	Net position
Trading assets	1	1	–	–	–	–
Financial assets – available for sale	2,781	2,565	**216**	–	–	–
Financial assets – held to maturity	74,540	72,964	**1,576**	29,376	29,314	**62**
Total	**77,322**	**75,530**	**1,792**	**29,376**	**29,314**	**62**

38. Offsetting

Financial Assets Subject to Offsetting and Potential Offsetting Agreements in 2017

in CZK million	Gross amounts in balance sheet	Amounts set off against financial liabilities	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral received	Non-cash financial collateral received	
Derivatives	11,921	–	11,921	6,683	2,489	–	2,749
Reverse repurchase agreements	139,276	–	139,276	–	–	137,831	1,445
Total	**151,197**	**–**	**151,197**	**6,683**	**2,489**	**137,831**	**4,194**

Financial Liabilities Subject to Offsetting and Potential Offsetting Agreements in 2017

in CZK million	Gross amounts in balance sheet	Amounts set off against financial assets	Net amounts in balance sheet	Potential effects of netting agreements not qualifying for balance sheet offsetting			Net amount after potential offsetting
				Financial instruments	Cash collateral pledged	Non-cash financial collateral pledged	
Derivatives	13,294	–	13,294	6,683	1,593	–	5,017
Repurchase agreements	182,607	–	182,607	–	–	182,607	–
Total	**195,900**	**–**	**195,900**	**6,683**	**1,593**	**182,607**	**5,017**

Financial Assets Subject to Offsetting and Potential Offsetting Agreements in 2016

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

Financial Liabilities Subject to Offsetting and Potential Offsetting Agreements in 2016

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

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

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

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

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

39. Risk Management

Risk Management Strategy

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

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

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

Risk Management Organization and Decision Bodies

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

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

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

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

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

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

39.1 Risk and Capital Management

Overview

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

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

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

Risk Appetite Statement and Risk Materiality Assessment

The risk appetite statement (RAS) serves as a formalised, high-level steering tool from which top-down targets for the Bank's limit system on lower aggregation levels can be derived. The objective of the Bank's RAS is to contain earnings volatility, avoid net losses and protect external and internal stakeholders. In order to reach these goals, general indicators are defined as well as indicators for credit, market and liquidity risk. To ensure that the RAS is operationally efficient, the indicators are classified as either targets, limits

or principles, where the main differences are in the mechanisms triggered in case of a breach of the RAS. Regular reviews are performed and management reports are prepared in order to ensure effective limit oversight and identify any excesses.

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

Internal Capital Assessment Process and Stress Testing

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

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

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

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

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

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

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

Statement of capital for the Bank's capital adequacy calculation on a standalone basis as reported to the regulator in accordance with applicable rules* as of 31 December 2017 and as of 31 December 2016:

in CZK million	2017	2016
Tier 1 capital	96,460	94,203
Tier 1 + Tier 2 capital	99,696	97,217
Risk exposure to credit risk	450,850	411,494
Risk exposure to market risk	9,669	8,361
Risk exposure to operational risk	75,309	64,464
Total risk exposure	**535,828**	**484,319**
Capital adequacy ratio for the year (Tier 1 ratio)	**18.0%**	**19.5%**
Capital adequacy ratio for the year (Tier 1+Tier 2 ratio)	**18.6%**	**20.1%**

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

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

39.2 Credit Risk

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

Credit Risk Management Methodology

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

Breakdown of the Portfolio for Credit Risk Management Purposes

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

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

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

Retail receivables are receivables from individuals/households and small enterprises with an annual turnover of up to CZK 60 million ('MSE'). The methods of managing the credit risk of retail receivables are based on statistical models calibrated using historical data.

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

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

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

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

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

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

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

Collection of Key Risk Management Information

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

Internal Rating Tools

The internal ratings of the Bank reflect the ability of counterparties to meet their financial obligations. The degree of risk is reflected

in the internal rating and corresponding probability of default of the debtor in the following twelve months. The definition of default is in line with the requirements set out in CRR (Regulation EU No 575/2013).

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

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

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

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

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

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

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

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

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

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

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

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

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

Exposure Limits

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

The VaR of Wholesale portfolio decreased from 1.40% (or CZK 10.411 million) in 2016 to 1.08% (or CZK 12.043 million) in 2017. This can be explained by effect of diversification between industry sectors which exceeded increase coming from strong single-name concentration (especially to Czech Government).

In terms of expected loss riskiness portfolio improved from 0.24% in 2016 to 0.12% in 2017, mainly because of increased exposures in fully collateralized repurchase operations. In terms of comparison of VaR to Tier 1 capital the indicator increased from 11.05% in 2016 to 12.49% in 2017.

Structure of Approval Authorities

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

Risk Parameters

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

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

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

Impairment Allowance for Loan Losses

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

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

Management of Credit Risk in the Trading Portfolio

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

Collateral

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

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

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

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

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

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

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

Credit Risk Pricing

The accepted risk is reflected in risk margins used in the pricing of individual types of counterparties and deals. The risk margins are based on estimated risk parameters, the expected development of the macroeconomic environment and changes in the credit process

within the Bank, which may have an impact on risk level within the credit portfolio.

Stress Testing

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

Forborne Exposures

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

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

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

Write-offs

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

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

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

In CZK million	2017
Net credit risk exposures relating to on-balance sheet items	
Other demand deposits	948
Financial assets held for trading – derivatives	11,308
Financial assets held for trading – debt securities	131
Financial assets designated at fair value through profit or loss – debt securities, loans and advances	354
Available-for-sale financial assets – debt securities	53,350
Loans and advances to banks	157,025
Loans and advances to customers	597,326
General governments	17,165
Other financial corporations	36,120
Non-financial corporations	224,141
Households	319,900
Held-to-maturity investments	156,309
Derivatives – Hedge accounting	613
Credit risk exposure relating to off-balance sheet items	
Irrevocable financial guarantees given	25,356
Irrevocable loan commitments given	112,054
Total	**1,114,774**

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

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

The resulting credit exposure as at 31 December 2017 and 2016 represents a worst case scenario, without taking into account any collateral held or other related credit enhancements. For presented assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 68% of the total exposure is derived from loans and advances to financial institutions and customers (2016: 59%); 19% represents investments in debt securities (2016: 26%).

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

Collateral securing the above receivables is as follows:

In CZK million	2017	2016
Loans and advances to credit institutions	133,663	–
Loans and advances to customers	289,960	265,424
Contingent liabilities	–	4,042
Total	**423,623**	**269,466**

Type of collateral securing the above receivables is as follows:

in CZK million	2017	2016
Guarantees	20,704	22,066
Real estate	250,792	226,572
Other (securities & other financial assets)	152,127	20,828
Total	**423,623**	**269,466**

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

b) Gross Credit Risk Exposure by Industry and Financial Instrument

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

Gross Credit Risk Exposure by Industry and Financial Instrument in 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	–	–	12,540	–	–	–	–	14	2,393	14,947
Mining	–	–	1,623	–	–	–	–	29	68	1,720
Manufacturing	–	–	56,340	–	–	–	2,098	145	19,585	78,168
Energy and water supply	–	–	22,346	–	–	–	1,719	357	3,616	28,038
Construction	–	–	8,317	–	–	–	–	3	13,987	22,307
Trade	–	–	37,130	–		–	–	74	10,134	47,338
Transport and communication	–	–	14,958	–	–	–	3,870	266	7,310	26,404
Hotels and restaurants	–	–	5,199	–	–	–	–	21	1,119	6,339
Financial and insurance services	948	157,062	36,301	11,475	41	354	9,008	8,258	8,947	232,394
Real estate and housing	–	–	70,019	3	–	–	–	134	8,880	79,036
Services	–	–	20,810	–	–	–	84	19	5,445	26,358
Public administration	–	–	16,033	144,836	90	–	36,571	2,549	6,812	206,891
Education, health and art	–	–	5,980	–	–	–	–	52	1,112	7,144
Private households	–	–	300,488	–	–	–	–	–	48,002	348,490
Total	**948**	**157,062**	**608,084**	**156,314**	**131**	**354**	**53,350**	**11,921**	**137,410**	**1,125,574**

Gross Credit Risk Exposure by Industry and Financial Instrument in 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	–	–	12,002	–	–	–	–	91	1,758	13,851
Mining	–	–	1,923	–	–	–	–	1	296	2,220
Manufacturing	–	–	52,285	–	–	–	1,531	404	18,107	72,327
Energy and water supply	–	–	20,925	–	–	–	1,305	742	6,579	29,551
Construction	–	–	7,311	–	–	–	–	15	13,056	20,382
Trade	–	–	31,444	–	–	–	–	188	11,704	43,336
Transport and communication	–	–	15,598	–	–	–	3,856	638	9,453	29,545
Hotels and restaurants	–	–	3,102	–	–	–	–	35	379	3,516
Financial and insurance services	1,121	21,835	25,342	12,634	7,441	377	11,236	7,993	9,861	97,840
Real estate and housing	–	–	66,161	3	–	–	–	290	5,781	72,235
Services	–	–	16,321	–	–	–	–	105	5,197	21,623
Public administration	–	–	17,878	147,241	146	–	61,737	3,363	3,934	234,299
Education, health and art	–	–	6,313	–	–	–	–	101	833	7,247
Private households	–	–	275,342	–	–	–	–	11	37,286	312,639
Total	**1,121**	**21,835**	**551,947**	**159,878**	**7,587**	**377**	**79,665**	**13,977**	**124,224**	**960,611**

Credit Risk Exposure by Basel 3 Exposure Class and Financial Instrument

The assignment of obligors to Basel 3 exposure classes is based on legal regulations. For reasons of clarity, individual Basel 3 exposure classes are aggregated in the table below and in other tables in section 'Credit risk'. Additionally to central governments, central banks, international organisations, and multinational development banks, the aggregated exposure class 'sovereigns' contains regional and local governments as well as public sector entities. Institutions include banks and recognised investment firms.

Gross Credit Risk Exposure by Basel 3 Exposure Class and Financial Instrument in 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						
Sovereign	–	135,515	15,830	152,124	90	289	40,056	2,817	6,813	353,534
Institutions	948	21,547	–	3,716	41	–	3,416	7,874	583	38,125
Corporates	–	–	249,385	474	–	65	9,878	1,230	74,263	335,295
Retail	–	–	342,869	–	–	–	–	–	55,751	398,620
Total	**948**	**157,062**	**608,084**	**156,314**	**131**	**354**	**53,350**	**11,921**	**137,410**	**1,125,574**

Gross Credit Risk Exposure by Basel 3 Exposure Class and Financial Instrument in 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						
Sovereign	–	–	17,815	155,665	4,246	314	66,791	4,174	4,468	253,473
Institutions	1,121	20,543	–	3,359	205	–	3,925	6,334	570	36,057
Corporates	–	1,292	220,647	854	3,136	63	8,949	3,457	75,228	313,626
Retail	–	–	313,485	–	–	–	–	12	43,958	357,455
Total	**1,121**	**21,835**	**551,947**	**159,878**	**7,587**	**377**	**79,665**	**13,977**	**124,224**	**960,611**

c) Credit Risk Exposure by Risk Category

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

Credit Risk Exposure by Risk Category

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Total exposure as of 31 Dec 2017	1,049,634	57,841	5,224	12,875	1,125,574
Share of credit risk exposure	93.3%	5.1%	0.5%	1.1%	100.0%
Total exposure as of 31 Dec 2016	883,073	56,675	2,910	17,953	960,611
Share of credit risk exposure	91.9%	5.9%	0.3%	1.9%	100.0%
Change in credit risk exposure in 2017	**166,561**	**1,166**	**2,314**	**(5,078)**	**164,963**
Change	**18.9%**	**2.1%**	**79.5%**	**-28.3%**	**17.2%**

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

Credit Risk Exposure by Industry and Risk Category in 2017

in CZK million	Low risk	Management attention	Substandard	Non-performing	Credit risk exposure
Agriculture and forestry	12,544	2,025	169	209	14,947
Mining	1,554	166	–	–	1,720
Manufacturing	66,812	6,397	2,018	2,941	78,168
Energy and water supply	25,097	2,278	66	597	28,038
Construction	16,940	3,579	879	909	22,307
Trade	38,361	6,391	638	1,948	47,338
Transport and communication	22,110	4,052	100	142	26,404
Hotels and restaurants	3,495	2,468	168	208	6,339
Financial and insurance services	229,643	2,503	1	247	232,394
Real estate and housing	66,861	11,174	223	778	79,036
Services	19,965	5,503	298	592	26,358
Public administration	206,294	597	–	–	206,891
Education, health and art	5,890	1,131	17	106	7,144
Private households	334,068	9,577	647	4,198	348,490
Total	**1,049,634**	**57,841**	**5,224**	**12,875**	**1,125,574**

Credit Risk Exposure by Industry and Risk Category in 2016

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

d) Financial Assets Past Their Due Dates

As at 31 December 2017 and 2016, the Bank reports the following financial assets which are past their due dates, but not individually impaired:

As at 31 December 2017 **in CZK million**					**Credit risk exposure**
	Total	**Thereof 31–60 days past due**	**Thereof 61–90 days past due**	**Thereof 91–180 days past due**	**Thereof more than 180 days past due**
General governments	4	–	–	–	–
Credit institutions	12	–	–	–	–
Other financial corporations	101	–	–	–	–
Non-financial corporations	1,434	66	49	10	7
Households	1,346	402	162	5	8
Total	**2,897**	**468**	**211**	**15**	**15**

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

Loans in category "past due but not impaired" are not considered impaired due to collateralization.

e) Analysis of Individually Impaired Financial Assets

in CZK million	2017	2016
General governments	4	14
Credit institutions	12	11
Other financial corporations	236	168
Non-financial corporations	6,610	8,971
Households	4,593	6,704
Total	**11,455**	**15,868**

f) Exposures with Forbearance Measures – Quantitative Information

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

Analysis of Performing and Non-performing Forborne Exposures

2017

in CZK million	Forborne exposures	Performing forborne exposure	Non-perfroming forborne exposure	of which: Defaulted
Non-financial corporations	1,498	182	1,316	1,244
Households	2,095	847	1,249	1,063
Total	**3,593**	**1,029**	**2,565**	**2,307**

2016

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

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

Analysis of the Credit Quality of Financial Assets as Required by IFRS 7 Including Level of Impairment and Collateral as of 31 December 2017

in CZK million	Outstanding					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total forborne	Provisions	Collateral
General governments	–	–	–	–	–	–
Households	851	195	1,049	2,095	638	763
Non-financial corporations	256	47	1,195	1,498	763	324
Total	**1,107**	**242**	**2,244**	**3,593**	**1,401**	**1,087**

Analysis of the Credit Quality of Financial Assets as Required by IFRS 7 Including Level of Impairment and Collateral as of 31 December 2016

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

Dissaggregation of the Forborne Financial Assets by Type of Forbearance Measure

in CZK million	2017			2016		
	Modification	Refinancing	Total	Modification	Refinancing	Total
General governments	–	–	–	7	–	7
Households	2,065	30	2,095	2,981	29	3,011
Non-financial corporations	1,385	113	1,498	2,394	60	2,454
Total	**3,450**	**143**	**3,593**	**5,382**	**89**	**5,472**

The Carrying Amount of Forborne Assets in Comparison with Other Assets Remaining the Portfolio

in CZK million	2017			2016		
	Total portfolio	Forborne portfolio	Share on total portfolio	Total portfolio	Forborne portfolio	Share on total portfolio
Central banks	135,515	–	0,0%	19,113	7	0.0%
General governments	17,165	–	0,0%	–	–	–
Credit institutions	19,642	–	0,0%	20,518	–	0.0%
Other financial corporations	36,120	–	0,0%	25,155	–	0.0%
Non-financial corporations	223,371	735	0,3%	202,350	1,398	0.7%
Households	319,900	1,457	0,5%	290,949	1,935	0.7%
Total	**751,713**	**2,192**	**0,3%**	**558,084**	**3,340**	**0.6%**

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

Level of the Collective and Specific Impairment Allowance Held Against Forborne Assets

in CZK million	2017			2016		
	Specific allowances	Collective allowances	Total	Specific allowances	Collective allowances	Total
Households	578	60	638	1,008	68	1,076
Non-financial corporations	735	28	763	1,004	52	1,056
Total	**1,313**	**88**	**1,401**	**2,012**	**120**	**2,132**

Reconciliation from the Opening Balance to the Closing Balance of Forborne Assets

2017

in CZK million	General governments	Non-financial corporations	Households	Total
Opening balance (1 January 2017)	7	2,454	3,011	5,472
Inflow (+)	–	312	271	583
Outflow (–)	(5)	(162)	(372)	(539)
Changes in outstanding (+/–)	(2)	(1,106)	(815)	(1,923)
Closing balance (31 December 2017)	**–**	**1,498**	**2,095**	**3,593**

2016

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

Loss from the Forborne Exposures

2017

in CZK million	Loss	Direct write-offs
Non-financial corporations	67	–
Households	20	–
Total	**87**	**–**

2016

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

Interest Income from the Forborne Exposures

in CZK million	2017	2016
Non-financial corporations	78	93
Households	188	212
Total	**266**	**305**

39.3 Market Risk

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

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

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

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

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

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

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

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

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

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

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

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

Apart the VAR limit also Earnings at Risk measure is calculated and checked against the EaR limit on monthly basis.

The table below summarizes the VaR values as at 31 December 2017 and 2016 on the confidence level of 99%.

As at 31 December 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	10	–	10	–	–	–	–	–
Monthly value	45	(1)	45	–	–	–	–	–
Average of daily values per year	15	(1)	15	1	–	–	–	–
Average of monthly values per year	69	(5)	69	3	1	–	1	–
Banking book								
Daily value	319	(58)	280	5	–	–	–	91
Monthly value	1,494	(272)	1,312	25	1	–	–	427
Average of daily values per year	450	(53)	453	4	–	2	–	44
Average of monthly values per year	2,112	(250)	2,124	19	1	11	–	207

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

Interest Rate Risk

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

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

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

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

The following table is based on the exposure of the Bank to interest rates for derivative and non-derivative instruments as of the reporting date. The model assumes a fixed structure of the statement of financial position according to interest rate sensitivity. The determined changes which occurred at the beginning of the year are constant during the reported period, i.e. the model is based on the assumption that the funds released as a result of the payment or sale of interest rate assets and liabilities will be re-invested in assets and liabilities with the same interest rate sensitivity and residual maturity. Calculation method used takes credit spreads into

account . The following table shows the impact on the income statement and other comprehensive income of the Bank if the CZK or EUR yield curves sharply increased/decreased by 100 points at the beginning of the respective year and other interest rates remained unchanged.

in CZK million	2018		2017	
	Interest rate increase	Interest rate decrease	Interest rate increase	Interest rate decrease
CZK				
Income statement	945	(1,846)	2,176	(1,386)
Other comprehensive income	(4,106)	4,105	(1,251)	1,334
EUR				
Income statement	(61)	272	11	180
Other comprehensive income	347	(306)	(348)	386

Foreign Currency Risk

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

Equity Risk

To monitor and manage the equity risk inherent in the trading and Banking books, the Bank uses VaR methodology and sensitivity analysis which is based on the exposure to the risk of changes in the price of shares as of the reporting date. The exposure to equity risk is limited only to warehousing of client orders. Market Making activities were transferred to Erste Group Bank

Commodity Risk

The Bank closed the business with commodity derivatives by the end of 2017. The commodity instruments appeared solely in the trading portfolio as supporting instruments for client transactions and open positions were secured on a 'back-to-back' basis with a third party.

39.4 Liquidity Risk

Definition and Overview

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

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

Methods and Instruments Employed

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

The Bank reports LCR to the national regulator according to the Delegated Act. At the end of 2017, both LCR DA and NSFR for the Bank were significantly above 100%.

Bank also reports Additional Liquidity Monitoring Metrics (ALMM) to the national regulator, which complements already existing Basel III liquidity risk ratios in the form of several detailed liquidity risk reports/measures.

Methods and Instruments of Risk Mitigation

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

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

Analysis of Liquidity Risk

Liquidity Gap

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

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

The following table shows the liquidity gaps as of 31 December 2017 and 31 December 2016

in CZK million	< 1 month		1 –12 months		1–5 years		> 5 years	
	2017	2016	2017	2016	2017	2016	2017	2016
Liquidity GAP	243,750	211,164	23,376	(100,550)	(216,762)	1,520	30,514	(43,472)

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

Counterbalancing Capacity

The Bank regularly monitors its counterbalancing capacity, which consists of cash, excess minimum reserve at the central banks as well as unencumbered central bank eligible assets and other liquid securities, including changes from repos, reverse repos and securities lending transactions. These assets can be mobilised in the short term to offset potential cash outflows in a crisis situation. The term structure of the Bank's counterbalancing capacity as of year-end 2017and year-end 2016 are shown in the tables below:

As at 31 December 2017 in CZK million	< 1 week
Cash, excess reserve	242,837
Liquid assets	119,273
Other central bank eligible assets	–
Counterbalancing capacity	**362,110**

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

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

Financial Liabilities

Maturities of contractual undiscounted cash flows from financial liabilities as of 31 December 2017 and 31 December 2016 respectively, were as follows:

As at 31 December 2017 in CZK million	Carrying amounts	Contractual cash flows	< 1 month	112 months	15- years	> 5 years
Non-derivative liabilities	**1,121,201**	**1,128,297**	**896,006**	**109,872**	**80,330**	**42,089**
Deposits by banks	298,413	302,535	111,541	81,736	70,256	39,002
Customer deposits	813,731	815,985	783,149	27,981	3,161	1,694
Debt securities in issue	8,478	9,198	901	155	6,913	1,229
Other financial liabilities	579	579	415	–	–	164
Derivative liabilities	**11,480**	**12,312**	**–**	**1,491**	**588**	**10,233**
Contingent liabilities	**137,396**	**137,396**	**137,396**	**–**	**–**	**–**
Financial guarantees	25,342	25,342	25,342	–	–	–
Irrevocable commitments	112,054	112,054	112,054	–	–	–
Total	**1,270,077**	**1,278,005**	**1,033,402**	**111,363**	**80,918**	**52,322**

As at 31 December 2016 in CZK million	Carrying amounts	Contractual cash flows	< 1 month	112 months	15- years	> 5 years
Non-derivative liabilities	**851,018**	**852,439**	**759,757**	**52,417**	**24,917**	**15,349**
Deposits by banks	120,019	120,113	51,386	37,009	23,800	7,918
Customer deposits	711,400	712,122	707,630	3,970	522	–
Debt securities in issue	18,859	19,464	1	11,438	595	7,431
Other financial liabilities	740	740	740	–	–	–
Derivative liabilities	**14,508**	**14,508**	**581**	**1,424**	**7,540**	**4,962**
Contingent liabilities	**124,224**	**124,224**	**124,224**	**–**	**–**	**–**
Financial guarantees	24,950	24,950	24,950	–	–	–
Irrevocable commitments	99,274	99,274	99,274	–	–	–
Total	**989,750**	**991,171**	**884,562**	**53,841**	**32,457**	**20,311**

The presentation of maturities of contractual undiscounted cash flows from financial guarantees and irrevocable commitments has been amended in order to reflect the first moment when these contingent liabilities can be exercised.

39.5 Operational Risk

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

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

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

The Bank successfully passed validation for managing of operational risk according to Advanced Measurement Approaches (AMA). Based on this method a capital charge related to operational risk is properly computed and allocated since 1 July 2009.

An important tool in mitigating losses arising from operational risks is the Bank's insurance programme which was put in place in 2002. This insurance programme involves insurance against property

damage as well as risks arising from banking activities and liability risks. Since 2004, the Bank has been a member of the Erste Group insurance programme which enhances the insurance protection specifically with regard to damages that may materially impact the income statement.

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

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

Information Disclosure and Transparency

The Company rigorously endeavours to prevent the misuse of insider information that might allow persons who have special relationships with the Company to enjoy unauthorised gains in dealing with the Company's securities. Board of Directors members and parties close to them are obliged to promptly notify the Czech National Bank of transactions with securities issued by the Company or with investment instruments derived from such securities, which they perform on their own account. Erste Bank Group's rules for securities trading are applied to ensure identical terms and conditions for all members of the Board of Directors of Erste Group Bank companies – members of the Company's Board of Directors as well as designated employees are obliged to inform the Company's Compliance Department of dealings with Erste Group Bank's shares or derivatives and to comply with an imposed trading moratorium during a stipulated period. Compliance department periodically monitors fulfillment of above obligations.

Compliance

The Company has established a Compliance Department whose principal activities include ensuring compliance of the Company's internal regulations with valid legal and regulatory requirements and their observance and ensuring compliance of the employees' conduct with the legal regulations, internal regulations, Code of Ethics and other adopted standards and rules governing employee conduct. Compliance is involved in all aspects of Company activities and administration and forms a part of its corporate culture. The Compliance Department evaluates insider information included in the Watch List and Restricted List of investment instruments as well as any dealings with investment instruments recorded in these lists. The Compliance Department informs the Company's Board of Directors and Supervisory Board of its activities on a regular basis. A list of persons with access to insider information is available with the Compliance department; the list is regularly updated.

The Compliance department also maintain Whistleblowing channels for ensuring protection of Whistleblowers reporting non-ethical or non-legal behaviour.

AML unit as integral part of Compliance department ensures meeting Company´s obligations in the area of anti money laundering and terrorist financing and also secures the compliance of the Company's operations with sanction regimes enforced by the Czech Republic, EU, UN and OFAC.

40. Hedge Accounting

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

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

Cash flow hedges are used to eliminate uncertainty in future cash flows in order to stabilize net interest income. Interest rate swaps are the most common derivatives used to hedge variable cash flows of floating assets.. By using cross currency interest rate swaps, the Bank hedge currency risk of its foreign currency assets. Floors or caps are used to secure the targeted level of interest income in a changing interest rate.

In the reporting period, CZK 52 million (2016: CZK 11 million) was taken from the cash flow hedge reserve and recognised as expense in the income statement; while CZK 2,370 million (2016: CZK 362 million) was recognised directly in other comprehensive income.

As at 31 December 2017, the loss on hedging derivatives used for fair value hedging was loss CZK 22million (2016: loss CZK 115 million); the gain due to changes in the fair value of hedged items was loss 0 CZK million (2016: gain CZK 108 million).

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

in CZK million	2017		2016	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Hedging instrument – fair value hedge	12	20	21	12
Hedging instrument – cash flow hedge	601	1,793	498	440
Total	**613**	**1,813**	**519**	**452**

At the end of 2017 the Bank had 180 cash flow hedge structures with maturity from 2018 to 2027. Hedged items are based on 1M/3M/6M floating rates (Pribor/Euribor/USD Libor) or fixed rate in respect of cash flow hedges where FX risk is being hedged. Summary of total nominal hedged in CF hedge structures according their maturity can be seen in the following table:

Maturity	Nominal hedged In CZK million	Nominal hedged In EUR million	Nominal hedged In USD million
2018	2,000	50	–
2019	2,350	44	–
2020	1,800	60	–
2021	6,211	558	–
2022	10,462	157	–
2023	18,078	430	50
2024	7,200	55	–
2025	7,050	–	–
2026	540	–	–
2027	71	–	–
Total	**55,761**	**1,354**	**50**

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

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

41. Fair Value of Assets and Liabilities

Determination of Fair Value

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

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

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

Fair Values of Financial Instruments

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

Financial Instruments Measured at Fair Value in the Statement of Financial Position

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

Description of the Valuation Models and Inputs

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

Securities

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

OTC-derivative Financial Instruments

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

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

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

According to the described methodology the cumulative CVA-adjustments amounts to CZK (90) million (2016: (287)) and the total DVA-adjustment amounts to CZK 32 million (2016: CZK 178 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.

As decribed above in case that individual valuation parameters are not observable in the market the valuation parameters are estimated on the basis of reasonable assumptions (i.e. for example in case of some equity instruments valuation is based on the predicted dividends used in the dividend discount model).

The responsibility for valuation of a position measured at fair value is independent from trading units.

Fair Value Hierarchy

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

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	
	2017	2016	2017	2016	2017	2016	2017	2016
ASSETS								
Financial assets – held for trading	54	54	11,280	19,934	105	1,057	11,439	21,045
Derivatives	–	–	11,203	12,401	105	1,057	11,308	13,458
Other trading assets	54	54	77	7,533	–	–	131	7,587
Financial assets designated at fair value through profit or loss	–	–	289	314	71	80	360	394
Financial assets – available for sale	41,966	67,396	9,542	10,710	3,499	2,873	55,007	80,979
Debt securities	41,966	67,322	9,542	10,710	1,842	1,633	53,350	79,665
Equity instruments	–	74	–	–	1,657	1,240	1,657	1,314
Derivatives Hedge Accounting	–	–	613	519	–		613	519
Total assets	**42,020**	**67,450**	**21,724**	**31,477**	**3,675**	**4,010**	**67,419**	**102,937**
LIABILITIES								
Financial liabilities held for trading	–	–	11,472	18,147	9	14	11,481	18,161
Derivatives	–	–	11,472	14,042	9	14	11,481	14,056
Other trading liabilities	–	–	–	4,105	–	–	–	4,105
Financial liabilities designated at fair value through profit or loss	–	–	1,240	1,997	–	–	1,240	1,997
Deposits from customers	–	–	1,240	1,997	–	–	1,240	1,997
Derivatives Hedge Accounting	–	–	1,813	452	–	–	1,813	452
Total liabilities	**–**	**–**	**14,525**	**20,596**	**9**	**14**	**14,534**	**20,610**

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

Changes in Volumes of Level 1 and Level 2

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

In CZK million		**2017**		**2016**
	Level 1	**Level 2**	**Level 1**	**Level 2**
Securities				
Net transfer from Level 1	–	–	–	–
Net transfer from Level 2	–	–	–	–
Net transfer from Level 3	(74)	(1,177)	(442)	269
Purchases/sales/expiries	(25,355)	(7,473)	1,960	7,059
Changes in derivatives	–	(1,104)	–	(729)
Total year-to-date change	**(25,429)**	**(9,754)**	**1,518**	**6,599**

The reclassification from Level 1 to Level 3 resulted from the fact that quoted prices for equity securities does not exists as of 31 December 2017.

Unquoted bonds were reclassified from Level 2 to Level 3 as a result that quoted prices (observable inputs) were not available as at 31 December 2017.

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 comprehensive income	Purchases	Sales/ Settlements	Additions to the group	Disposal of group	Transfer into Level 3	Transfers out of Level 3	Currency translation	2017
ASSETS											
Financial assets – held for trading	1,057	(101)	–	–	(13)	–	–	–	(838)	–	105
Derivatives	1,057	(101)	–	–	(13)	–	–	–	(838)	–	105
Financial assets designated at fair value through profit or loss	80	(12)	–	–	4	–	–	–	–	(1)	71
Financial assets – available for sale	2,873	–	(101)	111	–	–	–	2,232	(1,617)	1	3,499
Total assets	**4,010**	**(113)**	**(101)**	**111**	**(9)**	**–**	**–**	**2,232**	**(2,455)**	**–**	**3,675**

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

A part of the OTC derivatives was categorized as Level 3 / was recategorized into Level 3 as Level 3 because credit valuation adjustment (CVA) has a material impact in market value for these derivatives and is calculated based on unobservable parameters (i.e. internal estimates of PDs and LGDs). Part of Level 3 derivatives was recategorized into Level 2 because CVA has not a material impact in market value of these derivatives any more. In 2017 and in 2016 available for sale financial assets (equities and bonds) for which valuation models are based on non- observable inputs were transferred into Level 3.

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

in CZK million	2017	2016
	Unrealized gain/loss in profit or loss	Unrealized gain/loss in profit or loss
ASSETS		
Financial assets – held for trading	(101)	39
Financial assets designated at fair value through profit or loss	(12)	(21)
Total	**(113)**	**18**

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

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

Sensitivity Analysis for Level 3 Measurements

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

in CZK million	Positive fair value changes when applying alternative valuation parameters		Negative fair value changes when applying alternative valuation parameters	
	Dec 2017	Dec 2016	Dec 2017	Dec 2016
Derivatives	9	25	(8)	(25)
Income statement	9	25	(8)	(25)
Debt securities	65	51	(87)	(68)
Other comprehensive income	65	51	(87)	(68)
Equity instruments	64	60	(129)	(120)
Income statement	–	1	(1)	(2)
Other comprehensive income	64	59	(128)	(118)
Total	**138**	**136**	**(224)**	**(213)**
Income statement	**9**	**26**	**(9)**	**(27)**
Other comprehensive income	**129**	**110**	**(215)**	**(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%.

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

Financial Instruments whose Fair Value is Disclosed in the Notes

The following table shows fair values and fair value hierarchy of financial instruments whose fair value is disclosed in the notes for the year-end 2017 and for the year-end 2016. For assets without contractual maturities (e.g. cash and cash equivalents), the carrying amount approximates their fair value.

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	259,837	259,837	–	–	–
Financial assets – held to maturity	156,309	165,878	151,695	14,183	–
Loans and receivables to credit institutions	157,025	159,326	–	3,796	155,530
Loans and receivables to customers	597,326	591,066	–	–	591,066
Liabilities					
Financial liabilities measured at amortised costs	1,121,201	1,120,989	–	7,624	1,113,365
Deposits from banks	298,413	298,189	–	–	298,189
Deposits from customers	813,731	813,699	–	–	813,699
Debt securities issued	8,478	8,523	–	7,624	899
Other financial liabilities	579	579	–	–	579
Financial guarantees and commetments					
Financial guarantees	25,356	(50)	–	–	(50)
Irrevocable commitments	112,054	(256)	–	–	(256)

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	151,877	151,877	–	–	–
Financial assets – held to maturity	159,874	177,957	162,707	15,240	10
Loans and receivables to credit institutions	21,823	21,882	–	1,311	20,571
Loans and receivables to customers	538,359	558,653	–	–	558,653
Liabilities					
Financial liabilities measured at amortised costs	851,018	850,089	–	18,071	832,018
Deposits from banks	120,019	118,519	–	–	118,519
Deposits from customers	711,400	711,381	–	–	711 381
Debt securities issued	18,859	19,449	–	18 071	1 378
Other financial liabilities	740	740	–	–	740
Financial guarantees and commetments					
Financial guarantees	24,950	781	–	–	781
Irrevocable commitments	99,274	1,028	–	–	1,028

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

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

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

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

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

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

42. Financial Instruments per Category According to IAS 39

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

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

As of 31 December 2017 **in CZK million**							**Category of financial instruments**	
	Loans and receivables	**Held to maturity**	**Trading**	**Designated at fair value**	**Available for sale**	**Financial liabilities at amortised cost**	**Derivatives designated as hedging instruments**	**Total**
ASSETS								
Cash and balances with central banks	259,837	–	–	–	–	–	–	259,837
Loans and advances to credit institutions	157,025	–	–	–	–	–	–	157,025
Loans and advances to customers	597,326	–	–	–	–	–	–	597,326
Derivative financial instruments	–	–	11,308	–	–	–	613	11,921
Trading assets	–	–	131	–	–	–	–	131
Financial assets – at fair value through profit or loss	–	–	–	360	–	–	–	360
Financial assets – available for sale	–	–	–	–	55,007	–	–	55,007
Financial assets – held to maturity	–	156,309	–	–	–	–	–	156,309
Total financial assets	**1,014,188**	**156,309**	**11,439**	**360**	**55,007**	**–**	**613**	**1,237,916**
LIABILITIES								
Deposits by banks	–	–	–	–	–	298,413	–	298,413
Customer deposits	–	–	–	1,240	–	813,731	–	814,971
Debt securities in issue	–	–	–	–	–	8,478	–	8,478
Other financial liabilities	–	–	–	–	–	579	–	579
Derivative financial instruments	–	–	11,480	–	–	–	1,813	13,293
Trading liabilities	–	–	–	–	–	–	–	–
Subordinated liabilities	–	–	–	–	–	–	–	–
Total financial liabilities	**–**	**–**	**11,480**	**1,240**	**–**	**1,121,201**	**1,813**	**1,135,734**

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

43. Audit Fees and Other Consultancy Fees

The following table contains fundamental audit fees and other fees charged by the auditors – Ernst & Young Audit, s.r.o. in the financial year 2016 and PricewaterhouseCoopers Audit, s.r.o. in the financial year 2017:

in CZK million	2017	2016
Audit fees	18	36
Tax and Other consultancy fees	1	158
Total	**19**	**194**

44. Contingent Assets and Liabilities

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

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

Legal Disputes

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

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

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

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

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

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of clients' authorisations to extend credit in the form of loans, guarantees or letters of credit. The credit risk attached to commitments to extend credit represents a potential loss for the Bank. The Bank estimates the potential loss on the basis of historical developments of CCFs, PDs and LGDs. CCFs indicate the likelihood of the Bank paying out on a guarantee or having to grant a loan on the basis of an issued commitment to extend credit.

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

In 2017, the Bank recorded impairment allowances for off-balance sheet risks to cover potential losses that may be incurred in connection with these off-balance sheet transactions. As at 31 December 2017 the aggregate balance of these allowances was CZK 767 million (2016: CZK 716 million). Refer to Note 31 Provisions.

in CZK million	2017	2016
Amounts owed under guarantees and letters of credit	25,356	24,950
Undrawn loan commitments	112,054	99,274

45. Analysis of Remaining Maturities

The breakdown of the Banks's assets and liabilities based on contractual maturities as at 31 December 2017 and 2016 was as follows:

in CZK million		**2017**		**2016**
	< 1 Year	**> 1 Year**	**< 1 Year**	**> 1 Year**
Cash and cash balances at central banks	259, 837	–	151,877	–
Financial assets held for trading	11,365	74	20,753	292
Financial assets designated at fair value through profit or loss	–	360	–	394
Available-for-sale financial assets	2,915	52,092	9,021	71,958
Loans and receivables	254,908	499,443	115,118	445,064
Held-to-maturity investments	10,611	145,698	12,478	147,396
Derivatives – Hedge accounting	613	–	519	–
Tangible assets	–	9,532	–	10,070
Intangible assets	–	4,482	–	3,994
Investments in subsidaries, joint ventures and associates	–	9,397	–	8,200
Tax assets	337	719	578	–
Other assets	1,135	–	1,176	–
Non current assets held for sale	19	–	123	–
Total assets	**541,740**	**721,797**	**311,643**	**687,368**
Financial liabilities held for trading	11,480	–	18,161	–
Financial liabilities designated at fair value through profit or loss	1,240	–	1,997	–
Financial liabilities measured at amortised cost	604,363	516,838	384,203	466,815
Derivatives – Hedge accounting	1,813	–	452	–
Provisions	–	1,866	–	1,913
Commitments and guarantees given	–	767	–	716
Other provisions	–	39	–	167
Tax liabilities	–	–	–	55
Other liabilities	9,515	–	8,580	–
Total liabilities	**628,411**	**519,510**	**413,393**	**469,666**

46. Net Debt Reconciliation

The table below sets out an analysis of debt of the Bank (i.e. debt securities issued) and the movements in the Bank's debt (i.e. debt securities issued) for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows.

Cash-flows from Debt Securities Issued

in CZK million	
Opening balance of debt securities issued as of 31 December 2016 (Note 30)	18,859
Cash-flows reported within the cash-flow from financing activities	(10,614)
Non-cash adjustments	233
Closing balance of debt securities issued as of 31 December 2017 (Note 30)	8,478

47. Events after the Balance Sheet Date

There are no events after the balance sheet date.

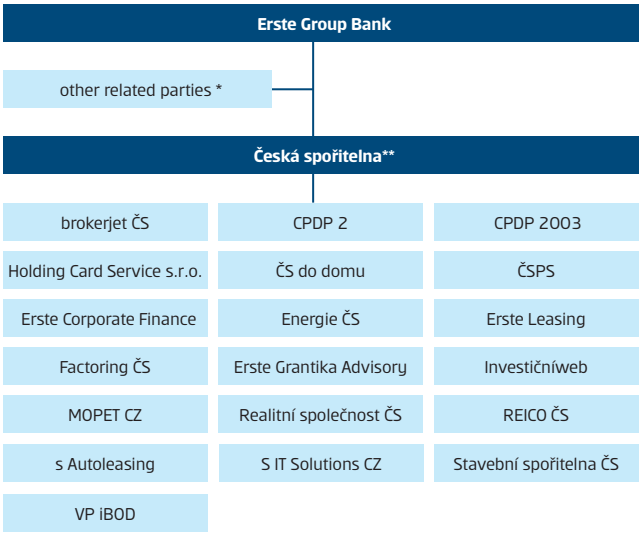
Report on Relations between Related Parties

Pursuant to Section 82 of Act No. 90/2012 Coll., on Business Corporations for the accounting period from 1. 1. 2017 to 31. 12. 2017

Česká spořitelna, a.s., a corporation with its registered seat in Prague 4, Olbrachtova 1929/62, postal code 140 00, ID No.: 45244782, registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, Entry 1171 (hereinafter referred to as "**Česká spořitelna**" or the "**Author**"), is a member of a business group in which the following relationships exist between Česká spořitelna and controlling parties, and between Česká spořitelna and parties controlled by the same controlling parties (hereinafter referred to as "**Related Parties**").

This Report on Relations between the parties listed below has been prepared in compliance with the provisions of Section 82 of Act No. 90/2012 Coll., on Business Corporations, as amended for the year ended 31 December 2017 (hereinafter the "**Reporting Period**"). The valid agreements set out below were made by and between Česká spořitelna and the parties stated below, and the following legal acts and other factual measures were taken in that period. The Report on Relations features a financial expression of relationships with related parties for the reporting period from 1 January 2017 to 31 December 2017

A. Chart of Parties whose Relationships Are Described



* Enterprises listed in Part C, Other related parties, Erste Group Bank
** Only significant entities with 100% ownership presented, all entities listed in Part C, Other related parties, Česká spořitelna Group

B. Controlling Parties

- **Erste Group Bank AG,**
  Am Belvedere 1, Vienna, Austria ("Erste Group Bank"), which is also the ultimate parent of the group.

C. Other Related Parties, whose Relationships Are Described

Other related parties, Erste Group Bank

- **Allgemeine Sparkasse Oberösterreich Bankaktiengesellschaft,**
  Promenade 11–13, Linz, Austria
- **Banca Comerciala Romana s.a.,**
  Regina Elisabeta Bvd 5, Bucharest, Romania
- **Erste Asset Management GmbH,**
  Am Belvedere 1, 1100 Vienna, Austria
- **Erste Bank Hungary Zrt,**
  Népfürdő u. 24-26, Budapest, Hungary
- **Erste Group Card Processor d.o.o.,**
  Radnička cesta 45, Zagreb, Croatia
- **Erste Group Immorent ČR, s.r.o.,**
  Budějovická 1518/13a, Prague 4, Czech Republic
- **Erste Group IT International GmbH,**
  Am Belvedere 1, Vienna, Austria
- **Erste Group Shared Services (EGSS), s.r.o.,**
  Národní třída 44, Hodonín, Czech Republic
- **Erste-Sparinvest Kapitalanlagegesellschaft m.b.H.,**
  Am Belvedere 1, Vienna, Austria
- **Immorent Inprox Budweis s.r.o.** in liquidation,
  Budějovická 1518/13a, Prague 4, Czech Republic
- **Immorent Orion, s.r.o.,**
  Budějovická 1518/13a, Prague 4, Czech Republic

- **Immorent PTC, s.r.o.,**
  Budějovická 1518/13a, Prague 4, Czech Republic

- **Imobilia KIK s.r.o.,**
  Budějovická 1518/13a, Prague 4, Czech Republic

- **Invalidovna centrum, a.s.,**
  Budějovická 1518/13a, Prague 4, Czech Republic

- **Procurement Services CZ, s.r.o.,**
  Budějovická 1912/64b, Prague 4, Czech Republic

- **Proxima Immorent, s.r.o.,**
  Budějovická 1518/13a, Prague 4, Czech Republic

- **S IT Solutions AT Spardat GmbH,**
  Geiselbergstrasse 21-25, Vienna, Austria

- **Slovenská sporiteľňa, a.s.,**
  Tomášikova 48, Bratislava, Slovakia

- **Waldviertler Sparkasse Bank AG,**
  Sparkassenplatz 3, Zwettl, Austria

- **Zeta Immorent s.r.o.,**
  Budějovická 1518/13a, Prague 4, Czech Republic

Other Related Parties, Česká spořitelna Group

- **brokerjet České spořitelny, a.s.** in liquidation,
  Budějovická 1518/13a, Prague 4, Czech Republic
  („Brokerjet ČS")

- **CEE Property Development B.V.,**
  Naritaweg 165, Amsterdam, Netherlands

- **CEE Property Development Portfolio 2 a.s.,**
  Budějovická 1912/64B, Prague 4, Czech Republic („CPDP 2")

- **CPP Lux S.A.R.L.,**
  Avenue Charles de Gaulle 2-8, Luxembourg, Luxembourg

- **CP Praha s.r.o.,** in liquidation,
  Pitterova 2855/13, Prague 3, Czech Republic

- **CS Property Investment Limited,**
  Diomidous street 10, Nicosia, Cyprus

- **CPDP 2003 s.r.o.,**
  Budějovická 1912/64B, Prague 4, Czech Republic („CPDP 2003")

- **Czech and Slovak Property Fund B.V.,**
  Prins Bernhardplein 200, Amsterdam, Netherlands

- **Czech TOP Venture Fund B.V.,**
  Postweg 11, Groesbeek, Netherlands

- **ČS do domu, a.s.** in liquidation,
  Poláčkova 1976/2, Prague 4, Czech Republic („ČS do domu")

- **Česká spořitelna – penzijní společnost, a.s.,**
  Poláčkova 1976/2, Prague 4, Czech Republic („ČSPS")

- **Dinesia a.s.,**
  Střelničná 8, Prague 8, Czech Republic („Dinesia")

- **Erste Corporate Finance, a.s.,**
  Budějovická 1518/13a, Prague 4, Czech Republic
  („Erste Corporate Finance")

- **Energie ČS, a.s.,**
  Budějovická 1518/13a, Prague 4, Czech Republic („Energie ČS")

- **Erste Grantika Advisory, a.s.,**
  Jánská 448/10, Brno, Czech Republic („Erste Grantika")

- **Erste Leasing, a.s.,**
  Horní náměstí 264/18, Znojmo, Czech Republic
  („Erste Leasing")

- **Factoring České spořitelny, a.s.,**
  Budějovická 1518/13B, Prague 4, Czech Republic
  („Factoring ČS")

- **Holding Card Service s.r.o.,**
  Olbrachtova 1929/62, Prague 4, Czech Republic

- **Investičníweb s.r.o.,**
  Budějovická 1518/13a, Prague 4, Czech Republic
  („Investičníweb")

- **MOPET CZ a.s.,**
  Budějovická 1518/13a, Prague 4, Czech Republic („MOPET")

- **Realitní společnost České spořitelny, a.s.,**
  Vinohradská 180/1632, Prague 3, Czech Republic
  („Realitní společnost ČS")

- **REICO investiční společnost České spořitelny, a.s.,**
  Antala Staška 2027/79, Prague 4, Czech Republic („REICO ČS")

- **RVG Czech s.r.o.,**
  Budějovická 1912/64B, Prague 4, Czech Republic

- **s Autoleasing, a.s.,**
  Budějovická 1912/64B, Prague 4, Czech Republic
  („s Autoleasing")

- **s Autoleasing SK, s.r.o.,**
  Vajnorská 100/A, Bratislava, Slovakia

- **s IT Solutions CZ, s.r.o.,** v likvidaci,
  Antala Staška 32/1292, Prague 4, Czech Republic
  („s IT Solutions CZ")

- **S SERVIS, s.r.o.,**
  Horní náměstí 3561/14, Znojmo, Czech Republic

- **Stavební spořitelna České spořitelny, a.s.,**
  Vinohradská 180/1632, Prague 3, Czech Republic
  („Stavební spořitelna ČS")

- **Věrnostní program Ibod, a.s.,**
  Olbrachtova 1929/62, Prague 4, Czech Republic („VP Ibod")

D. Structure of Relations between Related Parties, Role of the Controlled Party, Method and Means of Control

česká spořitelna is a member of the Erste Group, with the group parent being Erste Group Bank AG. The Česká spořitelna Financial Group (CSFG) is a business grouping of legal entities in which Česká spořitelna is the managing party, within the meaning of the applicable provisions of Act No. 90/2012 Coll., on business corporations and cooperatives (the Corporations Act) and other members of CSFG are the managed parties. The CSFG is the group formed for the purpose of attaining long-term prosperity and stability. The structure of relations in the Erste Group and in the Česká spořitelna Financial Group is graphically depicted in Sections A to C.

CSFG members apply a uniform group management system, whose goal is to ensure the influence of the managing party in advancing individual group policies and in the policy management of major components or activities in the group's business. The uniform group management system is embodied primarily in the Group standards. In addition to CSFG members, also entities that are not CSFG members can adopt the uniform group management system. Criteria for including a company into the CSFG are as follows:

- a comprehensive offer of financial services for target client segments,
- a high level of cooperation and synergies,
- shared distribution and communication channels,
- use of business name and logo with a uniform group design,
- co-responsibility for CSFG's consolidated results,
- shared services.

CSFG members form the foundation of the consolidated group unit that is characterised by group strategic goals, consolidated results and reports, consolidated risk management rules, regulatory restrictions, and consolidated supervision.

Relations with the related parties bring benefits for Česká spořitelna in terms of the use of available resources (human, technical, material) in the field of sales and supporting activities, knowledge of back-ground and the systems used, etc. Unified systems and processes then enable broad synergies across the related parties. Centralisation of business support activities of CSFG members could involve a certain level of risk in exceptional situations; to that end, Česká spořitelna has drawn up and tests Business Continuity Plans.

E. Transactions with Related Parties

česká spořitelna identified relationships with the related parties listed in Sections B and C and grouped them into the following categories.

Related Party Transactions Recorded on the Asset Side of Česká spořitelna's Statement of Financial Position

Loans and Receivables to Credit Institutions

Within approved general limits (see page 251), Česká spořitelna provided funds to related parties that are credit institutions, on the basis of contracts for, inter alia, the provision of loans, term deposits, current account administration and overdraft facilities, under standard market conditions, in an aggregate amount of CZK 15,623 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Loans and Receivables to Customers

Within approved general limits (see page 251), Česká spořitelna provided funds to related parties that are not credit institutions, on the basis of contracts for, inter alia, the provision of loans and overdraft facilities, under standard market conditions, in an aggregate amount of CZK 20,180 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Financial Assets – Held for Trading

Česká spořitelna holds held-for-trading bonds and similar securities issued by related parties, which were purchased under standard market conditions in an aggregate amount of CZK 40 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Positive Fair Value of Derivative Transactions

Česká spořitelna entered into contracts for trading or hedging derivatives with related parties under standard market conditions, the positive fair value of which at the end of the accounting period was CZK 5,423 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Other Assets

Other assets and other financial assets include other trade receivables of Česká spořitelna from related parties recorded on the asset side of Česká spořitelna's statement of financial position in an aggregate amount of CZK 124 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Related Party Transactions Recorded on the Liability Side of Česká spořitelna's Statement of Financial Position

Deposits from Banks

During the reporting period, Česká spořitelna provided related parties that are credit institutions with monetary services associated, inter alia, with the administration of current and term accounts, received loans and loro accounts based on contracts for the opening and administration of accounts under standard market conditions with an aggregate volume of balances at the end of the accounting period of CZK 256,970 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Deposits from Customers

During the reporting period, Česká spořitelna provided related parties that are not credit institutions with monetary services associ- ated, inter alia, with the administration of current and term accounts, loans received, and credit balances on overdraft facilities, based on contracts for the opening and administration of accounts under standard market conditions with an aggregate volume of balances at the end of the accounting period of CZK 2,250 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Debt Securities Issued

Related parties hold bonds and similar securities issued by Česká spořitelna, which were purchased under standard market conditions in an aggregate amount of CZK 6,673 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Negative Fair Value of Derivative Transactions

Česká spořitelna entered into contracts for trading or hedging financial derivatives under standard market conditions with related parties, the negative fair value of which at the end of the accounting period was CZK 3,084 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Other Liabilities

Other liabilities includes other trade payables of Česká spořitelna from related parties recorded on the liability side of Česká spořitelna's statement of financial position in an aggregate amount of CZK 484 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Related Party Transactions Impacting Česká spořitelna's Income Statement

Interest Income

During the reporting period, Česká spořitelna generated total interest income of CZK 1,236 million from transactions with related parties executed under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Interest Expense

During the reporting period, Česká spořitelna incurred a total interest expense of CZK 722 million from transactions with related parties executed under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Fee and Commission Income

During the reporting period, Česká spořitelna received fee and commission income, primarily comprising fees and commissions for asset management, depository services, and sale of subsidiaries' products, in an aggregate amount of CZK 1,451 million, as a part of transactions with related parties executed under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Fee and Commission Expense

During the reporting period, Česká spořitelna incurred fee and commission expenses, primarily comprising transaction fees and payments for the loyalty programme, in an aggregate amount of CZK 304 million, as a part of transactions with related parties enacted under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Dividend Income

Česká spořitelna received dividends in an aggregate amount of CZK 697 million from related parties of which Česká spořitelna is a shareholder. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Net Trading Result

During the reporting period, Česká spořitelna incurred a net profit of CZK 4,530 million from securities transactions, foreign currency transactions and similar transactions with related parties, enacted under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Rental Income from Operating Leases

During the reporting period, Česká spořitelna received income amounting to CZK 41 million from related parties from leasing executed under standard market conditions. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

General Administrative Expenses

During the reporting period, Česká spořitelna incurred CZK 954 million in general administrative expenses in respect of related parties, in particular for the purchase of goods, materials, insurance and advisory, professional, consulting or maintenance services under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Other Income/Expenses

During the reporting period, Česká spořitelna reported a positive balance of other income and expenses in an aggregate amount of CZK 126 million as part of other transactions with related parties, in particular the provision of outsourcing services and client centre services, etc., all executed under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Other Banking and Trading Relationships with Related Parties

General Limits

Česká spořitelna has established approved general limits for related party transactions; these apply to current and term deposits, loans, repurchase transactions, own securities, letters of credit and guarantees provided and received in an aggregate amount of CZK 104,232 million. Under these limits, the total exposure to related parties was CZK 55,549 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Guarantees Provided and Received

Česká spořitelna provided related parties with guarantees based on guarantee contracts entered into under ordinary market terms. Guarantees provided totalled CZK 5,924 million. Česká spořitelna received guarantees totalling CZK 20 million from related parties based on guarantee contracts entered into under ordinary market terms. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Fixed-term Contracts

During the reporting period, Česká spořitelna entered into fixed-term contracts with related parties under ordinary market terms. The nominal value of fixed-term contracts was 369,026 million at the end of 2017. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Equity Transactions with Related Parties

During the reporting period, Česká spořitelna, as a market maker, purchased and sold shares of related parties under standard market conditions with an aggregate turnover of CZK 1,881 million. Česká spořitelna incurred no detriment as a result of these transactions during the current reporting period.

Dividends Paid

Based on a 25 April 2017 General Meeting decision, Česká spořitelna paid dividends totalling CZK 12,033 million to related parties in the reporting period. Česká spořitelna incurred no detriment as a result of the execution of this decision.

F. Non-banking Contractual Relationships

in prior years, Česká spořitelna entered into contracts with related parties listed in Sections B and C pertaining to non-banking relations, the financial details of which are presented in Section E for the reporting period. A list of valid contracts and agreements with the related parties discussed in Sections B and C of a non-banking nature is presented below. Contracts of a similar nature entered into with a particular related party are grouped.

Name	Contractual party	Description	Date	Detriment
Outsourcing services agreement	brokerjet ČS, a.s. in liquidation	Provision of selected outsourcing services	2016	None incurred
Outsourcing services agreement	brokerjet ČS, a.s. in liquidation	Provision of selected outsourcing services	2017	None incurred
Agreement on the transfer of information	brokerjet ČS, a.s. in liquidation	Agreement on the transfer of information on deposit insurance	2016	None incurred
Agreement on safekeeping and administration of investment instruments	brokerjet ČS, a.s. in liquidation	Safekeeping and administration of investment instruments	2016	None incurred
Agreement on management of securities	brokerjet ČS, a.s. in liquidation	Management of securities	2006	None incurred
Agreement on the sub-lease of non-residential premises and lease of chattel properties	brokerjet ČS, a.s. in liquidation	Sublease of non-residential premises and lease of chattel properties	2016	None incurred
14× Current account agreement	brokerjet ČS, a.s. in liquidation	Agreement on maintaining current account	2009–2015	None incurred
Agreement on the provision of the Multicash service	brokerjet ČS, a.s. in liquidation	Electronic data interchange via MultiCash service	2009	None incurred
4× Agreement on the investment blocking account	brokerjet ČS, a.s. in liquidation	Agreement on the investment blocking account	2006	None incurred
Agreement on the provision of IT, telephony and data services	brokerjet ČS, a.s. in liquidation	Provision of IT services	2015	None incurred
Transfer agreement of tangible and intangible property	brokerjet ČS, a.s. in liquidation	Property transfer	2016	None incurred
Agreement to execute and perform internal audit	brokerjet ČS, a.s. in liquidation	Provision of selected services	2017	None incurred
2× Outsourcing agreement	CEE Property Development Portfolio 2 a.s.	Provision of selected outsourcing services	2017	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement on the lease of non-residential premises	CEE Property Development Portfolio 2 a.s.	Agreement on the lease of non-residential premises	2015	None incurred
2014-8670-003 CPDP, IPT	CEE Property Development Portfolio B.V.	Agreement on the provision of telephony and data services to CPDP	2014	None incurred
Agreement on management of investment instruments	Česká spořitelna – penzijní společnost, a.s.	Client asset management Client asset management	2016	None incurred
Agreement on the lease of non-residential premises and chattel properties	Česká spořitelna – penzijní společnost, a.s.	Lease of the building at Poláčkova 1976/2, Prague	2002	None incurred
Agreement on the lease vault boxes	Česká spořitelna – penzijní společnost, a.s.	Lease of 2 vault boxes	2003	None incurred
Agreement on the protection of confidential information	Česká spořitelna – penzijní společnost, a.s.	Protection of confidential information among partners	2003	None incurred
Service agreement	Česká spořitelna – penzijní společnost, a.s.	Mailing of tax certificates and confirmation letters	2003	None incurred
Agreement on access to the ČS Intranet	Česká spořitelna – penzijní společnost, a.s.	Access to Intranet for ZC ČSPS	2003	None incurred
Agreement on the lease of non-residential premises	Česká spořitelna – penzijní společnost, a.s.	Lease of office space in Přerov	2005	None incurred
Agreement on the lease of non-residential premises	Česká spořitelna – penzijní společnost, a.s.	Lease of archive space at Olbrachtova, Prague	2006	None incurred
Cooperation agreement	Česká spořitelna – penzijní společnost, a.s.	Agreement on the ČS Client Centre services for ČSPS	2005	None incurred
Agreement on exchange of information	Česká spořitelna – penzijní společnost, a.s.	Use of the Klient application service	2009	None incurred
Cooperation agreement	Česká spořitelna – penzijní společnost, a.s.	Participation in the financing of the Pension Solution 2 campaign	2011	None incurred
Agreement on the provision of IT activities	Česká spořitelna – penzijní společnost, a.s.	Outsourcing of IT activities	2012	None incurred
Agreement on cooperation in the Partner24 service operation	Česká spořitelna – penzijní společnost, a.s.	Provision of certain services pertaining to the Partner24 service operation	2012	None incurred
Outsourcing services agreement	Česká spořitelna – penzijní společnost, a.s.	Outsourcing of selected activities	2016	None incurred
Sales representation agreement	Česká spořitelna – penzijní společnost, a.s.	Sales representation for external distribution network	2016	None incurred
Framework agreement on trading in financial markets	Česká spořitelna – penzijní společnost, a.s.	Trading in financial markets	2016	None incurred
Outsourcing services agreement	Česká spořitelna – penzijní společnost, a.s.	Outsourcing of selected activities	2013	None incurred
Outsourcing services agreement	Česká spořitelna – penzijní společnost, a.s.	Outsourcing of selected activities	2017	None incurred
Agreement on the provision of outsourcing services for processing of co-action requests and distress warrants	Česká spořitelna – penzijní společnost, a.s.	Outsourcing of selected activities	2017	None incurred
4× Agreement on the lease of business premises	Česká spořitelna – penzijní společnost, a.s.	Lease of non-residential premises	2014–2017	None incurred
2× Cooperation agreement	Česká spořitelna – penzijní společnost, a.s.	Agreement on cooperation in the provision of post warranty service	2011	None incurred
Outsourcing services agreement	Energie ČS, a.s.	Outsourcing services	2017	None incurred
6× Current account agreement	Energie ČS, a.s.	Maintaining current accounts	2013	None incurred
Framework agreement on trading in financial markets	Energie ČS, a.s.	Financial market transactions	2014	None incurred
Agreement on the provision of bank guarantees	Energie ČS, a.s.	Provision of bank guarantees	2013	None incurred
Overdraft facility agreement	Energie ČS, a.s.	Arranging an overdraft facility credit limit	2013	None incurred
Agreement on the provision of the BUSINESS 24 service	Energie ČS, a.s.	Utilisation of a higher security type of service	2014	None incurred
Cooperation agreement	Energie ČS, a.s.	Collection from client accounts of ČS's clients	2015	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement on the provision of Cash Pooling	Energie ČS, a.s.	Optimization of cash flow, interest expense and income	2015	None incurred
Agreement on cooperation on the MZF project and related programs	Energie ČS, a.s.	Sale of energy to Bank's clients through ČSDD	2015	None incurred
Agreement to provide an extra payment in excess of registered capital	Energie ČS, a.s.	Pursuant to the shareholder's decision exercising the powers of the Company's General Meeting dated 16 February 2016, an extra payment of CZK 100,000,000 was made in excess of registered capital.	2016	None incurred
2016_ITFSČS_01_ErES Agreement on the provision of IT services	Energie ČS, a.s.	IT services including application support	2016	None incurred
Sub-lease agreement	Energie ČS, a.s.	The subject matter of the agreement includes sublease of space in the Trianon building	2016	None incurred
Agreement on the lease of jobs and lease of chattel properties	Energie ČS, a.s.	Lease of premises for Back Office in Nový Jičín and Ostrava branches	2016	None incurred
Agreement on exchange of information	Energie ČS, a.s.	Mutual exchange of information in application KLIENT		None incurred
Agreement on rent	Energie ČS, a.s.	Rent of space in branch Brno, Jánská		None incurred
Contact for document storage	Erste Asset Management GmbH	Storage of documents	2016	None incurred
2013-8690-036 ISČS, IT	Erste Asset Management GmbH, pobočka ČR	Agreement on the provision of IT services to ISČS, including two amendments to the agreement	2013–2014	None incurred
Agreement on payment for the use of a logo and trade name	Erste Asset Management GmbH	Use of Spořitelna's name in commercial and other activities	2001	None incurred
Agreement on the assignment of the right to use a logo	Erste Asset Management GmbH, pobočka ČR	Right to use the ISČS logo, which qualifies as an original copyrighted work	2001	None incurred
Implementation agreement to the basic cooperation agreement	Erste Asset Management GmbH, pobočka ČR	Use of the ČS Client Centre for the provision of information to clients	2001	None incurred
Agreement on the provision of back-office activities	Erste Asset Management GmbH, pobočka ČR	Provision of back-office activities	2009	None incurred
Agreement on the administration of employee benefits in the Benefit Plus system	Erste Asset Management GmbH, pobočka ČR	Agreement on the administration of employee benefits	2013	None incurred
Agreement on the lease of non-residential premises	Erste Asset Management GmbH, pobočka ČR	Agreement on the lease of non-residential premises including amendments	2008–2015	None incurred
Outsourcing agreement	Erste Asset Management GmbH, pobočka ČR	Provision of selected outsourcing services including one amendment to the agreement	2017	None incurred
Agreement on co-action	Erste Asset Management GmbH, pobočka ČR	Cooperation in risk management	2016	None incurred
Outsourcing agreement	Erste Corporate Finance, a.s.	Provision of selected outsourcing services	2017	None incurred
Outsourcing agreement	Erste Grantika Advisory, a.s.	Provision of selected outsourcing services	2017	None incurred
Agreement on provision of IT services	Erste Grantika Advisory, a.s.	Provision of selected services	2016	None incurred
3× Contract for work	Erste Group Bank AG	Contracts for work in software development	2014	None incurred
Agreement on the use of the Calypso system	Erste Group Bank AG	Agreement on services related to the use of the Calypso system	2010	None incurred
Service Level Agreement	Erste Group Bank AG	Sales support in the large corporate segment	2014	None incurred
4× Cost cooperation agreement	Erste Group Bank AG	Cost sharing agreements for Centralised services	2016	None incurred
Master Agreement for the Provision of Services	Erste Group Bank AG	Master agreement on the provision of Erste Group Bank services to Česká spořitelna	2014	None incurred

Name	Contractual party	Description	Date	Detriment
2× Group Capital Markets Web Portal	Erste Group Bank AG	Agreement on the operation of a web portal, including two amendments to agreements	2014	None incurred
ARIS SLA	Erste Group Bank AG	Process documentation and process performance management, including amendments to the agreement	2015	None incurred
Trademark License Agreement	Erste Group Bank AG	Trademark use agreement	2002	None incurred
Cost sharing agreement	Erste Group Bank AG	Agreement on cost sharing in the sector of IT applications	2015	None incurred
11× Agreement on project cooperation in IT	Erste Group Bank AG	Project cooperation in IT sector	2016	None incurred
3× Agreement in the sphere of IT services	Erste Group Bank AG	Providing services in IT	2017	None incurred
Master agreement on cooperation in the sphere of services	Erste Group Bank AG	Agreement on advisory services for various projects	2003	None incurred
GEORGE License Agreement	Erste Group Bank AG	License agreement	2016	None incurred
Card Processing Services Agreement	Erste Group Card Processor d.o.o.	Provision of services	2016	None incurred
Implementation Agreement	Erste Group Card Processor d.o.o.	Provision of services	2016	None incurred
37× Agreement on IT services and solutions	Erste Group IT International, spol. s r.o.	Provision of services pertaining to IT solutions	2016	None incurred
40× Agreement on IT services and solutions	Erste Group IT International, Gmbh	Provision of services pertaining to IT solutions	2017	None incurred
Outsourcing agreement	Erste Group IT International, Gmbh, o.z.	Provision of selected outsourcing services	2017	None incurred
Project cooperation agreement	Erste Group Immorent ČR, s.r.o.	Project cooperation agreement	2014	None incurred
Outsourcing agreement	Erste Group Immorent ČR, s.r.o.	Provision of selected outsourcing services	2017	None incurred
2014-8670-013 EG Immorent, IPT	Erste Group Immorent ČR, s.r.o.	Agreement on the provision of IPT services	2014	None incurred
Agreement No. 2012/2310/1436	Erste Group Immorent ČR, s.r.o.	Agreement on the sub-lease of non-residential premises	2012	None incurred
Agreement No. 2012/2310/760	Erste Group Immorent ČR, s.r.o.	Agreement on renting advertisement space	2012	None incurred
Agreement on the sub-lease of non-residential premises	Erste Group Immorent ČR, s.r.o.	Agreement on the lease of non-residential premises	2013	None incurred
Outsourcing services agreement	Erste Group Shared Services, s.r.o.	Provision of services	2017	None incurred
Agreement on the lease of non-residential premises	Erste Group Shared Services, s.r.o.	Lease of non-residential premises	2016	None incurred
Loan commitment agreement	Erste Group Shared Services, s.r.o.	Agreement on loan commitment	2016	None incurred
Credit limit agreement	Erste Group Shared Services, s.r.o.	Agreement on credit limit	2011	None incurred
Agreement on IT services	Erste Group Shared Services, s.r.o.	Provision of selected services	2013	None incurred
Service level agreement	Erste Group Shared Services, s.r.o.	Provision of selected services	2010	None incurred
2× Purchase agreement	Erste Group Shared Services, s.r.o.	Purchase of selected goods	2013–2017	None incurred
Agreement to provide bank account	Erste Group Shared Services, s.r.o.	Provision of selected services	2011	None incurred
Outsourcing services agreement	Erste Leasing, a.s.	The subject matter of the agreement includes provision of outsourcing services in selected areas.	2016	None incurred
Agreement to provide payment beyond base capital	Erste Leasing, a.s.	Providing payment beyond base capital	2017	None incurred
Mandatory agreement to monitor receivables portfolio	Erste Leasing, a.s.	Provision of selected services	2012	None incurred
Framework agreement on trading on financial market	Erste Leasing, a.s.	Trading on financial market	2014	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement on provision of services and licenses	Erste Leasing, a.s.	Provision of services and licenses	2012	None incurred
4× Agreement on the lease of non-residential premises and lease of chattel properties	Erste Leasing, a.s.	Agreement on the lease of non-residential premises and furnishings	2013–2016	None incurred
Business cooperation agreement	Erste Leasing, a.s.	Agreement on cooperation on business agreements and participation in the risks arising therefrom	2014	None incurred
Agreement on providing grant of credit line	Erste Leasing, a.s.	Providing grant of credit line	2010	None incurred
Service agreement	Factoring České spořitelny, a.s.	Assignment of the right to use the company logo	2002	None incurred
Purchase agreement	Factoring České spořitelny, a.s.	Sale of motor vehicle	2016	None incurred
Agreement on subparticipation	Factoring České spořitelny, a.s.	Fee for client participation – Sladovny Soufflet	2005	None incurred
Agreement on subparticipation	Factoring České spořitelny, a.s.	Fee for client participation – Montix, Hella customer	2016	None incurred
Lease agreement	Factoring České spořitelny, a.s.	Lease of safe-deposit box	2009	None incurred
Cooperation agreement	Factoring České spořitelny, a.s.	Addressing defaulted debts	2009	None incurred
Cooperation agreement	Factoring České spořitelny, a.s.	Exchange of information through the KLIENT application	2009	None incurred
Agreement on the provision of services	Factoring České spořitelny, a.s.	Agreement on the use, development, support and operation of the ISIR_CS application	2009	None incurred
Agreement on the provision of services	Factoring České spořitelny, a.s.	System environment of the Linux server farm for operation of the eFactoring application	2010	None incurred
Cooperation agreement	Factoring České spořitelny, a.s.	Phone verification – pledged invoice verification; monitoring, verification and evaluation of clients/ pledgers "clients monitoring"	2015	None incurred
Lease agreement	Factoring České spořitelny, a.s.	Sublease of non-residential premises – Trianon	2014	None incurred
Lease agreement	Factoring České spořitelny, a.s.	Lease of premises used for business – Antala Staška	2014	None incurred
Agreement on the provision of services	Factoring České spořitelny, a.s.	IT services – Telefonie	2014	None incurred
Outsourcing services agreement	Factoring České spořitelny, a.s.	The subject matter of the agreement includes provision of outsourcing services in selected areas.	2017	None incurred
Agreement on the provision of non-monetary and monetary contribution	Holding Card Service, s.r.o.	Provision of non-monetary and monetary contribution	2016	None incurred
Agreement on the sub-lease of non-residential premises	Investičníweb s.r.o.	Agreement on the sub-lease of non-residential premises	2015	None incurred
Agreement on the protection of confidential information	MOPET CZ, a.s.	Agreement on the protection of confidential information, including one amendment	2011	None incurred
Agreement on the provision of services	MOPET CZ, a.s.	Agreement on IT services arrangement for MOPET CZ	2015	None incurred
2014-8670-16 MOPET ULA	MOPET CZ, a.s.	Agreement on the arrangement of software user licenses for MOPET CZ	2014	None incurred
1× Outsourcing agreement	MOPET CZ, a.s.	Provision of selected outsourcing services	2017	None incurred
Agreement on the provision of services	Procurement Services CZ, s.r.o.	Outsourcing of procurement services	2012	None incurred
Agreement	Procurement Services CZ, s.r.o.	Agreement on the division of powers	2012	None incurred
Provision of IT services	Procurement Services CZ, s.r.o.	Operation and support of IT services	2013	None incurred
Agreement on the provision of services	Procurement Services CZ, s.r.o.	Outsourcing of services in the area of financial accounting, asset management, procurement support, human resources, internal audit and IS/IT security	2017	None incurred
Lease agreement	Procurement Services CZ, s.r.o.	Lease of parking lots in the Trianon building	2015	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement on the lease of non-residential premises	Procurement Services CZ, s.r.o.	Lease of non-residential premises	2015	None incurred
Agreement on performing of internal audit	Procurement Services CZ, s.r.o.	Performing internal audit	2017	None incurred
Framework agreement on opening and maintaining bank accounts	Realitní společnost České spořitelny, a.s.	Interest income from depositing cash in a current account (CZK)	2003	None incurred
Sales representation agreement – TIPAŘ	Realitní společnost České spořitelny, a.s.	Sale of banking products (mortgages)	2013	None incurred
Order of services	Realitní společnost České spořitelny, a.s.	Provision of real estate advisory services pertaining to the lease of selected immovable property owned by ČS	2013	None incurred
Master sales representation agreement	Realitní společnost České spořitelny, a.s.	Mediation of the sale of selected products and services provided by ČS, a.s.	2015	None incurred
Purchase agreement	Realitní společnost České spořitelny, a.s.	Purchase of used assets – vehicle	2015	None incurred
Purchase agreement	Realitní společnost České spořitelny, a.s.	Purchase of used assets – MT	2016	None incurred
Framework agreement on opening and maintaining bank accounts	Realitní společnost České spořitelny, a.s.	Bank charges relating to opening and maintaining bank accounts	2003	None incurred
Agreement on the assignment of the right to use a logo	Realitní společnost České spořitelny, a.s.	Contractual rights and obligations related to the use of the ČS logo	2004	None incurred
Outsourcing agreement	Realitní společnost České spořitelny, a.s.	Provision of outsourcing services in the area of financial accounting, human resources, marketing, corporate communications, IS/IT security, compliance and contractual documentation	2017	None incurred
Agreement on the provision of the MultiCash direct banking service	Realitní společnost České spořitelny, a.s.	International multi-banking system	2009	None incurred
Agreement on the protection of confidential information	Realitní společnost České spořitelny, a.s.	Protection of confidential information	2005	None incurred
Agreement on the provision of IT services to RSČS	Realitní společnost České spořitelny, a.s.	Access to Google Apps services	2016	None incurred
Commission contract for the purchase or sale of domestic and foreign securities including amendments	REICO investiční společnost ČS, a.s.	Provision of services relating to the purchase or sale of domestic and foreign securities	2007	None incurred
Agreement on trading in financial markets	REICO investiční společnost ČS, a.s.	Provision of services pertaining to trading in financial markets	2007	None incurred
Credit line agreement, including amendments	REICO investiční společnost ČS, a.s.	Provision of bank guarantee	2007	None incurred
Agreement on safekeeping foreign securities and settlement of related trades	REICO investiční společnost ČS, a.s.	Safekeeping of foreign securities and settlement of related trades	2007	None incurred
Agreement on safekeeping domestic securities and settlement of related trades including amendments	REICO investiční společnost ČS, a.s.	Safekeeping of domestic securities and settlement of related trades	2007	None incurred
Agreement on access to the ČS Intranet	REICO investiční společnost ČS, a.s.	Providing employees with access to the ČS Intranet	2007	None incurred
Agreement on the distribution of unit certificates and related activities including amendments	REICO investiční společnost ČS, a.s.	Provision of services related to the distribution of managed funds unit certificates	2007	None incurred
Agreement on mediating client's participation in the Current bond system organized by ČNB	REICO investiční společnost ČS, a.s.	Mediation of client's participation in the Current bond system organized by ČNB	2008	None incurred
Agreement on the provision of back-office activities including amendments	REICO investiční společnost ČS, a.s.	Provision of back-office activities	2009	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement on keeping separate records of book-entered collective investment securities and related activities	REICO investiční společnost ČS, a.s.	Keeping separate records of book-entered securities of funds and provision of related activities	2010	None incurred
Agreement on the purchase and sale of securities issued by undertakings for collective investment	REICO investiční společnost ČS, a.s.	Provision of services relating to the purchase or sale of securities issued by undertakings for collective investment	2011	None incurred
Agreement on the provision of daily calculation of PL capital and PL current values as well as of current values of investment fund shares, and keeping of funds' accounting records and related activities including amendments	REICO investiční společnost ČS, a.s.	Provision of daily calculation of PL capital and PL current values as well as of current values of investment fund shares, and keeping of funds' accounting records and related activities	2012	None incurred
Agreement on cooperation in risk management	REICO investiční společnost ČS, a.s.	Supporting activities pertaining to risk management of funds	2017	None incurred
Agreement on the provision of outsourcing services pertaining to filing/archiving services and documentation of the company	REICO investiční společnost ČS, a.s.	Activities associated with the management of the company archive	2014	None incurred
Agreement on the lease of business premises no. 2014/2310_02/1357	REICO investiční společnost ČS, a.s.	Sublease of non-residential premises for alternate workplace	2014	None incurred
Agreement on the provision of outsourcing services (compliance, AML, fraud management)	REICO investiční společnost ČS, a.s.	Supporting activities in compliance, AML, fraud management	2014	None incurred
Depository agreement (ČS nemovitostní fond)	REICO investiční společnost ČS, a.s.	Provision of depository services	2015	None incurred
Agreement on the provision of IT activities	REICO investiční společnost ČS, a.s.	Provision of services in IT sector	2015	None incurred
Agreements on current accounts	REICO investiční společnost ČS, a.s.	Maintaining of accounts	2016	None incurred
Outsourcing services agreement	REICO investiční společnost ČS, a.s.	The subject matter of the agreement includes provision of outsourcing services by Česká spořitelna in favour of REICO investiční společnosti ČS in selected areas.	2017	None incurred
Agreement on business cooperation	REICO investiční společnost ČS, a.s.	Provision of selected services in sphere of business cooperation	2017	None incurred
Outsourcing services agreement	s Autoleasing, a.s.	The subject matter of the agreement includes provision of outsourcing services by Česká spořitelna in favour of sAutoleasing in selected areas.	2017	None incurred
Lease contracts	s Autoleasing, a.s.	Lease of transportation machinery and technology	2012	None incurred
Framework management agreement	s Autoleasing, a.s.	Framework agreement on vehicle fleet management	2008	None incurred
Current account agreements	s Autoleasing, a.s.	Maintaining of a current account	2004	None incurred
Business cooperation agreement	s Autoleasing, a.s.	Commission	2006	None incurred
Agreements on the provision of bank guarantees	s Autoleasing, a.s.	Bank guarantees for provided bank loans	2006	None incurred
General mandate agreement pertaining to the receivable portfolio	s Autoleasing, a.s.	Receivable portfolio management	2006	None incurred
Agreement on cooperation in securing funds	s Autoleasing, a.s.	Letter of intent	2007	None incurred
Business cooperation agreement	s Autoleasing, a.s.	Risk participation	2006	None incurred
Credit line agreement no. 1048/04/LCD	s Autoleasing, a.s.	Loan provision	2004	None incurred

Name	Contractual party	Description	Date	Detriment
Credit line agreement no. 839/09/LCD	s Autoleasing, a.s.	Loan provision	2009	None incurred
Agreement on the sub-lease of non-residential premises	s Autoleasing, a.s.	Sublease of non-residential premises at Budějovická 13B, Prague 4, Trianon	2014	None incurred
Agreement on the lease of safe-deposit box	s Autoleasing, a.s.	Lease of safe-deposit boxes	2015	None incurred
Agreement on the lease of non-residential premises	s Autoleasing, a.s.	Lease of non-residential premises – Brno Jánská	2012	None incurred
Agreement on exchange of information through special access to the KLIENT application	s Autoleasing, a.s.	Use of the KLIENT application	2008	None incurred
Agreement on the lease of premises used for business	s Autoleasing, a.s.	Lease of non-residential premises in Prague 4, Antala Staška	2014	None incurred
Agreement on the provision of IT services	s Autoleasing, a.s.	Provision of HW and SW infrastructure	2014	None incurred
General mandate agreement pertaining to the portfolio of receivables	s Autoleasing, a.s.	Receivable portfolio management	2014	None incurred
Agreement on the lease of premises used for business	s Autoleasing, a.s.	Lease of non-residential premises at Budějovická 1912/64b	2016	None incurred
2× Purchase agreement	s IT Solutions AT Spardat GmbH	Purchase of property	2017	None incurred
29× Contract for work	s IT Solutions AT Spardat GmbH	Contract for work in IT, including two amendments	2014	None incurred
6× Service agreement	s IT Solutions AT Spardat GmbH	Agreements on IT services	2017	None incurred
13× Service agreement	s IT Solutions AT Spardat GmbH	Agreements on IT services, including one amendment	2013–2014	None incurred
5x Agreement on application operation and maintenance	s IT Solutions AT Spardat GmbH	Administration and maintenance of applications (software).	2015	None incurred
RRC Agreement	s IT Solutions AT Spardat GmbH	Agreement on risk management services	2014	None incurred
Master Agreement for the provision of IT services for ČS	s IT Solutions CZ, s.r.o. v likvidaci	Master Agreement on the provision of IT services to Česká spořitelna, including one amendment to the agreement	2011–2013	None incurred
Agreement on the lease of non-residential premises	s IT Solutions CZ, s.r.o. v likvidaci	Agreement on the lease of non-residential premises	2015	None incurred
Outsourcing agreement	s IT Solutions CZ, s.r.o. v likvidaci	Provision of selected outsourcing services	2017	None incurred
Agreement on the lease of non-residential premises	Slovenská sporiteľňa, a.s.	General agreement on non-residential premises	2015	None incurred
Agreement on the cooperation in the management of secured loans to private individuals and to manage the mortgage business regions and external sales after the running out of credit	Slovenská sporiteľňa, a.s.	Agreement on cooperation in the field of credit management	2014	None incurred
Shareholders agreement	Slovenská sporiteľňa, a.s.	The agreement stipulates conditions applicable to Holding Card Service, s. r. o.	2016	None incurred
Agreement on the protection of confidential information and personal data	Slovenská sporiteľňa, a.s.	Protection of confidential information and personal data	2016	None incurred
3× Agreement on IT services	Slovenská sporiteľňa, a.s.	Service agreement on the operation of selected IT applications and other IT services	2017	None incurred
Agreement on the assignment of the right to use a logo	Stavební spořitelna České spořitelny, a.s.	Assignment of the right to use a logo and trade name	2001	None incurred
Consignment agreement on the administration of securities and settlement of related trades	Stavební spořitelna České spořitelny, a.s.	Maintenance of a securities account and collection of proceeds	2006	None incurred
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Contractual rights and obligations related to the provision of client centre services	2010	None incurred

Name	Contractual party	Description	Date	Detriment
Agreement on data processing	Stavební spořitelna České spořitelny, a.s.	Data processing, printing of forms, personalization, completion of shipments, putting in envelopes and handing over to Czech Post for mailing	2005	None incurred
Sales representation agreement	Stavební spořitelna České spořitelny, a.s.	Activities aimed at entering into building savings scheme contracts	2016	None incurred
Cooperation agreement – client checks	Stavební spořitelna České spořitelny, a.s.	Check of clients in the KLIENT database against sanctioned persons	2008	None incurred
Outsourcing services agreement	Stavební spořitelna České spořitelny, a.s.	Provision of outsourcing services	2017	None incurred
Agreement on cooperation in IT	Stavební spořitelna České spořitelny, a.s.	Co-action of SSČS and ČS in executing the agreement on outsourcing of selected activities	2016	None incurred
Agreement on the provision of filing/archiving services and shredding of product documentation	Stavební spořitelna České spořitelny, a.s.	Filing/archiving services and product documentation shredding services	2008	None incurred
Agreement on methodical support in internal audit	Stavební spořitelna České spořitelny, a.s.	Provision of methodical support in internal audit	2017	None incurred
3× Agreement on opening and maintaining current account	Stavební spořitelna České spořitelny, a.s.	Opening and maintaining of a current account	2009	None incurred
2× Contract for extraordinary commission	Stavební spořitelna České spořitelny, a.s.	Mediation and support of sale of Company's products and services	2016	None incurred
Agreement on the agency of payments	Stavební spořitelna České spořitelny, a.s.	Agency of payments	2013	None incurred
Agreement on cooperation in operating the REV module	Stavební spořitelna České spořitelny, a.s.	Contractual rights and obligations of parties pertaining to use of the module for credit products	2013	None incurred
Agreement on mediating client's participation in the current bond market	Stavební spořitelna České spořitelny, a.s.	Mediation of client's participation in the current bond market	1995	None incurred
2× Agreement on the protection of confidential information	Stavební spořitelna České spořitelny, a.s.	Protection of confidential information	2003	None incurred
Agreement on a uniform risk management system	Stavební spořitelna České spořitelny, a.s.	Uniform risk management system and exchange of data on credit transactions	2003	None incurred
Agreement governing conditions for using the KLIENT application service	Stavební spořitelna České spořitelny, a.s.	Determination of terms and conditions for using the KLIENT application service	2008	None incurred
Service Level Agreement	Stavební spořitelna České spořitelny, a.s.	Provision of services – certificates and certification services	2009	None incurred
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Cooperation in operating the SERVIS 24 service and SIS 24 module	2011	None incurred
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Agreement on cooperation in operating the Partner 24 system – contractual rights and obligations related to the system operation and use	2013	None incurred
Agreement on transfer of data to DWH	Stavební spořitelna České spořitelny, a.s.	Stipulation of contractual rights and obligations related to transfer of data on transactions and clients	2007	None incurred
Power of attorney	Stavební spořitelna České spořitelny, a.s.	Power of attorney to enter into an "Agreement on the processing of tasks related to building savings scheme through SERVIS 24 direct banking services"	2006	None incurred
Service agreement	Stavební spořitelna České spořitelny, a.s.	Provision of the Home Banking direct banking service	2006	None incurred
Agreement on Intranet access	Stavební spořitelna České spořitelny, a.s.	Employees' access to the Česká spořitelna Intranet	2006	None incurred
Framework agreement on trading in financial markets	Stavební spořitelna České spořitelny, a.s.	Trading in financial markets	2016	None incurred
Agreement on administration of securities	Stavební spořitelna České spořitelny, a.s.	Administration of securities and settlement of related trades	2005	None incurred
Agreement on conditions of access	Stavební spořitelna České spořitelny, a.s.	Regulation of the conditions of granting access to customer files	2003	None incurred
Lease agreement	Stavební spořitelna České spořitelny, a.s.	Lease of safe-deposit box #20750	2002	None incurred
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Cooperation in data transfer from XEF templates	2004	None incurred

Name	Contractual party	Description	Date	Detriment
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Cooperation in the processing of the SSČS's secured loans	2011	None incurred
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Cooperation in operating the application aimed at supporting credit trading approval process	2014	None incurred
Agreement on the sublease of office space and two parking lots	Stavební spořitelna České spořitelny, a.s.	Lease of office space and parking lots	2016	None incurred
Agreement on the lease of non-residential premises	Stavební spořitelna České spořitelny, a.s.	Lease of non-residential premises	2006	None incurred
Donation agreement	Stavební spořitelna České spořitelny, a.s.	Donation agreement for providing services and operating of advisory center for people in financial distress in 2016	2017	None incurred
Agreement on transfer of data to DWH	Stavební spořitelna České spořitelny, a.s.	Stipulation of contractual rights and obligations related to Risk Data and SSČS Data and manipulation with it	2015	None incurred
Agreement on the provision of IP telephony services	Stavební spořitelna České spořitelny, a.s.	Provision of IP telephone services for the operation of telephone services and infrastructure	2015	None incurred
Agreement on the provision of the @FAKTURA 24 service	Stavební spořitelna České spořitelny, a.s.	Contractual rights and obligations relating to the provision of the @ FAKTURA 24 service as stipulated in the Terms and conditions of ČS's @ FAKTURA 24; transfer of documents into electronic banking applications and other services specified in the conditions	2015	None incurred
Secondment agreement	Stavební spořitelna České spořitelny, a.s.	Temporary secondment of an employee	2016	None incurred
Cooperation agreement	Stavební spořitelna České spořitelny, a.s.	Cooperation pertaining to insurance contracts with Kooperativa, a.s.	2014	None incurred
Agreement on access to application	Stavební spořitelna České spořitelny, a.s.	Access to application Visual Analytics	2017	None incurred
Agreement to provide services	Stavební spořitelna České spořitelny, a.s.	Agreement on provision of services of application LIC	2017	None incurred
Agreement on the lease of a vehicle	Věrnostní program iBOD, a.s.	Lease of a vehicle	2016	None incurred
Agreement on the protection of information	Věrnostní program iBOD, a.s.	Protection of information	2016	None incurred
Master agreement on the development of the iBOD programme	Věrnostní program iBOD, a.s.	Master agreement on the development of the iBOD programme – development of SW iBOD	2013	None incurred
Lease agreement	Věrnostní program iBOD, a.s.	Agreement for cost settlement	2015	None incurred
2× Agreement on IT services	Věrnostní program iBOD,a.s.	Provision of IT services	2015	None incurred
Agreement on compensation of expenses on legal services	Věrnostní program iBOD,a.s.	Compensation of expenses on legal services	2017	None incurred
Outsourcing services agreement	Věrnostní program iBOD,a.s.	Provision of selected services	2017	None incurred
Agreement on participation in the iBOD loyalty programme	Věrnostní program iBOD, a.s.	Implementation agreement on participation in the iBOD loyalty programme	2013	None incurred

G. Overview of Actions Performed at the Initiative of the Controlling Party

During the reporting period, the author of this report did not engage in any act at the direct initiative of its controlling party pertaining to assets in excess of 10% of its registered capital, within the meaning of Section 82 (2) (d) of Act No. 90/2012 Coll., the Corporations Act. The only exception is the dividend payment referred to in Section E that is considered to be an action undertaken at the direct initiative of the controlling party (by means of exercising its shareholder's rights at the general meeting). The ratio of the dividend paid and total equity of Česká spořitelna as at 31 December 2017 is 10.41 %.

H. Other Legal Acts

During the accounting period, the author of this report neither adopted nor enacted any other legal acts to the benefit or at the initiative of related parties.

I. Other De Facto Measures

Within Erste Group Bank, Česká spořitelna takes part in group projects whose common aim is to fully exploit the business potential of Central European markets in all segments as well as economies of scale and cost synergies, the concentration of support activities within the group and performance measurement transparency and comparability. These projects cover, for example, information technology, risk management, and service activity. Česká spořitelna incurred no detriment as a result of its involvement in the foregoing group projects.

J. Conclusion

It is clear from our review of the legal relationships between Česká spořitelna and its related parties, including the controlling party, that Česká spořitelna incurred no detriment as a result of contracts, other legal acts or other measures executed, effected or adopted by Česká spořitelna during the accounting period from 1 January 2017 to 31 December 2017 to the benefit or at the initiative of individual related parties, including the controlling party.

Prague 13 March 2018

Tomáš Salomon
Chairman of the Board of Directors

Wolfgang Schopf
Vice-Chairman of the Board of Directors

Česká spořitelna Financial Group

Overview of Key Members of the Česká spořitelna Financial Group, Figures Are Unaudited and in Accordance with International Financial Reporting Standards ("IFRS"), Unless Otherwise Stated.

Stavební spořitelna České spořitelny, a.s.

Stavební spořitelna České spořitelny, a.s., with its registered office at Vinohradská 180, Prague 3, was incorporated on 22 June 1994. The Company's primary business activity is the provision of financial services pursuant to Act No. 96/1993 Coll. Stavební spořitelna offers its clients a building savings program with state support with a statutory right to a building savings loan. Since the end of 2014, the sole shareholder of the Company has been Česká spořitelna, a.s.

Stavební spořitelna České Spořitelny kept more than 127 thousand loan accounts at the end of 2017, lending its clients almost CZK 37.6 billion for better housing. It has been managing 565 thousand building savings accounts with a target value of CZK 154 billion and a balance of around CZK 65.4 billion.

In 2017, the Company managed successfully to fulfil its long-term role to finance better housing, even better than in previous years. The volume of loans provided increased by 28% year-on-year. Cooperation with housing cooperatives and apartment owners' associations financing the capital investments related to members' housing was also successfully continued. The increase in the number of deposit agreements concluded reflects the growing popularity of this product. The number of new building savings contracts, including an increase in the target amount, increased by 25% and the volume of target amounts of new contracts, including top-ups, increased by 42%.

Stavební spořitelna České spořitelny paid great attention to improving services to clients by further extending the possibilities of electronic communication and electronic services. Customers are also able to negotiate a building savings agreement over the internet, so that customers can conclude savings contracts on their computer, mobile phone or tablet, from anywhere, for example from their office or home. The number of new building savings contracts concluded online increased by 69%.

Stavební spořitelna České spořitelny strives to fulfil its mission: "We finance better housing for children and adults and help to convert a house into a home." in the context of its charitable work. Hence, the Company's longstanding cooperation with the non-profit making organization Portus Praha, which helps improve housing for the mentally handicapped. The focus of this cooperation is to provide financial support for the well-known benefit campaign and fine art auction Akce cihla, a source of funding for Portus activities. For many years, help has also come directly from employees at protected housing in Slapy in the form of garden work, house cleaning and so on. Another important activity is support of the Financial Distress Advice Bureau, which engages in debt counselling and improving financial literacy, offering free-of-charge help to people in difficult financial situations so they can better handle their debts.

Stavební spořitelna České spořitelny, a.s.	**2017**	**2016**	**2015**	**2014**	**2013**
Share capital (CZK million)	750	750	750	750	750
Total assets (CZK billion)	75.5	82.6	79.7	87.3	99.3
Receivables from customers (CZK billion)	37.6	36.0	35.4	36.4	37.6
Client deposits (CZK billion)	65.4	69.7	74.6	81.4	94.8
Net profit (CZK million)	691	601	669	622	535
Number of accounts (million)	0.7	0.7	0.8	0.9	1.1
Average headcount	183	177	191	208	210

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Česká spořitelna – penzijní společnost, a.s.

Česká spořitelna – penzijní společnost, a.s. was founded on 1 January 2013 as a result of the transformation of Penzijní fond České spořitelny, a.s., which was founded pursuant to the Memorandum of Association as a joint stock company on 24 August 1994 and was incorporated by the Municipal Court in Prague on 23 December 1994. The Company has its registered office at Poláčkova 1976/2, 140 21 Prague 4. The Company has share capital of CZK 350 million. Since March 2001, the sole shareholder of the Company is Česká spořitelna. Until transformation, the Company's principal business was the provision of supplementary pension insurance schemes pursuant to Act No. 42/1994 Coll., on supplementary state-contributory pension insurance, as amended by Act No. 170/1999 Coll., and Act No. 36/2004 Coll. Since 2013, Česká spořitelna – penzijní společnost has been managing savings of the participants of the Transformed Fund and has been providing supplementary pension savings pursuant to Act No. 427/2011 Coll., as amended by Act No. 377/2015 Coll.

Česká spořitelna – penzijní společnost has maintained its position as a leader on the supplementary pension savings market and is still increasing its market shares. As at 30 September 2017, ČS penzijní společnost fund market share was 31.4%, which is the highest on the market. 917,278 unique participants had pension savings agreements with the Company with a total fund value of CZK 77.1 billion as at 31 December 2017. Česká spořitelna – penzijní společnost manages the largest conservative participation fund on the market with assets valued at more than CZK 6.5 billion.

Since 1 January 2017, the new service – Individualised contribution (Příspěvek na míru) – has been introduced that automatically adjusts the amount of the monthly participant's contribution and optimises the acquisition of state benefits. The greatest innovation in 2017 is the extension of the participatory funds' offer with the new Ethics Fund which offers a stable appreciation and responsible approach to the environment. The Ethics Fund is characterised by its conservativeness and invests mainly in bonds of socially responsible companies, green bonds as well as in shares.

Česká spořitelna – penzijní společnost succeeded with its supplementary pension savings product, once again placing 3rd in the prestigious Zlatá koruna competition. The Company also won the bronze medal from Život 90 (Life 90) for the significant support of associations in 2017. Life 90 helps lonely and disabled seniors to live a dignified life, and in 2017 ČS penzijní společnost participated in the organisation of a wide range of events such as Life 90 Day, Christmas sightseeing tours through Prague or Christmas dinner for lonely seniors.

The purpose of the public role of ČS penzijní společnost is to provide supplemental income for the retired. The Company emphasises sustainability, stability and social responsibility in every action undertaken.

Česká spořitelna – penzijní společnost, a.s.	**2017**	**2016**	**2015**	**2014**	**2013**
Share capital (CZK million)	350	350	350	350	350
Total assets (CZK billion)	2.0	1.8	1.6	1.6	1.6
Assets in individual funds (CZK million)					
Transformed Fund	66,796	64,369	60,354	55,757	50,152
Conservative Participation Fund	6,531	4,376	2,699	1,314	414
Ethical Participation Fund (from 1. 11. 2017)	4	–	–	–	–
Balanced Participation Fund	2 892	1 183	545	231	18
Dynamic Participation Fund	882	464	274	142	8
Net profit/loss (CZK million)	182.5	139.8	52	49	(40)
Number of unique participants (thousand)	917	923	950	982	1,023
Average headcount	61.5	62.8	61.6	65	63

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s Autoleasing, a.s.

Leasing company s Autoleasing, a.s., founded on 6 October 2003, is a wholly-owned subsidiary of Česká spořitelna. The Company has its registered office at Budějovická 1912/64b, Prague 4. The Company has share capital of CZK 500 million. The Company's principal business activity is financing of transport equipment up to 3.5 tons for individuals, entrepreneurs and legal entities.

Company s Autoleasing reported a profit of CZK 112 million for 2017. In the course of the year, the Company completed financing transactions at an aggregate initial debt value of CZK 4,873 million.

s Autoleasing uses provisioning to cover all known risks arising from its lease and loan contract portfolio. Material facts and circumstances that may have a favourable impact on s Autoleasing fulfilling its business objectives include further cooperation with the parent bank. In 2017, s Autoleasing focused on strengthening its market position while continuing to support its subsidiary s Autoleasing SK, s.r.o., which launched operations in Slovakia in 2013 and provides loans for new and used vehicles up to 3.5 tons to individuals, entrepreneurs and legal entities and is gradually strengthening its Slovak market position.

s Autoleasing, a.s.	**2017**	**2016**	**2015**	**2014**	**2013**
Share capital (CZK million)	500	500	500	500	500
Total assets (CZK billion)	11.1	9.8	8.9	8.2	8.0
New transactions volume (CZK billion)	4.9	4.6	4.0	3.5	3.4
Net profit (CZK million)	112	112	119	104	97
Number of new contracts	14,008	13,926	12,487	12,553	12,398
Number of own points of sale	1	1	1	1	1
Average headcount	111	115	113	112	109

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Erste Leasing, a.s. (until 1 September 2013 S Morava Leasing, a.s.)

Since 1991, Erste Leasing has been a major provider of financing for small- and medium-sized enterprises in the Czech Republic. Since 2011, the Company is a wholly-owned subsidiary of Česká spořitelna. Thanks to the Company's extensive network of sales points and close cooperation with Česká spořitelna's regional corporate centres, it provides its services throughout the whole Czech Republic. Erste Leasing offers clients leasing and loan financing to purchase machinery and technology, primarily for agriculture, private sector services and other industrial sectors with an emphasis on machine engineering. Erste Leasing is regularly ranked in the TOP10 of financial ranking of Czech leasing and financial asociation and, for four years already, has been the number one in non-bank financing of agricultural machinery and equipment.

In 2017, Erste Leasing reported a profit of CZK 66 million. During the year, the Company financed transactions at an aggregate amount of CZK 3.55 billion, representing a 31% increase in financing in comparison to 2016. The Company executed a total of 2,186 new leasing and loan contracts. Average per-contract financing is CZK 1.65 million. Agriculture is the primary financed sector with a volume of CZK 2.46 billion for machinery, equipment and agricultural land purchases. Agricultural financing thus comprises 69.2% of total new transactions in 2017. Another key sector was financing of machinery and equipment for the machinery and construction industries with total financing of CZK 0.55 billion, which represents a 16% share.

Erste Leasing, a.s.	**2017**	**2016**	**2015**	**2014**	**2013**
Share capital (CZK million)	200	200	200	200	200
Total assets (CZK billion)	7.3	6.5	6.4	5.7	5.4
Volume of new transactions (CZK billion)	3.6	2.7	3.3	2.7	2.7
Number of new contracts	2,186	1,883	1,930	1,968	2,137
Net profit (CZK million)	66	65	69	46	35
Number of own points of sale	14	13	13	13	13
Average headcount	62	63	64	62	62

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Factoring České spořitelny, a.s.

Factoring České spořitelny, a.s., was established in November 1995. Since 2001, it has been a wholly-owned subsidiary of Česká spořitelna. The Company has its registered office at Budějovická 1518/13B, Prague 4.

Factoring České spořitelny focuses mainly on domestic, export and import factoring, comprehensive management and monitoring of receivables for a wide corporate clientele in various industries, trade and services. The company is a long-time member of FCI (Factor Chain International). In 2017, the Company expanded its range of services by reverse factoring one of the Supply Chain Financing components.

Factoring ČS has long been a leading factoring company on the Czech market. In 2017, the market share of Factoring České spořitelny decreased slightly to 21.5% despite a year-on-year increase of less than 6% in total trade turnover of assigned and managed receivables to CZK 33.7 billion. Due to the year-to-year increase in business turnover and less provision created in comparison to the previous year, the Company's profitability increased to a net profit of CZK 56 million.

In 2017, the Company received a prestigious Business Superbrands award, as it had in two previous years.

In 2017, the Company continued to implement a proactive business policy while strictly adhering to risk management rules and other measures designed to ensure the effective management of the receivable portfolio of factoring clients.

In 2017, the Company was improving the eFactoring Internet Factoring Platform for factoring customers by integrating electronic document exchange (EDI) into the factoring system to provide its clients with a modern digital service. This will contribute to greater efficiency of factoring operational processes through automation and use of EDI solutions from EDITEL CZ, a strategic partner of Factoring České spořitelny.

Factoring České spořitelny, a.s.	**2017**	**2016**	**2015**	**2014**	**2013**
Share capital (CZK million)	114	114	114	114	114
Equity (CZK million)	1,201	1,146	1,120	1,142	289
Total assets (CZK million)	5,480	4,768	4,623	5,892	5,801
Contracted amounts (CZK million)	33,682	31,848	41,375	63,952	53,539
Net profit (CZK million)	56	25	8	64	62
Average headcount	39	37	43	43	43

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REICO investiční společnost České spořitelny, a.s.

REICO investiční společnost České spořitelny, a.s. was established on 13 June 2006. The Company's sole shareholder has always been Česká spořitelna. The Company has its registered office at Antala Staška 2027/79, Prague 4, Postal code 140 00.

In 2017, REICO investiční společnost České spořitelny managed the ČS Real Estate Fund's special real estate investment fund and the REICO investiční společnost České spořitelny, a.s., open mutual fund.

In 2017, ČS Real Estate Fund equity increased by CZK 4.1 billion year-on-year to CZK 17.2 billion as at the end of the year. The significant increase in equity resulted from the fact that the persistent low interest rate environment gave rise to increased investor interest in real estate acquisition.

In 2017, the Czech real estate market was stable and saw continued growth in investor demand, especially for retail real estate. During the year 2017, most of real estate investments were foreign, but the share of domestic investment continued to grow, increased by around 5% year-on-year to around 37%.

ČS Real Estate Fund's expansion strategy was continued over the year 2017. In January the Fund purchased the Park One in Bratislava, then in the beginning of August it entered the Polish market for the first time in its history where it purchased the Proximo office building in Warsaw, and in September bought its biggest retail property, the Słoneczna Gallery in Radom. The Słoneczna Gallery was the Fund's second most expensive real estate acquisition ever as well as one of the largest transactions during year 2017 on the Polish and Central European real estate markets. The number of the Fund's properties increased as at the end of 2017 to a total of 13 commercial buildings, of which 8 are in the Czech Republic, 3 in Slovakia, and 2 in Poland.

ČS Real Estate Fund performance was 2.5% in 2017. From a financial perspective, the ČS Real Estate Fund portfolio is healthy; most rental

properties are at 90% or more occupancy, assuring stable rental income. The current values of buildings in the portfolio are stable with significant potential for long-term growth.

The financial indicators of REICO investiční společnost for 2017 reflect continuing favourable real estate market developments and growing investor interest in the ČS Real Estate Fund. Consequently, the Company managed a higher volume of funds than in previous years and reported profit of CZK 79 million for 2017.

REICO investiční společnost České spořitelny, a.s.	2017	2016	2015	2014	2013
Share capital (CZK million)	25	25	25	25	25
Equity (CZK million)	158	143	112	72	46
Total assets (CZK million)	185	175	127	80	59
Net profit (CZK million)	79	66	41	26	27
Volume of managed assets (CZK billion)	17.2	13.1	8.2	6.5	6.0
Average headcount*	14	12	10	10	10

*including ČS nemovitostní fond (real estate fund) employees

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Erste Grantika Advisory, a.s.

Erste Grantika Advisory, a.s., (EGA) is a renowned consulting company offering comprehensive financing advisory. The Company was established in 2000, in 2007 Česká spořitelna became its majority owner and in 2008 became its sole owner. The Company has built a network of branches located in Prague, Pilsen, Ústí nad Labem, Hradec Králové, Jihlava and Ostrava. All branches are located in the buildings of Corporate Centres of Česká spořitelna.

In 2017, the EGA confirmed its dominant position in the field of grant advisory. The Company has earned over CZK 1.1 billion in subsidies for its clients. Since its establishment, the company has earned more than CZK 16.8 billion for its clients. In 2017, the Company carried out tenders for public procurement with an estimated investment value of CZK 5.7 billion.

In 2017, the Company realised a turnover of CZK 44.7 million. In 2017, the Company's costs amounted to CZK 44.2 million. The Company's earnings before tax amounted to CZK 0.5 million and CZK 1.5 million after taxation due to deferred tax recognition. The Company's results were affected by the sale of 66% of shares in Euro Dotácie, a.s., which ceased to be a subsidiary of Grantika and the costs of the Company restructuring.

The process of acquiring a new information system that connects all key information streams in the Company, and which integrates ERP, CRM and document management systems was completed during 2017.

The total balance of receivables decreased mainly due to the decrease in the categories "receivables overdue 30 days" and "receivables overdue 365 days". Provisions for receivables were newly created only for the purpose of enforcing an external law firm in two debtors. Two receivables were written off in 2017 due to the end of court proceedings due to the lack of funds for their settlement.

Due to the factors described above, the company reduced disbursing the authorised overdraft to CZK 12.2 million, with a total receivable balance of CZK 10 million.

Figures in CZK millions	2017	2016	2015	2014	2013
Revenue from principal activities	32.6	28.1	26.8	44	43.4
Added value	24.7	20.3	19.0	34.4	33.2
Net profit/loss	1.5	(3.8)	(4.9)	4.1	5
Total assets (net)	21.8	26.1	14.8	21.1	15.7
Share capital	7	7	7	7	7
Number of employees	34	44	42	35	37

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Definitions of Alternative Performance Indicators

In line with the General Directive issued by ESMA (European Securities and Markets Authority) are Alternative Performance Indicators defined as financial indicators of historical or future financial performance, financial position or cash flow.

A) Alternative Performance Indicators that Can Be Determined Directly from the Consolidated Financial Statement:

Alternative Performance Indicator	Financial statement	
Net interest income	A	Consolidated income statement
Net fee and commission income	B	Consolidated income statement
Dividend income	C	Consolidated income statement
Net trading result	D	Consolidated income statement
Result from financial assets and liabilities designated at fair value through profit or loss	E	Consolidated income statement
Net result from equity method investments	F	Consolidated income statement
Rental income from investment properties and other operating leases	G	Consolidated income statement
Operating income	**H=A+B+C+D+E+F+G**	**Consolidated income statement**
Personnel expenses	I	Consolidated income statement
Other administrative expenses	J	Consolidated income statement
Depreciation and amortisation	K	Consolidated income statement
Operating expenses	**L=I+J+K**	**Consolidated income statement**
Operating result	**H+L**	**Consolidated income statement**
Cost/Income ratio	**-L/H**	**Consolidated income statement**
Non-interest income/Operating income	**(B+C+D+E+F+G)/H**	**Consolidated income statement**
Loans and receivables to customers	M	Consolidated statement of financial position
Financial liabilities designated at fair value through profit or loss – deposits from customers	N	Consolidated statement of financial position
Financial liabilities measured at amortised cost – deposits from customers	O	Consolidated statement of financial position
Loans to customers/deposits from customers	**P=M/(N+O)**	**Consolidated statement of financial position**

The purpose of the Alternative Performance Indicators:

Operating Income

Operating income shows the amount of Bank revenues from core business activities.

Operating Expenses

Operating expenses express the volume of Bank costs used for core business activities.

Operating Result

Operating result gives information about the success rate of core business activity. It shows the amount of financial resources that was earned from core business activity.

Cost/Income Ratio

This indicator expresses the volume of operating expenses consumed to achieve the operating income. The ratio gives a clear view of how efficiently the Bank is being run – the lower it is, the more profitable the Bank is.

Non-interest Income/Operating Income

The indicator shows the share of revenues different from interest income on total income from core business activity.

Loans to Customers/Deposits from Customers

The indicator shows the share of customer loans funded by customer deposits.

B) Alternative Performance Indicators that Cannot Be Determined Directly from the Consolidated FinancialStatement:

ROA

The ROA (return on assets) indicator shows how efficient a Bank's management is at using its assets to generate earnings. It is calculated as a ratio of consolidated net profit in athe accounting period

attributable to the owners of the parent company (Consolidated income statement) to the average monthly volume of total assets (internal figure for 13 periods – calculates with balances as of 1 January of the corresponding year and the last days of all months of the corresponding year).

ROE

The ROE (return on equity) indicator measures the efficiency of equity utilization, and its final value expresses the share of the net profit attributed to one Czech Crown of the equity. It is calculated as a ratio of the consolidated net profit in the accounting period attributable to the owners of the parent company (Consolidated income statement) to the average monthly volume of equity attributable to the owners of the parent (internal figure for 13 periods – calculates with balances as of 1 January of the corresponding year and the last days of all months of the corresponding year).

Net Interest Margin

Česká spořitelna uses the indicator as the representation of interest-bearing asset profitability. It is calculated as a ratio where the numerator is the sum of the consolidated Net Interest Income, Dividend Income, and Rental income from investment properties and other operating leases (Consolidated income statement), and the denominator is the average monthly volume (internal figure for 13 periods – calculates with balances as of 1 January of the corresponding year and the last days of all months of the corresponding year) of the sum of 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, Loans and receivables to customers, and Investments in associated and joint ventures.

Ratio of Defaulting Receivables from Clients to Total Volume of Receivables from Clients

The indicator is the basic indicator of the quality of Bank loan portfolio. It is calculated as a ratio of consolidated gross loans and receivables to defaulting customers to consolidated gross loans and receivables to customers.

Ratio of Provisions to NPL Coverage

The indicator expresses the volume of provisions relative to risk loans and is used as one of the basic indicators for the monitoring of the credit risk coverage. It is calculated as a ratio of consolidated provisions for loans and receivables to customers to consolidated gross loans and receivables to defaulting customers.

Ratio of Provisions and Collateral to NPL Coverage

This indicator shows the volume of provisions and collateral relative to risk loans. It is used as one of the basic indicators for the monitoring of the credit risk coverage. The indicator is calculated as a ratio of consolidated provisions for loans and receivables to customers and consolidated volume of eligible collateral received for loans and receivables to defaulting customers to consolidated gross loans and receivables to defaulting customer.

C) Alternative Performance Indicators According to Appendix 14 to Regulation No. 163/2014 Coll.:

ROAA

The ROAA indicator shows how efficient a Bank's management is at using its assets to generate earnings. It is based on FIS reports (ČNB) 20-12 Profit and Loss Statement and FIS (ČNB) 10-12 Balance Sheet and Sub-Balance Sheet for Česká spořitelna. Reported figures are part of the Obligatory information of Česká spořitelna, a.s. as of 31 December 2017 according to Regulation No. 163/2014 Coll., which is available on the Bank's website, in the section "Downloads" and subsection "Obligatory information in compliance with the ČNB Regulation". It is calculated as a ratio of Profit or Loss in the current year after tax to the average monthly volume of total assets (internal figure for 13 periods – calculates with balances as of 1 January of the corresponding year and the last days of all months of the corresponding year).

ROAE

The ROAE indicator measures the efficiency equity utilization and its final value expresses the share of the net profit attributed to one Czech Crown of the equity. It is based on FIS reports (ČNB) 20-12 Profit and Loss Statement and COS (ČNB) 10-04 Capital and Risk Exposures for Česká spořitelna. Reported figures are part of the Obligatory information of Česká spořitelna, a.s. as of 31 December 2017 according to Regulation No. 163/2014 Coll., which is available on the Bank's website, in the section "Downloads" and subsection "Obligatory information in compliance with the ČNB Regulation". It is calculated as the ratio of Profit or Loss in the current year after tax to the average monthly volume of Tier 1 (T1) capital (internal figure for 13 periods – calculates with balances as of 1 January of the corresponding year and the last days of all months of the corresponding year).

Assets per Employee

The Assets per Employee indicator is based on FIS reports (ČNB) 10-12 Balance Sheet and Sub-Balance Sheet and E (ČNB) 5-04 Report on the organisational structure and qualified interests of the bank/PZB (Headcount of Reporting Entity - DIS60_04) for Česká spořitelna. It is calculated as a ratio of the average monthly volume of Total Assets (internal figure for 13 periods – calculates with balances as of 1 January of the corresponding year and the last days of all months of the corresponding year) to the Registered Headcount.

Administrative Costs per Employee

The Administrative Costs per Employee indicator is based on FIS reports (ČNB) 20-12 Profit and Loss Statement (reported figure is part of the Obligatory information of Česká spořitelna, a.s. as of 31 December 2017 according to Regulation No. 163/2014 Coll., which is available on the Bank's website, in the section "Downloads" and subsection "Obligatory information in compliance with the ČNB Regulation") and E (ČNB) 5-04 Report on the organisational structure and qualified interests of the bank/PZB (Headcount of

Reporting Entity - DIS60_04) for Česká spořitelna (internal figure). It is calculated as a ratio of Administrative Costs to the Registered Headcount.

Gains per Employee

The Gains per Employee indicator is based on FIS reports FIS (ČNB) 20-12 Profit and Loss Statement (reported figure is part of the Obligatory information of Česká spořitelna, a.s. as of 31 December 2017 according to Regulation No. 163/2014 Coll., which is available on the Bank's website, in the section "Downloads" and subsection "Obligatory information in compliance with the ČNB Regulation") and E (ČNB) 5-04 Report on the organisational structure and qualified interests of the bank/PZB (Headcount of Reporting Entity - DIS60_04) for Česká spořitelna. It is calculated as a ratio of Profit or Loss in the current year after tax to the Registered Headcount.

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