MONETA MONEY BANK

ANNUAL REPORT 2017

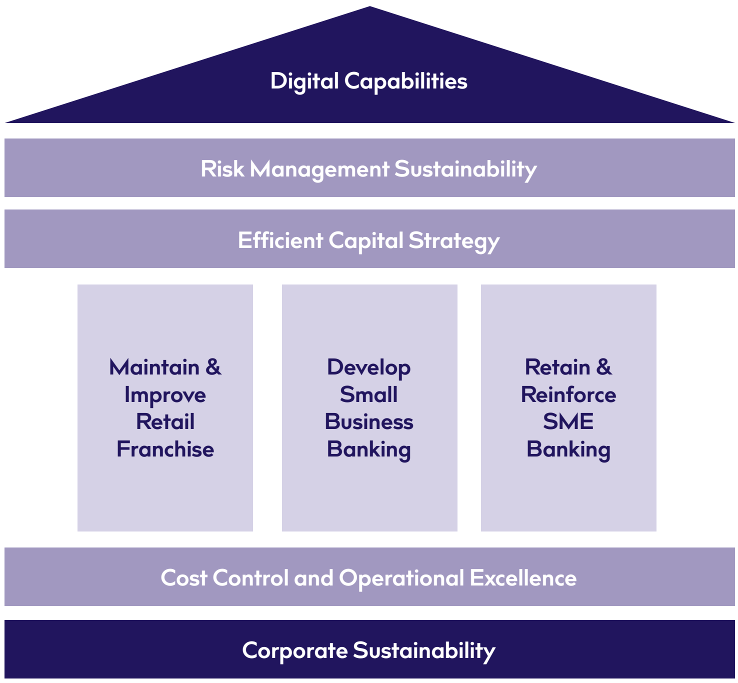
HIGHLIGHTS

Strategy Execution

The Group has met and exceeded the commitments made to capital markets as laid out in the strategy.

The Group aims to:

- continue to focus on maintaining and further developing its retail banking franchise while significantly growing its presence within the SME commercial segment.
- continue gradually shifting the overall business mix, targeting diversification of revenue streams and building recognition as a leading small business bank in the Czech Republic.
- strengthen its retail banking franchise through continued focus on pricing, origination and risk management in support of unsecured consumer lending, and further through the redevelopment of its mortgage based finance offering, broadening its offering of third party products, namely in insurance and asset management.
- further capitalise on cross selling opportunities in the commercial segment, to continue with its focus on the small business segment represented by self-employed professionals, tradesmen and entrepreneurs and to deepen relationships with medium sized commercial customers, leveraging its unique position within the agricultural sector of the Czech economy and the opportunities for cross-selling with its commercial leasing operation.
- increase significantly its efforts across both segments to leverage its existing client base, product and service offering and convert these capabilities into organic growth. The key growth objective is the development of long-term banking relationships and the ability to provide small businesses and SMEs with access to value-based payment, liquidity management and financing solutions.
- focus on its sustainable development by maintaining a strong sustainability strategy that is based on the economic, social and environmental impacts of the Group. Our key stakeholders play an important part in this strategy and help deliver the Group sustainable growth, as well as shareholder value.



Key Events in 2017

January	• Investment grade rating BBB/A-2 from S&P and Baa2/P-2 from Moody´s obtained, both with stable outlook[1].
April	• Base Prospectus[2] for the Bank's bonds issuance programme was approved by the CNB. The Bank may issue up to CZK 50 billion in aggregate. • New branch concept introduced[3]. It will offer clients more comfort and faster service while emphasizing discreteness and privacy. The first redesigned branch opened in Nové Butovice. • Annual General Meeting held on 24 April 2017.
May	• The Bank took first place in the Microsoft Awards 2017. The Bank was awarded for its smooth transition to Office 365 cloud services in the category Banking, capital markets and insurance[4]. • The separation from its previous sole owner completed six months ahead of the schedule and with considerable savings. The transition service agreement with the previous owner was terminated without any disruption to our services.
June	• Solid dividend of CZK 9.8 gross per share paid to shareholders. • Smart Banka awarded the "best mobile application" in the Czech Republic and the Slovak Republic[5]. • New digital, fully online current account proposition launched.
September	• Corporate social responsibility event for kids with world-class tennis players Petra Kvitová[6] and Tomáš Berdych[7] took place in Prague.
October	• Launched fully digital pre-approved unsecured loan for existing retail and small business customers. • The Gold level certificate for Top Responsible Company in the category the Most Engaged Employees received from the platform Business for Society[8]. • Partnership with European Investment Bank announced. • General Meeting held on 26 October 2017.
November	• Tomáš Spurný, the Chairman of the Management Board and CEO, voted by peers as The Banker of the Year 2017.[9] • The Management Board confirmed 15.5 per cent medium term target of capital adequacy ratio, based on the new Pillar II requirement and the completed 2017 Supervisory Review and Evaluation Process (SREP) by the CNB. • Smart Banka recognized as the 2nd Best Mobile Solution by WebTop100[10]. • Google Pay mobile payments launched. • Plan to completely switch the Bank's car fleet to electric cars within 5 years announced.
December	• The Gold level certificate based on the credit quality analysis by Comsense analytics[11] received. • MONETA Digital Distribution Strategy 2018 – 2020[12] published at moneta.cz in the Investor Relations section.

[1] Each of Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd. is established in the European Union and registered according to the Regulation (EC) No. 1060/2009 on credit rating agencies as amended by Regulation (EU) No. 513/2011 of the European Parliament and of the Council and Regulation (EU) No. 462/2013 of the European Parliament and of the Council (the "CRA Regulation"). As such each of Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd. is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website „http://www.esma.europa.eu/supervision/credit-rating-agencies/risk" in accordance with the CRA Regulation. In choosing rating agencies, the Bank proceeded according to the obligations laid down by the Article 8d of the above mentioned regulation. The market share of each of the aforementioned rating agencies exceeds 10% on the European Union market.

[2] https://investors.moneta.cz/bonds

[3] https://investors.moneta.cz/en/current_information

[4] https://www.moneta.cz/documents/cz/tz/2017_05_22_TZ_MMB_Microsoft_Awards_EN.pdf

[5] Source: https://www.aplikaceroku.cz/2017

[6] https://www.moneta.cz/documents/cz/tz/2017_09_14_PR_MMB_Petra_Kvitova.pdf

[7] https://www.moneta.cz/documents/cz/tz/2017_09_21_PR_MMB_Tomas_Berdych.pdf

[8] www.odpovednefirmy.cz and https://www.moneta.cz/documents/cz/tz/2017_10_26_PR_MMB_TOP_Responsible_Company.pdf

[9] www.bankaroku.cz and https://www.moneta.cz/documents/cz/tz/2017_11_29_TZ_Banker_roku.pdf

[10] https://vysledky.webtop100.cz/2017/mobilni-reseni

[11] Comsense analytics is independent Czech company providing analytical support to financial advisors in the areas of capital market, banking market, real estate acquisition and development. Source: www.comsense.cz or https://www.mesec.cz/clanky/mate-penize-u-nejzadluzenejsi-banky-nebo-u-te-nejziskovejsi/

[12] https://investors.moneta.cz/current_information

2017 Guidance and Performance

Metrics	Results	2017 guidance	
	2017	Revised[13]	Initial[14]
Consolidated Net Profit	**CZK 3.9bn**	~ CZK 3.9bn	~ CZK 3.4bn
Return on Tangible Equity[15]	**16.0%**	~ 16%	~ 14%
Loan Growth (YoY)[16]	**10.8%**	high single digit	high single digit
Operating income	**CZK 10.3bn**	> CZK 10.3bn	> CZK 10.3bn
Cost to Income	**47.9%**	upper mid 40s	upper mid 40s
Cost Base	**CZK 4.9bn incl. restructuring costs**[17]	~ CZK 4.8bn	< CZK 4.9bn
Cost of Risk	**32bps**	50–60bps	100–110bps
NPL Ratio	**4.1%**	< 5%	< 6%
Total NPL Coverage	**77.0%**	~ 80%	~ 80%
Capital Adequacy Ratio[18]	**17.4%**	> 17%	> 17%

[13] Revised in 3Q'17 except Cost Base which was updated in 1Q'17.
[14] Announced on 10 February 2017.
[15] Reported RoTE.
[16] Gross performing loan growth.
[17] Relating primarily to branch network downsizing and MONETA Leasing franchise reorganization.
[18] Does not include 2017 net profit.

2018 – 2020 Guidance

Metrics	Guidance[19]	
	2018	2020
Loan Book Growth[20]	≥9%	≥10%
Total Operating Income	≥CZK 9.5bn	≥CZK 10.5bn
Cost Base	~CZK 4.9bn	~ CZK 5.1bn
Cost of Risk[21]	45–55bps	70–80bps
Consolidated Net Profit	≥CZK 3.4bn	≥CZK 3.8bn
Reported Return on Tangible Equity	≥14%	≥15%
Effective Tax Rate	~ 17%	~20%
Management plans to propose[22] 2017–2020 aggregate dividend pay-out of CZK 11.5 billion		

[19] Management takes the opportunity to adjust the guidance in case of any material change of circumstances on which this guidance was based or in case of any accretive investment opportunity for the Bank.

[20] Gross performing loan growth.

[21] 2017 based on IAS 39, 2018 and 2020 based on IFRS 9;

[22] To be proposed to shareholders at General meetings to be held in 2018-2021, not as a single payment, but yearly subject to actual financial results in the years 2017-2020; subject to corporate, regulatory and regulator's limitations and approval of the Annual General Meetings;

Key Performance Indicators

BUSINESS PERFORMANCE

CZK bn	2017	2016	Change
Gross performing loan balance	122.5	110.5	10.8%
Retail loans new volume	35.4	25.4	39.6%
Commercial loans new volume	19.8	17.1	15.7%
Net retail loan performing balance	60.8	53.0	14.7%
Net commercial loan performing balance	61.0	56.7	7.6%
Customer deposits[23]	132.0	116.3	13.6%

PROFITABILITY AND EFFICIENCY

	2017	2016[24]	Change
Yield (% Avg. Net Customer Loans)	6.3%	7.6%	(130) bps
Cost of Funds (% Avg. Deposits)[25]	0.15%	0.17%	(2) bps
NIM (% Avg. Interest Earning Assets)[26]	4.3%	5.9%	(160) bps
Cost of Risk (% Avg. Net Customer Loans)	0.32%	0.93%	(61) bps
Risk-adj. yield (% Avg. Net Customer Loans)	6.0%	6.7%	(70) bps
Net Fee & Commission Income / Operating Income	18.7%	17.7%	100 bps
Net Non-Interest Income / Operating Income	28.7%	24.9%	380 bps
Reported RoTE	16.0%	15.3%	70 bps
Adj. RoTE @ 15.5% CET1 Ratio	17.7%	19.3%	(160) bps
RoAA[25]	2.2%	2.8%	(60) bps
Cost to Income Ratio	47.9%	45.1%	280 bps

CAPITAL AND LIQUIDITY

	2017	2016	Change
Total CET1 ratio	17.4%	20.5%	(310) bps
Net Loans to Deposit ratio[23]	93.7%	96.2%	(250) bps
Total Equity / Total Assets[25]	12.9%	18.3%	(540) bps
Liquid Assets / Total Assets[27]	36.2%	22.9%	1,330 bps

[23] Excluding CZK 9.4 billion of repo operations.
[24] The Group started to take into account external collection costs in determining impairment loss of loans and receivables and these costs are disclosed in the line "Net impairment of loans and receivables" when they are incurred. Previously, these costs were presented in the line "Other operating expenses" and "Administrative expenses".
[25] Repo transactions with banks and customers which are closed on back-to-back basis by reverse repo transactions with CNB are included.
[26] Impacted by opportunistic repo operations.
[27] Liquid assets include Encumberred assets

Delivering Return to Shareholders

- The Bank has more than 13,000 investors from 49 countries according to the excerpt from the Czech Central Securities Depository as at 29 December 2017.
- On 29 December 2017, the closing price[28] of the shares in the Bank on the Prime Market of the Prague Stock Exchange was CZK 82.40. During 2017, the maximum intraday price of the shares in the Bank on the Prime Market of the Prague Stock Exchange was CZK 90.75[28], following the announcement of the proposed 2016 dividend. The maximum closing price in 2017 was CZK 88.70.
- Delivering an outstanding dividend yield of 9.7% attributable to the shares in the Bank[29].
- The market capitalization of the Bank was CZK 42.1 billion as at 29 December 2017[30].
- Throughout 2017, the average daily volume of trading in the shares in the Bank on the Prime Market of Prague Stock Exchange amounted to 1.5 million and, therefore, the shares in the Bank were one of the most liquid securities listed on the Prime Market of the Prague Stock Exchange[31].
- MONETA provided 14.2% total shareholder return[32] in 2017.

[28] Source: www.pse.cz/udaje-o-trhu/akcie/prime-market/

[29] Calculated as the ratio (expressed as a percentage) of proposed dividend per share to the share closing price. Calculated on the basis of the share closing price of CZK 82.40 as at 29 December 2017. (Source: www.pse.cz/udaje-o-trhu/akcie/prime-market/). Subject to the approval of CZK 4.1 billion dividend by the Annual General Meeting to be held on 25 April 2018 and corporate, regulatory and regulator's limitations.

[30] Calculated on the basis of the share price of CZK 82.40 as at 29 December 2017. (Source: www.pse.cz/udaje-o-trhu/akcie/prime-market/)

[31] Source: www.pse.cz/udaje-o-trhu/statistika/objemy-obchodu/

[32] For more about total shareholder return see section 4.10.1.2 Variable Remuneration for Performance (Fiscal) year 2017

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS [33]

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CZK m	31 Dec 2017	31 Dec 2016	% Change
Cash and balances with the central bank	7,127	20,235	(64.8%)
Financial assets	11,828	13,775	(14.1%)
Loans and receivables to banks	53,380	189	>100%
Customer loans	123,680	111,860	10.6%
Other Assets	3,719	3,320	12.0%
Total Assets	**199,734**	**149,379**	**33.7%**
Due to banks	29,643	2,657	>100%
Due to customers	141,469	116,252	21.7%
Other Liabilities	2,859	3,202	(10.7%)
Total Liabilities	**173,971**	**122,111**	**42.5%**
Total Equity	**25,763**	**27,268**	**(5.5%)**
Total Liabilities & Equity	**199,734**	**149,379**	**33.7%**

Figures in the table may not add up due to rounding differences.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

CZK m	2017	2016[33]	% Change
Interest and similar income	7,582	8,494	(10.7%)
Interest expense and similar charges	(218)	(189)	15.3%
Net interest income	**7,364**	**8,305**	**(11.3%)**
Net fee and commission income	**1,933**	**1,961**	**(1.4%)**
Other income	1,038	792	31.1%
Total operating income	**10,335**	**11,058**	**(6.5%)**
Total operating expenses	**(4,947)**	**(4,982)**	**(0.7%)**
Net impairment of loans and receivables	(381)	(1,029)	(62.9%)
Goodwill impairment	(104)	0	n/a
Profit for the period before tax	**4,903**	**5,047**	**(2.9%)**
Profit for the period after tax	**3,923**	**4,054**	**(3.2%)**

Figures in the table may not add up due to rounding differences.

[33] The Group started to take into account external collection costs in determining impairment loss of loans and receivables and these costs are disclosed in the line "Net impairment of loans and receivables" when they are incurred. Previously, these costs were presented in the line "Other operating expenses" and "Administrative expenses".

CONTENT

DIGITAL BANKING LEADER

Increasingly, our customers seek the convenience of digitalization and use of our services without having to visit one of our branches. We reflect this in our ambition and new company strategy to become a digital banking leader in the Czech Republic.

LETTER FROM THE CHAIR OF THE SUPERVISORY BOARD

INTRODUCTION

The year 2017 has been a landmark for the Bank. Following our Initial Public Offering in 2016, this was our first full year as a listed company. It was also the year in which we completed our separation from GE Capital Group and made significant progress towards achieving our financial and strategic goals.

The separation project, designed to transition the Bank swiftly and smoothly from being a wholly-owned subsidiary of GE Capital to an operationally and technologically independent Czech bank, was achieved six months ahead of the schedule and below the budget. I am pleased to say this was managed without any disruption to internal controls or customer service. In parallel, the Bank continued to invest in its new brand and it is pleasing to see how much this is rapidly gaining strong traction in the Czech marketplace.

CORPORATE GOVERNANCE

Corporate governance has been a significant focus for the Bank in 2017. As we completed our separation from GE Capital it was important to bring the composition of the Supervisory Board and its members' remuneration in line with the international governance and operational standards to which the Bank holds itself.

The Supervisory Board is an integral non-executive element of the Bank's two-tier corporate governance structure and is responsible for the control of the Bank's operations. Ensuring that the Supervisory Board is able to exercise effective and independent oversight over the Management Board while contributing to the definition of the Bank's strategic direction, is of critical importance to all our stakeholders, including shareholders, regulators, customers and employees.

The Annual General Meeting held on 24 April 2017 left a number of corporate governance matters unresolved, but I am pleased to say that revised proposals were put forward to shareholders and approved at the General Meeting on 26 October 2017.

The Bank ended the year with effective and appropriate stewardship structures in place which meet international standards. Following the resignation from the Supervisory Board of Mr. Christopher Michael Chambers (the former Chairman of the Supervisory Board) in April 2017 and Mr. Richard Alan Laxer (the former Vice-Chairman of the Supervisory Board) in February 2017, the Annual General Meeting held on 24 April 2017 elected Mr. Miroslav Singer and me as new members to the Supervisory Board. In May 2017, I was pleased to accept the role of the Chair of the Supervisory Board and announced the election of Mr. Miroslav Singer as the Vice-chairman of the Supervisory Board. Later in 2017, the Supervisory Board was expanded from five members to seven with the election of Mr. Gabriel Eichler and Mr. Tomáš Pardubický. All new members bring significant regional and international experience. In addition, Mrs. Zuzana Prokopcová was also nominated and elected to the independent Audit Committee. The Supervisory Board now benefits from a broad range of relevant skills and expertise and is in the best position to support the Bank's Management Board in the implementation of its strategy.

At the same time, the Supervisory Board established separate Risk, Remuneration and Nomination Committees, enabling each area to receive the attention and focus they deserve. Over the course of 2017, the Supervisory Board held seven meetings, and its committees (including the former Nomination and Remuneration Committee) held nineteen meetings.

Throughout these changes, the Bank adopted a transparent approach in communicating with the shareholders. This included consultations, during which the Management Board and the Supervisory Board were available to address any questions. I believe it is important that the Bank maintains an open and transparent dialogue with its shareholders and all its stakeholders. The full details of our approach to corporate governance are set out in our new Corporate Governance Handbook, which was published last year and is available online at www.moneta.cz.

One outstanding corporate governance-related matter which will be addressed in 2018 is the remuneration of the Management Board and other material risk-takers. It is critically important to have an alignment between the interests of the Management Board and other material risk-takers and the shareholders.

The Supervisory Board is cognisant of the new EU Directive on the encouragement of long-term shareholder engagement introducing, among other things, the right of the shareholders to vote at the General Meeting on the remuneration policy for members of the Management Board. The Supervisory Board is fully committed to adhere to this new legal regime and will take appropriate steps towards its implementation upon the transposition of the said Directive into Czech law.

FINANCIAL PERFORMANCE AND STRATEGY

During 2017, the Group made good progress towards stabilizing revenues and profits with a view of returning to organic growth, while at the same time delivering attractive and sustainable returns for its investors. The Czech economy remained strong with GDP growth of 4.5 per cent[34] but the low-interest rate environment and highly competitive consumer lending market in which MONETA operates continued to present a challenging backdrop. Nevertheless, the Bank has pushed forward to develop its retail banking franchise and has grown its SME business seeking to become the leading small business bank in the Czech Republic.

The Group was able to deliver a consolidated net profit of CZK 3.9 billion in 2017 and reported a consolidated Return on Tangible Equity of 16.0 per cent. As a result, the Bank will propose to the shareholders for approval a distribution of 2017 dividend in the amount of CZK 4.1 billion[35]. The Group remains committed to delivering a consolidated annual Return on Tangible Equity of approximately 15 per cent in medium term and to distributing to the shareholders an aggregate dividend pay-out of CZK 11.5 billion[36] over the next four years, including 2017 dividend.

Our strategy is firmly centred on delivering the shareholder value via organic growth and is based on three pillars: retail banking, SME banking and supporting entrepreneurs and self-employed professionals. This is reinforced by a new digital strategy, which we launched in 2017 and which is designed to ensure we have the best possible digital platform to interact with our customers, both independent of, or integrated with our branch network.

We aim to maximize customer satisfaction by making the Bank as accessible and flexible as possible, by delivering the best possible customer experience through all our channels, and by continuously developing new products of relevance to our customers. We have established the Bank as a digital leader. We are, for example, the first Czech bank to offer fully digital current account and one of the first who introduced pre-approved unsecured lending to existing customers. There is more we can and will do in 2018 to progress with our digital ambitions.

RISK MANAGEMENT AND REGULATION

At the same time as returning the Bank to a growth path, we have remained committed to prudent risk management. The Bank has been able to improve the quality of its balance sheet through the successful monetization of non-performing receivables and by further reduction of Cost of Risk to an exceptionally low level of 32 basis points (measured against average net loans to customer balance).

We have made a significant investment in our IFRS 9 capability by developing a best-in-class model with the support of internationally-renowned advisors. As a result, the Bank now has a robust infrastructure which will allow it to deal with all the challenges deriving from the new IFRS 9 rules.

During 2017, the Bank underwent its first full supervisory review by the CNB and I am pleased to report that this was completed successfully.

We stay committed to protecting our depositors by maintaining a strong risk management culture, responsible lending, and a conservative approach to investments. Our risk management standards continue to evolve and will play a key role in the new era of digitization which the Group has so successfully started to implement with a new generation product.

CULTURE AND COMMUNITY

In order to protect the long-term success and profitability of the Bank we have made sustainability an important focus in 2017.

At the heart of the Bank's strategy has been a desire to be the leading small business bank in the Czech Republic, helping entrepreneurs and small enterprises realize their objectives, grow their businesses and enable their employees' households to prosper. Supporting and engaging with the communities in which we operate goes hand in hand with that. We continue to work closely with local enterprises, schools, and community projects to invest in the future of the country. During 2017, the Group donated CZK 1.05 million to 21 organizations and our volunteers donated almost five thousand voluntary hours to serving their communities. Consistent with this is our belief in the need to protect the environment in which we operate. The Bank is committed to reducing its carbon

[34] Source: The Czech Statistical Office, the "GDP resources and uses – 4th quarter of 2017" report.
[35] Subject to corporate, regulatory and regulator's limitations and approvals of the Annual General Meeting to be held on 25 April 2018.
[36] To be proposed to shareholders at General Meetings to be held in 2018-2021, not as a single payment, but yearly subject to actual financial results in the years 2017-2020; subject to corporate, regulatory and regulator's limitations and approval of the General Meetings.

footprint and has embarked on a number of initiatives such as the transition to electric vehicles.

The Bank's report on non-financial performance, including our economic, environmental and social performance, is summarized on page 95 of this annual report.

Internally, we remain dedicated to promoting a healthy, agile and open corporate culture based on co-operation, recognition and transparency. We continued to support the HEALTH AHEAD initiative, corporate volunteering programmes and flexible office scheme. I am proud that this year we won the Most Engaged Employees Award as a part of the Top Responsible Company prize. Our human capital is very important to us. We want to attract and retain leading talent and we are determined that our employees should feel empowered to deliver their best every day while being confident that they will be rewarded for doing so.

THE FUTURE

As I look forward to 2018, I am confident that we have an outstanding team, equipped with the right strategy to meet the challenges ahead and to deliver attractive, sustainable returns for our shareholders.

I would like to take this opportunity to thank all the staff of the Bank for the energy and enthusiasm they bring to serving our customers and to completing a successful transition to operational independence. I would also like to thank the Management Board for the leadership they have shown in moving the Bank to be one of the leading consumer and small business banks in the Czech Republic and for their commitment to establishing a robust platform for growth.

M. Luisa Cicognani

Maria Luisa Cicognani
Chair of the Supervisory Board
of MONETA Money Bank, a.s.

LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

INTRODUCTION

I am pleased to report that MONETA delivered a consolidated net profit of CZK 3.9 billion in 2017. Our profitability translates into Reported Return on Tangible Equity of 16.0 per cent which constitutes a formidable achievement. Additionally, the Management Board has proposed a solid dividend payment of CZK 8 gross per share. We are proud to have met our commitments to shareholders as expressed through our market guidance throughout 2017 while we exceeded our profitability commitment by more than CZK 500 million. In this context I would like to express my sincere thanks to our staff and to the Supervisory Board for enabling the execution of our strategy and the delivery of our results.

During 2017, MONETA made strong progress with the further development of its business model and expanding its activities. Our objective is to maintain our position as a leading bank for Czech households and to become the leading bank for small businesses. In this realm we place strong emphasis on addressing the needs and the aspirations of self-employed professionals, tradesmen, and entrepreneurs. Additionally, MONETA's strategy focuses on the development of digital capabilities. Our investments in digital are reflected in strong 50.7 per cent growth in online consumer loan origination and have allowed us to start reconfiguring our branch network. MONETA's strategy is also built around cost efficiency and our cost performance testifies to a strong focus on this. Equally important, we focused on return-driven and sustainable deployment of capital. MONETA was able to affirm its medium-term capital adequacy ratio target in November 2017.

Throughout 2017, we also focused on improving of our balance sheet quality. MONETA further reduced its NPL ratio to 4.1 per cent and showed a strong total NPL coverage of 77 per cent. The disposal of historical legacy NPLs produced significant value for shareholders: our legacy NPL sales resulted in an extraordinary gain of CZK 315 million. This part of our strategy contributed to the overall increase and stability of our net profit.

The past year also marked a significant milestone: the full separation from MONETA's previous owner. We have fully and successfully completed our investments, managing to deliver the process ahead of time and with considerable savings. In February 2018, the Bank has also received reaffirmation of its credit ratings from Standard & Poor's. Our credit strength and stable outlook provide a solid foundation for further development of the MONETA franchise in the Czech market.

RETAIL SEGMENT

We are determined to maintain our position as a leading bank serving Czech households through fair, transparent and well-designed credit products, payment services and a range of deposit products. Additionally, we aspire to further develop our capacity to distribute high-quality insurance and asset management products.

Our strategic objective remains to defend a 20 per cent market share[37] in Consumer loans, and build, at least 5 per cent market position[38] in Mortgage balances. In this context, we aspire to remain a leading bank in the cost of funding, focusing on delivering strong current account products and a solid retail payment proposition.

I am pleased to report our continued success in generating strong growth. Our retail segment delivered 14.7 per cent year-on-year growth in net performing loans. MONETA's retail lending focused on the expansion of mortgage activity, where we captured 4.3 per cent market share[38] of new volumes and delivered net balance growth of 30.6 per cent. In parallel, we successfully defended our strong position in the retail unsecured instalment lending market, maintaining a 21.2 per cent market share[37] of new volume, reducing balance attrition by 15.5 per cent through client retention actions and growing net loan balances by 8.3 per cent.

We also successfully maintained our strong position in customer deposits. MONETA's retail deposit base grew by 13.5 per cent year-on-year focusing predominantly on current and saving account balances.

[37] Target as per CNB ARAD definition; Gross loans excluding Non-residents and loans in foreign currencies. Consumer loans represent Non-purposed and purposed consumer loans, Debt consolidations, American mortgages and all other MONETA products classified as consumer loans

[38] CNB ARAD, gross loans excluding Non-residents and loans in foreign currency, Market including part of building saving loans and loans for real estate over 50% LTV.

In addition, we successfully expanded our mutual fund distribution, delivering growth of 12 per cent year-on-year and expanding funds under management to CZK 11.5 billion. Additionally, we further expanded our capacity to distribute insurance products as part of our strategy execution. In 2017, we achieved growth of 19.9 per cent[39] year-on-year in net fee and commission income from third party products.

COMMERCIAL SEGMENT

We aim to become the bank of choice for self-employed professionals, tradesmen and entrepreneurs. Our strategy focuses on providing easy access to transparent and well-designed lending and transactional products. The strategy is supported by material investment into dedicated front-office staff serving the small business client segment. Additionally, the needs of our small business clients are further served through investments in digital channels, particularly the online availability of credit to our existing clients. MONETA aspires to significantly grow its client base and volumes over the medium term.

We are also dedicated to further developing our SME service model. Continuing our emphasis on serving and expanding our position alongside within Czech agricultural producers and relevant businesses. We also continue with our prudent and relatively opportunistic financing of small to medium-sized commercial and industrial real estate, specially as a cross-selling opportunity to fortify our relationship with existing MONETA clients.

Our commercial lending business had a solid performance, with the overall net performing loan portfolio increasing 7.6 per cent. The strongest growth was delivered by the small business sub-segment, where net balance expansion of 60.3 per cent was delivered. Growth in lending activity was matched and complemented by a growing deposit base. We have also expanded our overall client base and significantly improved client satisfaction metrics.

MONETA continued to face challenges in its leasing subsidiary. On the positive side, we have successfully increased our cross-selling capabilities, leveraging demand for auto and equipment finance from our banking clients. However, the overall net portfolio declined by 11.5 per cent year-on-year due to insufficient demand and prevailing pricing conditions in the market. In December 2017, additional restructuring measures were approved and will be implemented throughout 2018. The restructuring plan aims to improve the operation's overall cost efficiency.

DIGITAL STRATEGY EXECUTION

MONETA continues to seek differentiation and cost efficiency through digital innovations. Our ambition focuses on the development of digital distribution capabilities, namely providing a fully online credit offering to our retail and small business clients. This fully on-line lending capability build-up is supported by our innovative digital retail current account offer. Moreover, we seek to widen our digital distribution of asset management and insurance products. The medium-term target[40] stipulates that we bring digital sales up to 40 per cent of our overall volume and units production in selected categories.

Throughout 2017, we continued to enhance our mobile banking platform "Smart Banka". MONETA's "Smart Banka" was recognized as the best mobile application[41] from among 750 competitors in the Czech Republic and Slovak Republic and continues to generate strong customer ratings from both Android and iOS users.

Within a relatively short time frame, "Smart Banka" has become very popular among our clients and has already captured 12.5 per cent of all e-payments that MONETA processed in December 2017. The platform created a successful base for further innovations such as the launch of Google Pay in November 2017. Within one month of introduction, Google Pay had already attracted over 11 thousand users.

During the year, we successfully launched many new digital products and functionalities. Most importantly, MONETA was the first in the Czech market to introduce a fully digital online retail current account, attracting new clients. Additionally, we have implemented more than 100 thousand pre-approved unsecured consumer loan limits and more than 17 thousand pre-approved unsecured small business limits to our existing clients. The innovation further improves the experience of our clients and increases our capacity to succeed in the market place.

We continue to further develop our digital capabilities, developing amongst other initiatives a new digital retail lending platform, with innovative methods to assess the credit capacity of new clients. The platform is now being tested in our branches.

In the last quarter, the Bank's management decided to close up to 30 branches by the end of 2018. The closures are a result of improved capacity to deliver both service and distribution through our digital platform. We believe that continued development and execution of our digital road map will enable further efficiency in the medium term.

[39] Measured on both retail and commercial segments
[40] For further details please follow our Digital distribution strategy 2018-2020 published on our web sites www.moneta.cz
[41] According to Aplikace Roku 2017

RISK MANAGEMENT

MONETA continues to invest in risk management capabilities as part of our strategy to ensure stability and sustainability. During 2017, we made significant investments in IFRS 9 capabilities and in the overall model development to quantify and manage risks. Strong and robust infrastructure has been built to manage the transition to new accounting standards successfully and holistically in the context of our overall business model.

We also continued in our strategy to monetize legacy non-performing loans inherited from our previous owner. The ratio of non-performing loans decreased from 6.3 per cent as of 31 December 2016 to 4.1 per cent as of 31 December 2017. The disposal of legacy non-performing loans generated an extraordinary gain of CZK 315 million and significantly contributed to the overall profitability of MONETA.

Overall, MONETA posted a Cost of Risk of CZK 381 million in 2017, or 32 basis points. The core Cost of Risk, excluding the disposal of legacy non-performing loans, stood at 59 basis points. The solid performance underlines management focus and dedication to the sustainability of our overall business model. The performance was also strongly supported by the benign credit risk environment we experienced throughout the past year.

CAPITAL MANAGEMENT

Throughout the year, MONETA maintained a superior capital position, closing 2017 with a capital adequacy ratio of 17.4 per cent against management's medium-term target of 15.5 per cent. Our overall risk weighted assets increased by 8.5 per cent year-on-year against an overall increase of gross performing loans of 10.8 per cent over the same period. Equally importantly, the CNB reaffirmed our capital requirement level at 14 per cent in November. The reaffirmation of our capital position states a requirement to maintain SREP capital ratio at the level of 11 per cent and 2.5 per cent conservation buffer and a 0.5 per cent countercyclical buffer. Following the CNB communication, MONETA's management confirmed the medium-term target of 15.5 per cent.

Moreover, during the second half of 2017, MONETA underwent a comprehensive inspection by the CNB. I am pleased to report that the management successfully satisfied all regulatory requests during the inspection and management does not expect any major issues or sanctions following the inspection. The result, in our view, confirms our dedication to overall sustainability, regulatory compliance and success in the transition to being a publicly listed company.

SEPARATION AND REBRANDING

During 2017 MONETA completed the separation from its previous sole owner. The separation programme was completed six months ahead of schedule and with considerable savings. The transition service agreement with the previous owner was terminated in the second quarter of 2017 without any disruption to our services.

The MONETA brand has been gaining recognition in the Czech market. After its introduction, our new MONETA brand achieved more than 34 per cent of spontaneous awareness. We consider the brand value key to our future success and we will continue to build on the results of 2017. In this context, during the past year, we also achieved stability in retail client satisfaction and a significant improvement in the rating from our commercial segment clients.

OUTLOOK 2018

In 2018 we aim to maintain dynamic growth across both the retail and the commercial segments. Our key financial objective is to return the bank's interest income to growth. We seek to reverse this year-on-year declining trend by the end of 2018. Our objective should be supported by the improving interest rate environment and continued strong performance of the Czech economy.

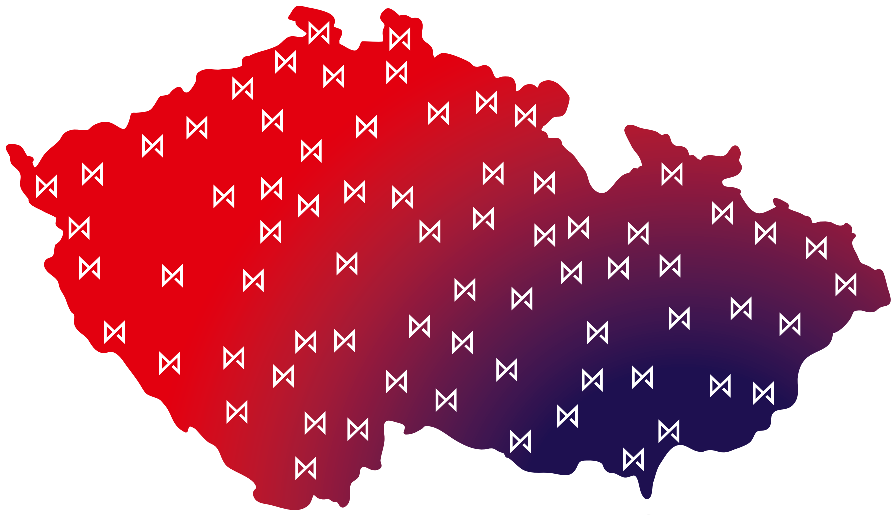
Commercially, MONETA will continue to deliver against its objective of becoming the champion for Czech households and self-employed professionals, entrepreneurs and tradesmen. We plan to make more improvements to our clients' experience with an omni-channel-based approach. We will also continue to focus on efficiency, robust risk management and value-based capital management.

Let me also express my strong appreciation to our staff and management. Our people once again have proved their ability to deliver high-quality results across the whole business.

Thus, I would like to congratulate and thank all of them.

Tomáš Spurný
CEO and Chairman of the Management Board
of MONETA Money Bank, a.s.

BRANCH NETWORK



The Bank´s network of 227 branches is well dispersed across the Czech Republic and provides coverage in many smaller cities where competition is less intense (70% of branches are located in towns with populations of fewer than 50 thousand inhabitants). The network is managed in 5 areas, 60 sales teams and 6 mortgage teams.

1. MONETA'S PROFILE

1.1 BASIC INFORMATION ABOUT MONETA MONEY BANK AND SUBSIDIARIES

Company name	MONETA Money Bank, a.s.
Registered office	Vyskočilova 1422/1a, 140 28 Praha 4 – Michle, Czech Republic
Company ID no.	25672720
LEI code	16USJ58BDV2BO5KP3C31
Legal form	Joint-stock company Registered in the Czech Commercial Register maintained by the Municipal Court in Prague in Section B under Entry No. 5403
Date of registration	9 June 1998
Share capital	CZK 511 million
Paid-up share capital	100%
Type, form and format of issued shares and their nominal value	The company's registered capital is divided into 511,000,000 fully paid ordinary registered book-entry shares with a par value of CZK 1.00 each
Number of branches	227
Number of employees	3,304
Organization units abroad	None
Telephone	+420 224 441 111
Internet	www.moneta.cz

The Group ("MONETA Group") consists of the parent controlling company MONETA Money Bank, a.s. (the "Bank"), and its controlled subsidiaries (MONETA Auto, s.r.o., MONETA Leasing, s.r.o., MONETA Leasing Services, s.r.o. and Inkasní Expresní Servis s.r.o.)

The Bank as well as MONETA Auto, s.r.o. are headquartered in Prague, with a shared services centre in Ostrava and MONETA Leasing headquarters in Brno.

Shares and share capital

The registered share capital consists of 511,000,000 fully paid ordinary registered book-entry shares with a par value of CZK 1.00 each. No shares in the Bank are owned by the Bank or its subsidiaries or on behalf of the Bank or its subsidiaries. The Bank has not issued any securities convertible into shares or any securities with warrants.

All shares in the Bank are admitted to official trading and traded on the Prime Market of the Prague Stock Exchange which is the regulated market within the meaning of Section 55 of Act 256/2004 Coll., on conducting of business in capital markets, as amended. The shares in the Bank are also traded without the Bank's consent on markets operated by RM-SYSTÉM, Česká burza cenných papírů, a.s. (on the multilateral trading facility within the meaning of Section 69 of Czech Act 256/2004 Coll., on conducting of business in capital markets, as amended), and on foreign markets – the Munich Stock Exchange, the Stuttgart Stock Exchange, the Frankfurt Stock Exchange and the Berlin Stock Exchange.

Security	ISIN	Volume	Issued as	Form	Face value	Market	Traded since
Share	CZ0008040318	CZK 511 mil	Book-entry	Registered share	CZK 1.00	PSE	6. 5. 2016

Statutory bodies

Members of the Supervisory Board as of 31 December 2017:

Name	Role	Position held from
Maria Luisa Cicognani	Chair	22 May 2017[42]
Miroslav Singer	Vice-Chairman	22 May 2017[42]
Clare Ronald Clarke	Member	21 April 2016
Michal Petrman	Member	21 April 2016
Denis Arthur Hall	Member	21 April 2016
Gabriel Eichler	Member	26 October 2017
Tomáš Pardubický	Member	26 October 2017

Members of the Management Board as of 31 December 2017:

Name	Role	Position held from
Tomáš Spurný	Chairman	1 October 2015
Philip Holemans	Vice-Chairman	20 April 2016[43]
Carl Normann Vökt	Member	25 January 2013
Jan Novotný	Member	16 December 2013
Albert Piet van Veen	Member	1 May 2017

[42] Between 24 April 2017 and 22 May 2017 member of the Supervisory Board
[43] Between 17 July 2014 and 20 April 2016 member of the Management Board

Subsidiaries and associates

Investments in subsidiaries and associates as of 31 December 2017:

Name	Registered office	Business activity	Bank's share in equity
Inkasní Expresní Servis s.r.o.	Vyskočilova 1422/1a, 140 28 Prague 4	Debt recovery services	100%
MONETA Auto, s.r.o.	Vyskočilova 1422/1a, 140 00 Prague 4	Auto financing (loans and leases)	100%
MONETA Leasing Services, s.r.o.	Holandská 1006/10, Štýřice, 639 00 Brno	Lease and rental of movables	100%
MONETA Leasing, s.r.o.	Holandská 1006/10, Štýřice, 639 00 Brno	Financing of loans and leasing	100%
CBCB – Czech Banking Credit Bureau, a.s.	Na Vítězné pláni 1719/4 140 00 Prague 4	Banking credit register	20%

Credit rating

The Bank has assigned credit rating from two agencies:

Rating agency	Long-term rating	Outlook	Short-term Rating	Long-term Rating valid since
Moody's Investors Service Ltd.	Baa2	stable	P-2	31 January 2017
Standard & Poor's Credit Market Services Europe Limited	BBB	stable	A-2	2 February 2018

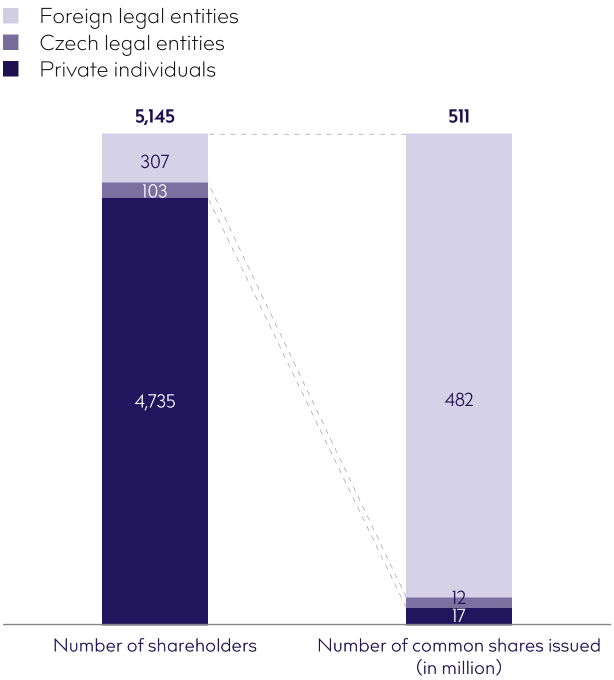
Each of Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd. is established in the European Union and registered according to the Regulation (EC) No. 1060/2009 on credit rating agencies, as amended (the "CRA Regulation"). As such each of Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd. is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (www.esma.europa.eu/supervision/credit-rating-agencies/risk) in accordance with the CRA Regulation. In choosing rating agencies, the Bank proceeded according to the obligations laid down by the Article 8d of the above mentioned regulation. The market share of each of the aforementioned rating agencies exceeds 10% on the European Union market.

1.2 SHAREHOLDER STRUCTURE

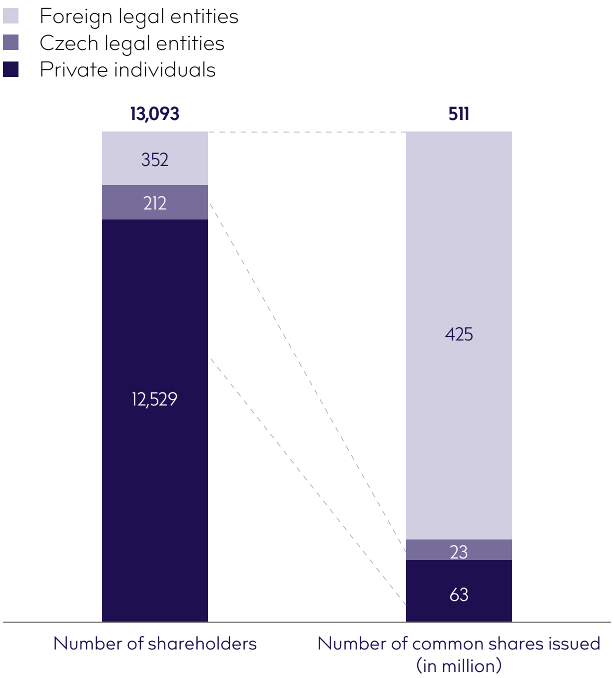
An overview of the shareholder structure of the Bank as of 31 December 2017 (as per the extract from the registry of book-entry shares obtained from the Czech Central Securities as of 29 December 2017) is shown below:

For information on (i) major shareholders of the Bank holding shares representing 1% or more of the registered share capital of the Bank as at 29 December 2017 and (ii) on shareholders who hold shares representing 1% or more of the registered share capital of the Bank according to information published by CNB as at 28 February 2018, refer to Section "Other legal requirements".

Shareholders structure as of 31 December 2016



Shareholders structure as of 31 December 2017



1.3 DIVIDEND POLICY

Subject to regulatory and corporate limitations, the Bank's target is to distribute the Group's excess capital above that required to meet the Group's internal target of the capital adequacy ratio, which is currently 15.5%. However, the internal capital adequacy ratio target is not legally binding upon the Group and is subject to change. The Bank is targeting a minimum annual dividend of 70% of consolidated net profit for the year, with such dividend increased if less capital is required to fund future loan growth, intangibles and IFRS 9 and/or decreased in the event of any accretive investment opportunity for the Bank.

In addition the Management Board intends to propose 2017–2020 cumulative dividend pay-out of CZK 11.5 billion. This will be proposed to shareholders at the General Meetings to be held in the years 2018 to 2021, not as a single dividend payment but yearly, subject to actual financial results of the Group in the years 2017 to 2020, subject to corporate, regulatory and regulator's limitations. The Management Board takes the opportunity to adjust this guidance in case of any material change of circumstances on which this guidance was based or any accretive investment opportunity for the Bank. Please see also sections "Forward-looking statements" and "Mid-term outlook".

Dividends, if any, will be paid by the Bank to shareholders in CZK. Each of the Bank's shareholders has the right to receive dividends from the Bank to the extent approved by a General Meeting.

On 24 April 2017, the General Meeting approved dividend distribution of CZK 9.80 (including withholding tax) per each of the 511,000,000 shares in the Bank.

1.4 MARKET PERFORMANCE

The shares in the Bank are traded on the Prime Market of the Prague Stock Exchange with a share exceeding 10% of the aggregate market capitalization of all companies included in the PX index (as at 29 December 2017).[44]

As at 29 December 2017, the market capitalization of the Bank amounted to CZK 42.1 billion[45] and the Bank ranked as number four in the PX index.[46] Throughout the year 2017, the average daily volume of trading in the shares in the Bank on the Prime Market of Prague Stock Exchange amounted to 1.5 million and, therefore, the shares in the Bank were one of the most liquid securities listed on the Prime Market of the Prague Stock Exchange.[47]

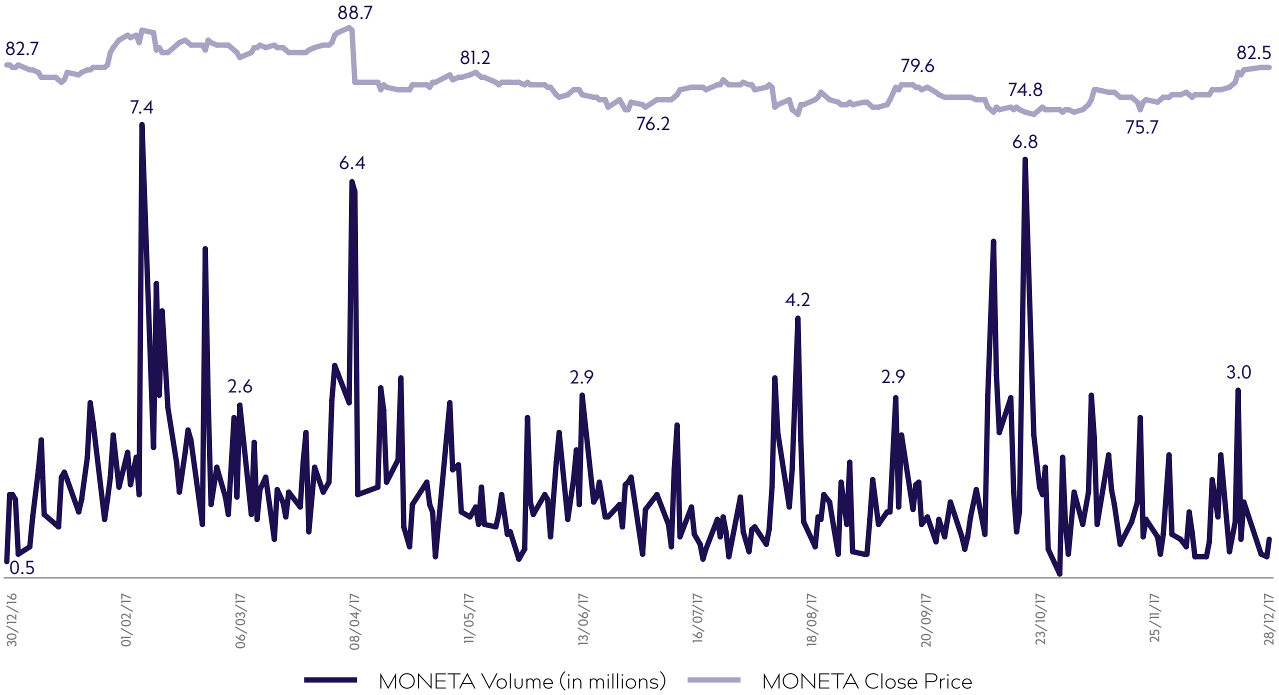
When calculated on the basis of the share price of CZK 82.40[48] as at 29 December 2017 and subject to the approval of CZK 4.1 billion dividend (proposed by the Management Board) by the Annual General Meeting to be held on 25 April 2018, the dividend yield attributable to shares in the Bank is 9.7%.[49]

Market information on shares in the Bank as at 29 December 2017, unless otherwise indicated:

Number of shares issued	511,000,000
Market capitalisation (CZK million)[50]	42,106
Earnings per share (CZK)[51]	7.68
Book value per share (CZK)[52]	50.42
Share price (CZK), Prime Market of Prague Stock Exchange	
Closing as at 31 December 2017	82.40
Closing maximum for the year 2017	88.70
Closing minimum for the year 2017	74.75

44 Calculated as percentage of the aggregate market capitalization of all companies included in the PX index (Source: Bloomberg – PRAGUE STCOK EXCH INDEX Index).
45 Calculated on the basis of the share price of CZK 82.40 as at 29 December 2017 (Source: www.pse.cz/udaje-o-trhu/akcie/prime-market/).
46 Source: Bloomberg – PRAGUE STOOCK EXCH INDEX Index.
47 Source:www.pse.cz/udaje-o-trhu/statistika/objemy-obchodu/
48 Source: www.pse.cz/udaje-o-trhu/akcie/prime-market/
49 Calculated as the ratio (expressed as a percentage) of the proposed dividend per share to the closing share price. (Source: www.pse.cz/udaje-o-trhu/akcie/prime-market/). Subject to the approval of CZK 4.1 billion dividend by the Annual General Meeting to be held on 25 April 2018 and corporate, regulatory and regulator's limitations.
50 Source: www.pse.cz/udaje-o-trhu/akcie/prime-market/
51 Calculated as Consolidated Net Profit for the Year divided by number of shares issued.
52 Calculated as Consolidated Total Shareholders Equity divided by number of shares issued.

The following chart[53] shows the development of the stock price and the volume traded.



1.5 OUTPERFORMING GUIDANCE IN 2017

In 2017, the Group successfully delivered on all key financial commitments to its shareholders as expressed in our market guidance throughout 2017.

For the year 2017, the Group expected high single digit growth of its loan book (gross performing loans) and the Group successfully managed to outperform such guidance by reaching 10.8% year-on-year growth of its gross performing loan portfolio. The strong performance in 2017 was primarily driven by growth in new volumes, supported by salesforce expansion, in particular, in the small business segment. Sales of the legacy NPL portfolio had insignificant impact on the development in the net loan book of the Group which grew by 10.6% year-on-year.

The Group generated consolidated net profit of CZK 3,923 million, significantly outperforming the initial 2017 guidance[54] of CZK 3.4 billion primarily due to a significantly lower Cost of Risk supported by a gain on legacy NPL sales. Return on tangible equity for the year 2017 stood at 16.0%, well above the initial guidance of more than 14%.

Despite the highly competitive market, the Group delivered CZK 10.3 billion operating income and fulfilled the 2017 guidance. Pricing pressure intensified in both retail and commercial segments and resulted in 130 basis points drop of yield from 7.6% to 6.3% in the year ended 31 December 2017. However, the headwinds on the net interest income were partly offset by CZK 343 million pre-tax gain on bonds sale completed.

In the course of 2017, the Group maintained tight control of the operating expenses and decreased the operating expenses by 0.7% year-on-year to CZK 4.9 billion. Despite pressure on wages of the Group's employees, an increase in the front-end personnel of the Group and book-up of the one-time restructuring cost relating mainly to the planned branch network downsizing and MONETA Leasing franchise reorganization in 2018, the Group delivered a cost base of CZK 4.9 billion, in line with its guidance for the year 2017. The Group's Cost to Income ratio for the year 2017 stood at 47.9% in line with the guidance.

The Cost of Risk had been initially estimated in the range from 100 to 110 basis points. In the third quarter of the year 2017, this guidance was revised to the range from 50 to 60 basis points based on the persisting positive macroeconomic environment and executed legacy NPL sales. The Group managed to outperform such revised guidance and reached very low Cost of Risk of 32 basis points mainly due to additional sales of legacy NPL portfolio. Excluding this extraordinary gain, the Cost of Risk amounted to 59 basis points reflecting the benign macroeconomic conditions in 2017. The Group has also succeeded in further reducing its NPL portfolio through NPL sales and write-offs and achieved NPL ratio of 4.1% as at 31 December 2017, well below the 2017 guidance of less than 6%.

[53] Source: www.pse.cz/udaje-o-trhu/akcie/prime-market/
[54] Initial 2017 guidance published on 10 February 2017

The Group has also maintained robust capitalization with CET1 ratio of 17.4%,[55] in line with the 2017 guidance which expected CET 1 ratio above 17%. This is also well above its medium-term capital adequacy target of 15.5%. The solid capital position, together with the very strong financial performance, allows the Management Board to propose shareholders for their approval 2017 dividend of CZK 4.1 billion (CZK 8 gross per share), an equivalent of 104% of the consolidated net profit of the Group for year 2017. Payment of this dividend is subject to corporate, regulatory and regulator's limitations and approval of the Annual General Meeting to be held on 25 April 2018.

1.6 MID-TERM OUTLOOK[56]

The economic outlook for 2018 remains broadly positive. The Czech National Bank in its February economic forecast predicts a 3.6% year-on-year GDP growth for 2018, driven primarily by sustained consumer demand and continuing growth of capital investments. The turnaround in the monetary policy cycle, which was initiated by CNB in April 2017 by the abolition of the exchange rate commitment and continued in the rest of 2017 by several increases of interest rates, is expected to continue in 2018, although at a slower pace.

The demand for credit is likely to slow down due to increasing interest rates. On the other hand, strong household demand, stemming from low inflation, quick growth of wages and moderate inflation, and industrial performance should provide a solid base for increasing investments and thus the need for financing. Higher interest rates and regulatory measures imposed by the CNB on the financing of housing needs might result in a further drop in attractiveness of mortgages. Overall domestic currency savings will most likely continue to increase as the CZK gains in relative value compared to foreign currencies and as the wage growth is expected to outperform the increase of household consumption.

Group's mid-term outlook

The Group aims to continue to grow its loan book at a similar rate as in 2017 with gross performing loans expected to grow by at least 9% year-on-year in 2018 and by at least 10% year-on-year in 2020. The pressure on margins and repricing of the back book of the unsecured consumer loans as well as continued pressure on net fee and commission income is likely to persist into 2018 resulting in further decline in operating income to equal or higher than CZK 9.5 billion in 2018. In relation to the operating income, the Group expects to reverse the declining year-on-year trend in the medium term and to generate at least CZK 10.5 billion in 2020, driven primarily by growth in lending, increasing interest rate environment and completion of the back book repricing of unsecured consumer loan portfolio.

The Group plans to continuously apply prudent cost management and keep the overall cost base close to the current level, with improved efficiency offsetting increased Depreciation and Amortization charges of additional investments. The Group aims to maintain cost base around CZK 4.9 billion in 2018 and around CZK 5.1 billion in 2020.

Cost or Risk is projected to maintain its positive trend and remain very low at 45-55 basis points, supported by continuing monetization of legacy NPLs. The cost of risk is expected to normalize in the medium term and reach 70-80 basis points in 2020.

For the year 2018, the Group aims to achieve consolidated net profit of at least CZK 3.4 billion[57] while maintaining return on tangible equity at or above 14%. For the year 2020, the consolidated net profit is expected to reach at least CZK 3.8 billion while keeping return on tangible equity of at least 15%.

The effective tax rate is estimated at around 17% in 2018, positively impacted by the deduction of one-time IFRS 9 charge of CZK 695 million booked in equity as at 1 January 2018, subject to final guidance from local tax authorities. The effective tax rate is expected to remain at around 20% in the medium term, subject to changes in local tax legislation on corporate profit tax.

The dividend policy remains unchanged with the minimum pay-out ratio of 70% of consolidated net profit and the management intends to propose 2017–2020 cumulative dividend pay-out[58] of CZK 11.5 billion, subject to legal and regulatory limitations.

[55] Does not include net profit for the year 2017

[56] See chapter Forward-looking statements including material assumptions for the 2018-2020 guidance.

[57] At ETR 17% subject to final guidance from local authorities

[58] To be proposed to shareholders at General meetings to be held in 2018-2021, not as a single payment, but yearly subject to actual financial results in the years 2017-2020; subject to corporate, regulatory and regulator's limitations and approval of the Annual General Meetings

PREFERRED PARTNER OF CZECH HOUSEHOLDS

The Bank provides a full retail banking proposition covering all borrowing, saving/investing and transactional needs as well as a wide range of insurance needs. The bank has a market leading digital proposition for personal clients built around secure mobile and internet banking platforms.

2. STRATEGY AND RESULTS

2.1 MACROECONOMIC ENVIRONMENT

In 2017, Czech macroeconomic environment outperformed even the strong 2016's development. Economic growth remained broad-based, with support from both domestic and foreign demand. The economy was influenced by a turnaround in the monetary policy cycle in 2017, which, after a period of several years, resulted in a free-floating currency and a start of interest rate increases.

The Czech economy grew 4.5%[59] in 2017, i.e. at a higher pace than in the previous year (2.3%[60] year-on-year). This was the result of increased consumption of domestic households, which was 4.3%[60] higher year-on-year and contributed to the full year economic revival comparably to 2016. Strong domestic demand was also reflected in the retail trade, which increased by 5.6%[61] year-on-year in 2017. Excellent financial conditions for Czech households were further supported by strong growth in average gross real wages (5.3%[62] higher year-on-year in the fourth quarter of 2017) and low unemployment, which dropped further to 3.8%[63] in December 2017 (compared with 5.2%[63] in December 2016).

The economic performance, growing wages and low unemployment resulted in growing inflation, which reached 2.5%[64] on average in 2017, the highest level in five years. Given the higher inflation and strong economic output, the CNB terminated its loosened monetary policy and took action to restrict price growth. As the first step, the CNB abandoned the exchange rate commitment to maintain the Czech Koruna at or around the 27 Korunas per euro on the 6th April 2017[65]. The measure was followed by two base interest rate increases, further tightening monetary policy and thus the 2-week repo rate finished the year at 0.5%[65]. As a result, Czech economy faces a setting that it has not experienced since November 2013[66].

The beginning of the new monetary policy cycle influenced the Czech Koruna, which appreciated significantly in relation to the euro and affected the balance of Czech foreign trade. The trade balance surplus in 2017 was approximately CZK 153 billion[67] and was approximately CZK 11 billion[67] lower than the previous year. This was a result of quickly growing imports (6.3% year-on-year in the whole 2017[67]), which outperformed the increase of exports (year-on-year growth of 5.6% in the whole 2017[67]).

The economic conditions remain highly favorable, however a deceleration of the economic growth will most probably be observed[68] in 2018 as the 2017 performance was extraordinarily strong. The main risks to Czech economy, although subdued, are external (geopolitical pressures, Brexit) with an exception in the local labor market, which with its extremely low unemployment level, indicates a potential overheating of domestic production.

2.2 MARKET DEVELOPMENT

Due to positive economic developments in the country, the Czech banking sector has maintained the growing trend in both loans and deposits, up 6% and 12% respectively year-on-year in 2017[69]. Despite the growth in balances most interest rates continued to decline because of competitive pressure and an over-liquid market.

The lending market continued to show steady growth in both retail (up 8% year-on-year) and commercial (up 4% year-on-year) segments[68]. The increase in retail loans balance was recorded in instalment loans, while revolving facilities continued to decrease. On the other hand, the growth of the commercial segment was broad-based and came from all subsegments[69].

[59] Source: The Czech Statistical Office, the "GDP resources and uses - 4th quarter of 2017" report
[60] Source: The Czech Statistical Office, the "GDP resources and uses - 4th quarter of 2016" report
[61] Source: The Czech Statistical Office, the "Retail trade - December 2017" report
[62] Source: The Czech Statistical Office, the "Average wages – 4th quarter of 2017" report
[63] Source: The Ministry of Labour and Social Affairs, the monthly unemployment statistics
[64] Source: The Czech Statistical Office, the "Consumer price indices - inflation - December 2017" report
[65] Source: The Czech National Bank, CNB Board decisions, 2017
[66] Source: The Czech National Bank, CNB Board decisions, 2013
[67] Source: The Czech Statistical Office, the "External trade - December 2017" report
[68] Source: The Czech National Bank, CNB Macroeconomic forecast, February 2018
[69] Source: CNB ARAD monthly report banking sector, residents without building societies

The total deposit balance growth was driven by both increasing commercial deposits (up 15% year-on-year) and retail deposits (up 9% year-on-year). Deposits on demand continued to grow at the expense of term products[69].

The growth of both loans and deposits is likely to decelerate in 2018[70], nevertheless the growth will still outperform nominal GDP growth. The attractiveness of mortgages will be lower due to higher residential real estate prices and new regulatory measures introduced by the CNB. The economic performance will keep solid growth of savings mirroring growing wages and low unemployment level; however, both the outflow of the speculative liquidity and the transfer of some public institutions' deposits to the CNB might partially offset the growth of banking deposit base than recorded in the previous years.

The banking sector was under strong competitive pressures throughout whole 2017 as market average interest margins measured by net interest income to net loans were below the 2016 level in the first three quarters of 2017. Total market operating income declined by 4.7%[71] year-on-year reflecting mainly the yearly drop of non-interest income which was affected negatively by a high comparison base versus 2016 (influenced by banking sector's gain from VISA shares sale in 2016). Net interest income growth remained subdued at 0.6%[71] year-on-year at the end of third quarter of 2017 as the latest increase of interbank interest rates have not materialized yet in the improvement of last available interest margin data. The favourable economic environment pushed the costs of risk significantly down by nearly 80% year-on-year in the third quarter of 2017 and helped preventing the Czech banking sector's net profit from falling by even more than the 0.7%[71] recorded. Finally, the annualized return on equity measured by net profit to Tier 1 capital deteriorated below 18%[71] in 3Q 2017 compared to the same period of the previous year.

Interest bearing assets represented by market net loans increased nearly by 8%[71] year-on-year in the third quarter. However, the significant growth of total assets (24% year-on-year) was driven mainly by other assets spurred chiefly by repo operations. The final assets to Tier 1 ratio therefore improved from 14.1 (3Q 2016) to 16.0 in 3Q 2017[71]. NPL balances[71] continued to decline by 19% year-on-year as the stock of receivables in default dropped by nearly 17%. Nevertheless, core coverage remained almost unchanged slightly below 50% level.

The capitalization of the Czech banking sector remained strong as Tier 1 capital increased by nearly 9% year-on-year reaching almost CZK 430 billion[71] in 3Q 2017. The regulatory Tier 1 capital to risk weighted assets therefore improved slightly (compared with the third quarter of 2016) to 16.95%.

2.3 REPORT ON BUSINESS ACTIVITIES[72]

2.3.1 Overview

Moneta is a leading retail and expanding small business bank in the Czech Republic. It has a well-established position in Czech household lending and a growing position in small business lending. It is regulated by the Czech National Bank, holds a universal banking licence and provides a range of retail and SME-focused financial products and services.

The Group operates through a well-dispersed network in the Czech Republic, comprising of 227 branches, a full-service contact centre and 668 ATMs (as at 31 December 2017) giving coverage of the entire country. The Bank is particularly strong in smaller cities and towns relatively underserved by other banks. In addition, the Group benefits from extensive third-party distribution through retail broker relationships, over 1.2 thousand auto dealers and more than 4 thousand leasing partners (as at 31 December 2017). We have also established a leading position in the development of digital distribution via our secure mobile and internet banking platforms as well as via our public website for new-to-bank clients. As at 31 December 2017, the Group served more than 1 million retail and commercial customers, or approximately 9% of the Czech population.

The Group has two primary segments: retail and commercial. The segments manage product and service propositions differentiated for their respective clients however there is considerable overlap between the client bases and synergy in terms of the physical and digital infrastructure of the Bank.

The retail division served almost one million customers and comprised CZK 60.8 billion net performing loans and receivables as at 31 December 2017, representing approximately 50% of the Group's total net performing loans and receivables. The retail banking proposition includes the following key products:

- Deposit products: current accounts, savings accounts, term deposits and transactional banking products including payment services and debit cards;
- Lending products: consumer loans, credit cards, overdrafts, mortgages and auto loans;
- Complementary third-party products such as insurance and investment funds.

The commercial division served approximately 95 thousand customers and comprised CZK 61.0 billion

[70] Source: CBA January Outlook
[71] Source: CNB ARAD quarterly mandatory disclosures, banking sector without building societies
[72] Figures in charts may not add up to total due to rounding differences.

net performing receivables as at 31 December 2017, also representing approximately 50% of the Group's total net performing receivables. The commercial banking proposition includes the following key products:

- Deposit products: current accounts, savings accounts and term deposits;
- Lending products: term loans (including real estate loans), operating financing loans and leasing products; and
- Other complementary products such as domestic and foreign payments, insurance, treasury and trade finance products.

The Bank reports its primary retail and commercial businesses as separate operating divisions in its financial statements along with a third operating segment, "Treasury / Other". The retail business provides banking services to individuals, with a focus on the mass market. The commercial business provides banking services primarily to SME clients with particular focus on small businesses and entrepreneurs.

The Bank's strategy is to be the digital leader in the Czech banking market, offering speed and convenience in both sales and service. At the same time, we recognise the need to maintain an adequate physical presence although this is being optimised based on changing customer preferences and behaviour. The Bank is diversifying its overall product mix, building new revenue streams from insurance and investments and developing a leading retail and small business banking franchise in the Czech Republic.

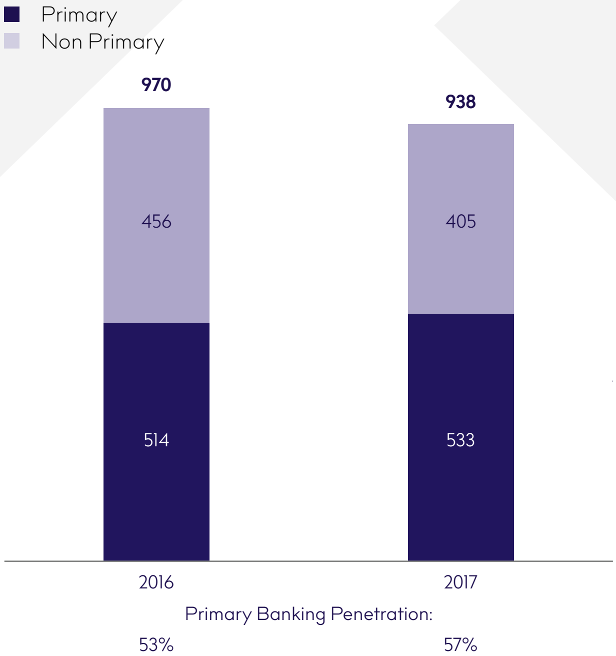
2.3.2 Retail segment business performance

The Bank provides a full retail banking proposition covering all borrowing, saving/investing and transactional needs as well as a wide range of insurance needs. The bank has a market leading digital proposition for personal clients built around secure mobile and internet banking platforms. The Bank has a retail market share of 19.2% in total unsecured loans outstanding, 1.8% in retail mortgages and 4% in retail current account balances in the Czech market[73].

The Bank successfully executed its key long-term strategic priorities in 2017 and delivered strong results.

As at 31 December 2017, the Bank served 938 thousand retail clients, down 32 thousand versus 31 December 2016, which was mainly a result of the closure of 47 thousand client relationship following write-off of legacy NPLs and another 4 thousand of account closures. Net of this effect the retail client base grew by 19 thousand on the back of improving acquisition (56 thousand new clients on-boarded during 2017, 56% via deposit products and 44% via lending products). At the same time the primary banking base grew by 19 thousand clients or 3.8%. The Bank continued to enjoy high levels of customer loyalty and satisfaction, confirmed by a net promoter score which increased to 30, one of the highest amongst the established banks, compared to 28 in 2016. Also, 61% of customers have had a relationship with the bank for longer than 8 years. Our reward program on payment cards, "bene+" is the largest in the Czech Republic and serves to support both loyalty and acquisition of new clients.[74]

Retail Banking Client Portfolio Development
('000 clients)[75]



The Bank's retail deposit portfolio grew 13% year-on-year, from CZK 73.2 billion as at 31 December 2016, to CZK 83.0 billion as at 31 December 2017. The growth was driven primarily by increasing balances on existing accounts but also by growth in the primary banking client base. Cost of funds on retail deposits remained low at 0.27%, 8 basis points below the market average[76].

The retail net performing portfolio grew by 14.7% year-on-year, from CZK 53.0 billion as at 31 December 2016, to CZK 60.8 billion as at 31 December 2017. The portfolio growth was driven by strong development of new volume origination in instalment products.

2.3.2.1 Retail segment strategic priorities delivery

MONETA Money Bank continues to build a strong and popular Czech brand. The Bank is positioned uniquely as

[73] Source: CNB ARAD according to CNB definitions. Consumer loans = non-purposed and purposed consumer loans, debt consolidation, additional loan and American mortgages, Deposits excluding non-residents and building savings deposits.
[74] Source: Measured by number of partners (merchants) and their sales points, i.e. 330 partners and 1,709 sales points as at December 31, 2017.
[75] Primary banking client (PB) = client with credit income on current account more than 7 thousand CZK at least 2 times in last 3 months.
[76] Source: CNB ARAD.

a challenger brand with an established, profitable core business and market leading digital capabilities.

The Bank´s brand is built around trust, stability, innovation, fairness and transparency. Brand awareness (spontaneous) continues to grow following the rebranding in 2016, reaching 35% in the last quarter of 2017 whilst consideration rate rose to 40%.

The Bank's retail business continues to focus on four key strategic priorities which supported the positive development through 2017:

- Safe asset growth in both unsecured consumer and mortgage loans
- Digital transformation to become the digital leader in the Czech banking market
- Development of third-party product distribution to drive fee income
- Optimisation of the physical branch and ATM networks to complement the digital strategy and maintain cost efficiency

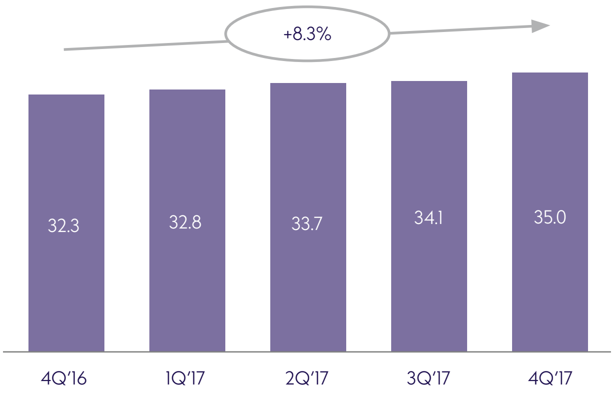
2.3.2.2 Loan portfolio growth

In 2017, the Group built on its strong position in the retail lending market with net performing retail loan portfolio growth of 14.7% year-on-year and reaching CZK 60.8 billion by the year end. Growth was driven by solid development of the net consumer loan portfolio up 8.3% year-on-year, reaching CZK 35.0 billion and exceptionally strong development of the mortgage net portfolio which was up 30.6% year-on-year, reaching CZK 20.3 billion. Auto lending also contributed to the retail growth with net balances up 24.8% year-on-year. Positive development of instalment products was partially offset by 13.3% year-on-year decline in the credit card and overdraft net balances.

Growth in the consumer loan portfolio was driven by a combination of new business volume growth, 26% higher year-on-year, taking 21.2% market share, and a marked improvement in external attrition. External attrition was 15.5% lower year-on-year as a result of our focus on retention through a combination of predictive modelling, reactive strategies and win-back programs. The positive development of new production was driven by strong marketing communication, increasing success in driving lending through digital channels, with online volumes (online initiated and fully online) increasing 50.7% year-on-year to CZK 4.8 billion, and improved price positioning. We continued to face intense competition in the market which was reflected in new business pricing which declined from 11.0% in 4Q'16 to 8.5% in 4Q'17 as we aligned our pricing to market levels. Our strategy is to maintain pricing at or marginally above market levels. However, we have at times dropped below the market due to repricing of some of our most rate-sensitive clients to prevent external attrition, most notably in 4Q'17.

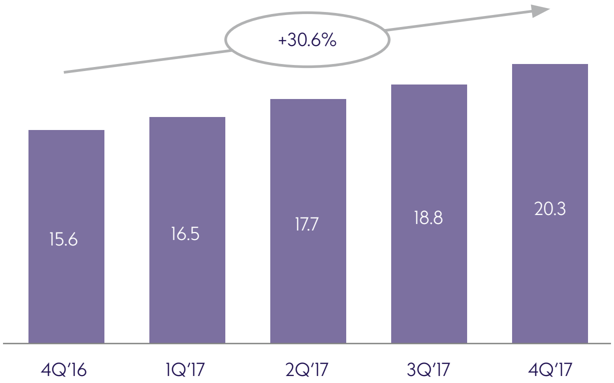
Going forward we anticipate being able to maintain pricing close to market levels as the back book is already repriced to levels much closer to the market.

Net unsecured consumer loans



Mortgage new business volumes increased 148.7% year-on-year, with market share more than doubling to 4.3%[77] in 2017. Strong development of the Bank's mortgage business was driven by very strong development of the mortgage broker channel and continued development and expansion of the internal sales force as well as more competitive price positioning relative to the market. The Bank further improved its unique flexible mortgage product with a deposit balance "off-set" and introduced longer term fixation options (7 and 10 years). Reduced mortgage attrition also contributed to the overall growth, as the result of the establishment of a focused mortgage retention program building on the success of our consumer loan retention initiative.

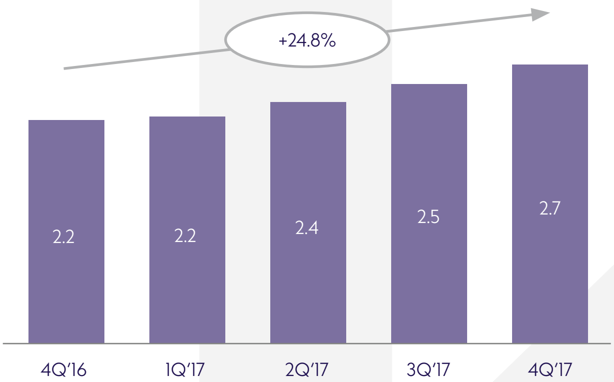
Net mortgage balance



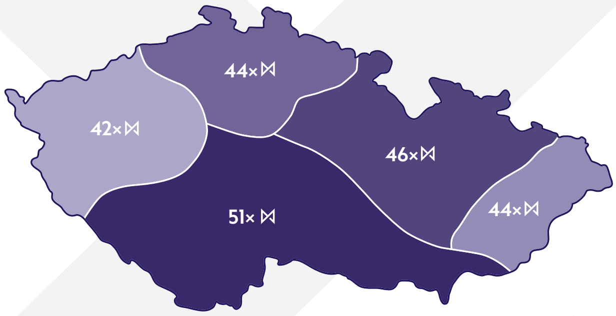
In line with other instalment lending products, 2017 was also a successful year for MONETA Auto retail lending. Supported by a favourable macroeconomic environment MONETA Auto retail lending delivered 24.8% net balance growth to CZK 2.7 billion when compared to 2016, driven by double digit new volume growth of 29% year-on-year.

[77] Source: Hypoindex.

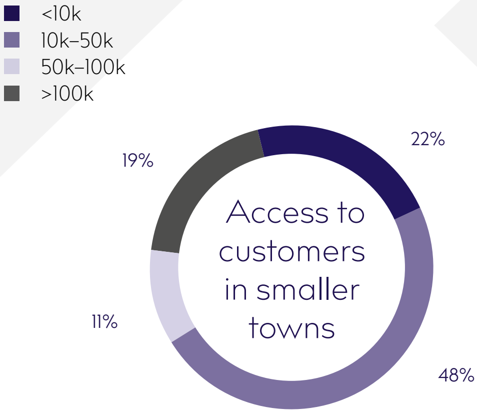
Auto net lending balance (CZK bn)



Branch network regional distribution

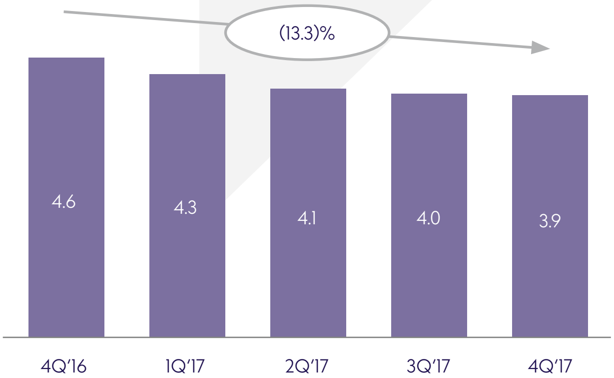


Branch network distribution by city population



We continued to see decline in the credit card and overdraft net outstanding balances, down 13.3% year-on-year to CZK 3.9 billion as customers take advantage of the strong economic environment and low interest rate to repay or refinance on to lower cost consumer loans.

Credit card & overdraft net draw-downs



2.3.2.3 Optimisation of the physical branch and ATM networks

The Bank´s network of 227 branches is well-dispersed across the Czech Republic and provides coverage in many smaller cities where competition is less intense (70% of branches is located in towns with populations of fewer than 50 thousand inhabitants). The network is managed in 5 areas, 60 sales teams and 6 mortgage teams. In addition, the Bank has a broad third-party distribution for mortgages, auto loans and leasing and distributes products and services through online channels.

To support the strategic goal to increase its market share in mortgages, in 2016 and 2017, MONETA Money Bank opened 15 mortgage centres located in the main regions. The Bank has a sales force of 74 mortgage bankers as at 31 December 2017, operating in specialised mortgage centres or directly at branches.

In 2017, as part of MONETA Money Bank´s strategy to become Czech banking digital leader, the Bank undertook a review of the current branch network with objective of optimising it as our client base becomes increasingly digital. As the result of this review we have started a program of branch relocations and refurbishments and identified up to 30 branches for closure, out of which 5 were already closed in 2017. The Bank invested into the development of a new modern branch design which will be rolled out across the network progressively with 16 branches converted during 2017. By 2020, the Bank aims to convert the majority of its branches into the new retail and small business design and further continue in branch location optimization to support the digital strategy. Our objective is to build the best branches in the best locations providing excellent advisory on high value products and services whilst optimising for cost in an increasingly digital market.

In addition to the branches MONETA Money Bank´s clients have at their disposal the 4th largest ATM network in the Czech Republic comprising of 668 ATMs (as at 31 December 2017), processing on average over 1.77 million cash withdrawals per month. ATM locations are well-dispersed across the country with respect to branch location and population distribution. The Moneta ATM network covers all cities with population above 8,500 inhabitants and many smaller cities.

In 2017, 22 relocations were undertaken to further increase ATM accessibility and focus on high traffic areas, taking into consideration network profitability. Additionally, Bank installed 42 newly located ATMs to cover client needs.

The Bank continued the modernisation of its network – 136 ATMs were upgraded to increase data and physical security, and to enable new services such as contactless withdrawals, customer selection of banknotes and fast withdrawals. By the end of 2017, there were 307 contactless ATMs in operation and 387 ATMs allowing customer selection of banknotes. The Bank also improved the design and visibility of 87 of its ATMs.

In 2018, further improvements are planned, including the expansion of contactless ATMs and customer selection of banknotes, new automated cash deposit ATMs and increased presence in high traffic areas.

2.3.2.4 Digital Transformation

In 2016, the Bank launched its digital transformation programme with the aim of becoming the digital leader in the Czech banking market. During 2017 the programme was dramatically scaled to accelerate delivery. The program is focused on three key strategic pillars which support the long-term development of the Bank:

1. Drive credit growth through digital channels
2. Reverse the decline in the active client base
3. Build net fee income streams through the development of insurance, asset management and foreign exchange services.

Drive credit growth through digital channels

In 2017, CZK 4.8 billion of consumer loans were originated online, reaching 17.9% share of the Bank's consumer loan production in 2017. A major overhaul of online loan origination process drove a 50.7% year-on-year increase in online sales of unsecured consumer loans.

The Bank is building digital credit distribution using two complementary approaches: simple pre-approved loan applications for existing clients via secure internet and mobile banking applications and streamlined fully online underwriting for new-to-bank clients via web, third parties and digitally enabled branch processes.

In September 2017, MONETA Money Bank launched a pre-approved unsecured loan proposition via mobile and internet banking for existing clients. Over 100 thousand clients now have limits available which can be drawn via a simple five step process via mobile or internet banking with disbursement in as little as 5 minutes. Initial results are promising. At the end of 2017, there were CZK 19 billion of pre-approved unsecured loan limits made available to our clients via this simple fully online process. We are now focused on increasing the number of limits available as well as the size of the limits whilst maintaining the risk profile of our business.

At the end of 2017, the bank launched a pilot of a new tablet-based digital process for origination of new-to-bank loans via our branches. The process has been dramatically shortened and includes the capability to obtain evidence of income directly from an account held at almost any major bank in the Czech Republic via "screen scraping". Initial feedback from the pilot has been positive and we expect to use this process as the foundation for all of our new to bank consumer lending through branches, online and via third parties.

Reverse the decline in the active client base

To support the retention and growth of our active client base we aim to deliver market leading mobile and internet banking capabilities to allow our clients to carry out everyday banking with the highest levels of ease and convenience. In 2017, the Bank maintained top quartile internet banking penetration of its client base. 86% of the Bank´s retail clients are enrolled in internet banking, with 45% of retail clients being active internet banking users (66% of primary banking clients).

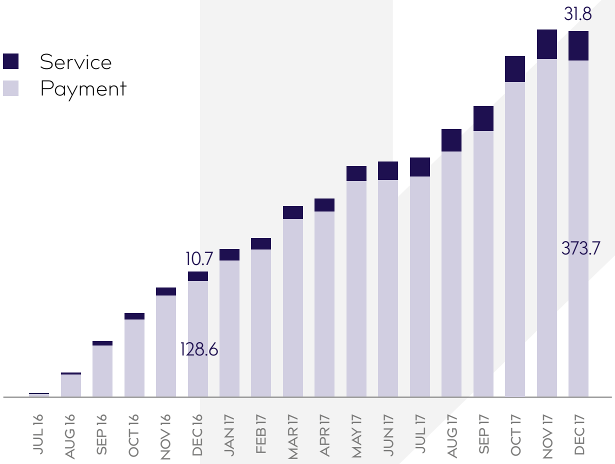
Our daily banking strategy is focused on mobile as the channel increasingly preferred by clients. In 2016 we introduced our "Smart Banka" mobile banking platform with development and enhancement of this platform continuing through 2017. By the end of 2017 the platform had 187 thousand activated users and has consistently attracted the highest customer ratings in both Google and Apple app stores amongst banks in the Czech Republic. The application has also received external recognition winning "Best Mobile Application 2017" out of 750 applications across the Czech and Slovak Republics and "Financial Product of the Year 2017" from the major online finance portal Finparada. The application is being continuously improved based on clients' feedback. In 2017, new features and products were introduced, such as pre-approved loans, foreign currency account and card, travel insurance, currency exchange in real time (FX Money), Touch ID support or QR code payments.

In June 2017, MONETA Money Bank became the first bank in the Czech market to successfully launch a fully digital current account mobile onboarding process. The Bank was also the first bank to support iPhone X and Face ID for login and transactions confirmation.

In November 2017, MONETA Money Bank was the only major bank in the Czech market to launch mobile payments via Google Pay. As of 31 December 2017, there were more than 11 thousand clients using mobile payments, who executed over 80 thousand transactions with a total volume of CZK 38.6 million.

Smart Banka activations (in thousand)

Smart Banka transaction volumes (in thousand)



In 2017, MONETA Money Bank further worked on a redesign of its external websites and started the migration to a new web platform enabling content personalization and targeted communication with clients. Traffic on the Bank's primary site (moneta.cz and m.moneta.cz) remained stable and generated more than 1 million visitors in December 2017.

In the first half of 2018 the Bank will begin rolling out a new engaging public website with a fresh design, enhanced customer journeys, personalized content and targeted online sales.

2.3.2.5 Third party products distribution

During 2017, the Group continued to expand the range of insurance products offered to its clients with distribution income from these products increased 9.6% year-on-year to CZK 396 million, with majority of the income traditionally generated in retail segment.

Retail insurance income increased by 11.1% year-on-year to CZK 362 million driven by the expanded life and non-life product range introduced during 2016 and 2017. In 2017, the Bank added motor insurance and short-term travel insurance to its offering and developed the capability to sell short term travel insurance via the mobile and internet banking platforms. The Bank currently distributes products from five partners including BNP Cardif, MetLife, NN and Allianz and it is our intention to continue to expand the range of products and providers in order to offer more choice for our clients.

In investment funds products, in 2017, MONETA Money Bank delivered more choice and value to its clients. The Bank acts as investment funds distributor, cooperating with multiple providers offering funds on a non-advised basis through network of our bankers as well as through our internet banking platform. By providing simple, solid, best-in-class products for mass-market customers, the Bank achieved 12% year-on-year growth in assets under management. Increased share of more dynamic and high-yielding funds within middle risk categories further contributed to investment funds commissions income growth of 83% year-on-year. The number of unique clients who invested in investment funds distributed by the Bank reached 25.1 thousand as at 31 December 2017, growing by 12.5% year-on-year. The Bank fully implemented all requirements of the new MIFID 2 and MIFIR regulations in advance of the effective date of 3rd January 2018.

2.3.3 Commercial segment business performance

The Group's commercial division provides a full range of commercial products to clients from all segments of the market with a focus on small businesses. Out of a total of approximately 95 thousand customers, there were 74.5 thousand commercial who had current accounts, with 44 thousand also borrowing from the Group, and 5.4 thousand holding a savings or term deposit account. The total number of customers remained rather stable year-on-year, growing by 1.3% including customer record write-offs. The number of active clients grew by 4.6% to 71 thousand customers.

The Group's commercial division has national coverage, with commercial clients supported by network of 227 branches. The Group had 159 dedicated small business segment bankers at 125 branches as at 31 December 2017. The division also has experienced team of 155 relationship managers with expertise in serving SME customers, dedicated team of Leasing sales representatives and smaller team of bankers for real estate clients. Moneta Auto's products are distributed through a wide network of car dealers.

The Bank's commercial deposit balance totalled CZK 48.5 billion as at 31 December 2017 up from CZK 42.4 billion as at 31 December 2016. The Bank fully offset adverse effect of a new regulation requiring specified state-controlled institutions to transfer funds to Czech National Bank and a fee imposed in 2016 on balances exceeding CZK 100 million.

The overall commercial portfolio comprised CZK 61.0 billion net performing receivables as at 31 December 2017 representing 50% of the Group's total net performing receivables and was up from CZK 56.7 billion as at 31 December 2016. The growth was driven largely by a strong performance in SME segment underpinned by performance of agriculture, small business as well as Moneta Auto's performance, albeit partially offset by weaker performance of Moneta Leasing.

2.3.3.1 Delivering strategic priorities in the commercial segment in 2017

MONETA Money Bank Group remained focused on growing its presence within the SME and small business commercial segments. While the SME segment, and the agriculture industry in particular have traditionally been targeted by the Bank, in 2017, the Group focused on further developing its small business capabilities and pioneering digital transformation in the segment.

Key commercial banking strategic priorities in 2017 were fully aligned with the Group's overall strategy to become a leading provider of services to small businesses and SMEs through a truly national network of specialized bankers as well as through innovative digital servicing channels. The key priorities in the commercial segment are following:

- Further develop small business segment capabilities
- Pioneer digital transformation for SME and small businesses
- Grow SME lending portfolio
- Keep strong presence in agriculture

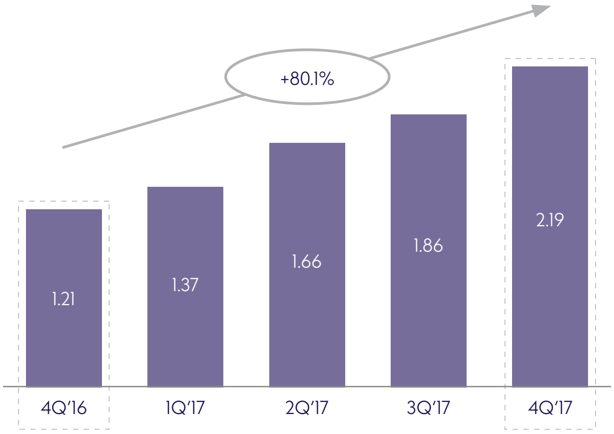
2.3.3.2 Further develop small business segment capabilities

The Group remained focused on developing capabilities to become a market champion in servicing small businesses through its proprietary servicing model. The effort comprises mainly of changes in physical distribution, development of new products as well as developing digital distribution channels.

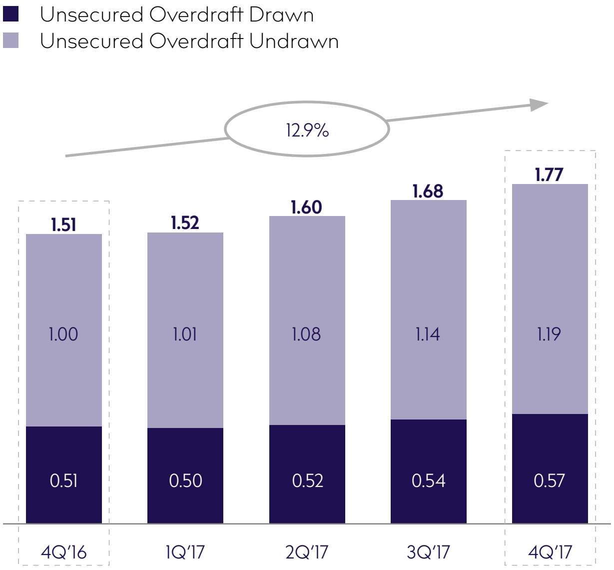
In 2017, the number of dedicated small business bankers grew from 102 as at 31 December 2016 to 159 as at 31 December 2017, almost reaching the intended full capacity. The Group intends to focus on sales force training and sales force effectivity management to further increase the physical distribution capacity going forward combined with strong digital presence. New business volumes of key unsecured lending product for the segment – Unsecured instalment loan - were up 155% year-on-year, while number of newly opened Unsecured business overdraft facilities increased by 107% year-on-year. The Group also strongly focuses on growing its active customer base through increase in new client acquisitions and retention of current portfolio. Number of newly opened current accounts grew by 64% year-on-year and number of active customers increased by 4.6% year-on-year from 68 thousand to 71 thousand.

To strengthen the value proposition to the segment, the Group was also active in launching new products. The Group introduced credit card for small businesses, business mortgage, new premium current account bundle and foreign currency debit card. The Group intends to further explore fee generating, high value-added products and services to offer to the segment.

Small business net instalment lending balance (CZK bn)



Small business net overdraft draw-downs (CZK bn)



Year-on-year growth rate represents growth of drawn net loan balance

2.3.3.3 Pioneer digital transformation for SME and small businesses

The Group sees pioneering digital transformation for SME and small business customers as pivotal for growing commercial distribution capacities as well as for positioning the Bank for the future. In 2017, MONETA actively explored opportunities for both, the small business and the SME segments with the aim to bring innovative digital servicing model to the market.

The digital solutions for commercial clients introduced in 2017 include leading fully digital lending process to unsecured business loans for existing clients, number of innovative features in the mobile banking platform and acceptance of electronic documentation in the processing of SME loans.

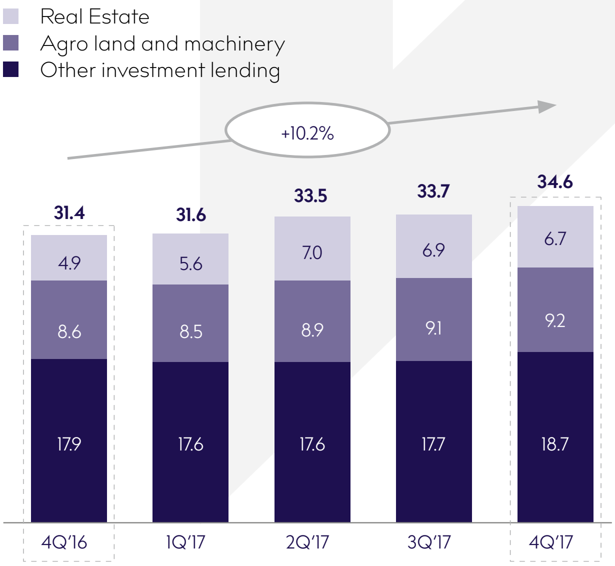
The Group also invested in preparation for digital transformation of other processes.

2.3.3.4 Grow SME lending portfolio

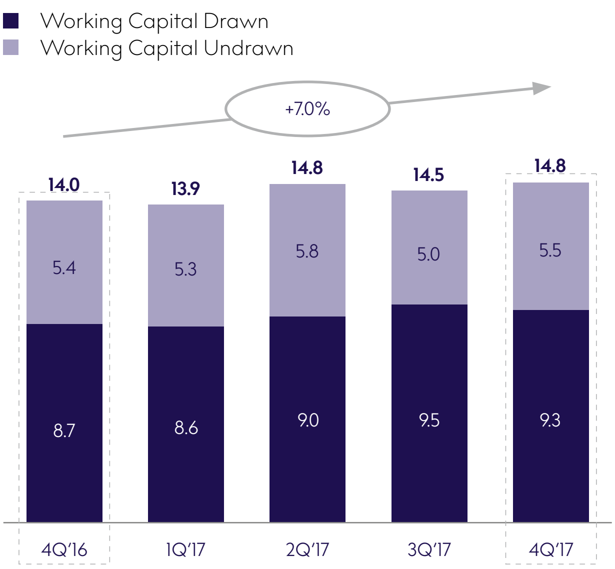
While the Group remains focused on building small business capabilities, maintaining healthy growth of the SME segment remains vital to a strong commercial performance. To support the growth, the Group actively explored cross-selling opportunities between the segments and within the Group.

Strong results of the Group's commercial division were largely driven by performance of the SME segment underpinned by excellent results in agriculture and real estate. Investment loan new business volumes were up 9.6% year-on-year, while net balances grew by 10.2% (CZK 3.2 billion) year-on-year. Our portfolio of Working capital net loans grew by 7.0% year-on-year reaching CZK 9.3 billion as at 31 December 2017.

Net investments loans balance (CZK bn)

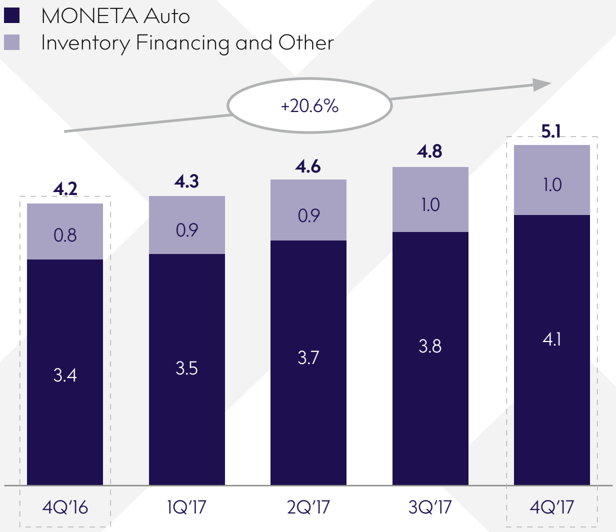


Working capital limits & portfolio balance (CZK bn)



Year-on-year growth rate represents growth of drawn net loan balance

Net auto & equipment loans (CZK bn)



2.3.3.5 Keep strong presence in agriculture segment

The Group has a long-standing and stable position in financing of the Czech agriculture sector with a market share of over 30%. The Group focuses on financing solutions for purchase of agricultural equipment, investments in modernizations of farms' production technologies and investments in production facilities. The Bank provides farmers with a special product to finance purchase of agricultural land on advantageous conditions. This product was awarded the third place in "Zlatá Koruna" award in the Business Loans category in 2017.

As in the previous year, the Bank was the general partner of "Zemědělec roku 2017" competition and strongly participated in traditional Czech trade fair "Země živitelka". In addition to this, the Bank has participated in many regional events related to agriculture.

Portfolio of loans to the agriculture sector remains healthy, however, competitive pricing pressures are present in the market.

2.3.4 Treasury/ Other

The Group's treasury product offering comprises FX spot, FX forwards and FX swaps in a range of currencies (CZK, EUR, USD, GBP, CHF and other), with a range of settlement dates and an average monthly sales volume of CZK 1.6 billion in the year ending 31 December 2017 up from CZK 1.3 billion in 2016. The Group does not engage in speculative trading.

The Group also has a trade finance offering to support its commercial customers active in both domestic and foreign trade. Its main areas of focus are customers in construction and industry sectors. The products offered include bank guarantees, letters of credit and documentary collections.

Within its Treasury/Other segment, the Group invests free liquidity into safe securities such as Czech government bonds or short-term European commercial papers and engages in opportunistic reverse repo operations. Net income from financial operations amounted to

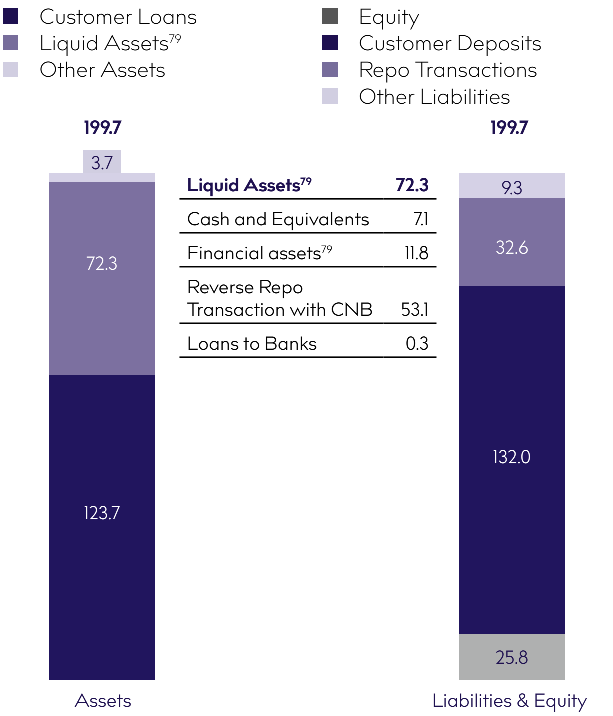
CZK 709 million in 2017 (CZK 598 million in 2016). It includes a gain of CZK 343 million pre-tax from the bond sale in 2017 (in 2016 it includes a gain of CZK 279 million pre-tax from the disposition of VISA share and the sale of the minority share in the Prague Stock Exchange).

2.4 GROUP FINANCIAL REVIEW[78]

2.4.1 Statement of financial position analysis

The Group maintains a strong, highly liquid, and conservative balance sheet. Total net assets amounted to CZK 199.7 billion as at 31 December 2017 representing an increase of CZK 50.4 billion, or 34%, compared to 2016. This is primarily driven by opportunistic externally funded repo operations with total impact of such amounting to CZK 29.4 billion as at 31 December 2017, and growth in the customer loan portfolio (up CZK 11.8 billion year-on-year).

Balance Sheet influenced by repo transactions (CZK bn)



Liquid assets

As evidenced by the liquidity coverage ratio (LCR) of 183%, the Bank maintains an excellent liquidity position – well above the regulatory requirement of 100%, effective from January 2018. The Liquid assets of CZK 72.3 billion as at 31 December 2017 consist primarily of CZK 53.1 billion in repo transactions, CZK 7.1 billion in cash and CZK 11.7 billion[79] in Czech government bonds, with excess liquidity reaching[80] CZK 16.1 billion. Balances with the central bank (including repo transactions) more than tripled year-on-year and reached CZK 55.6 billion.

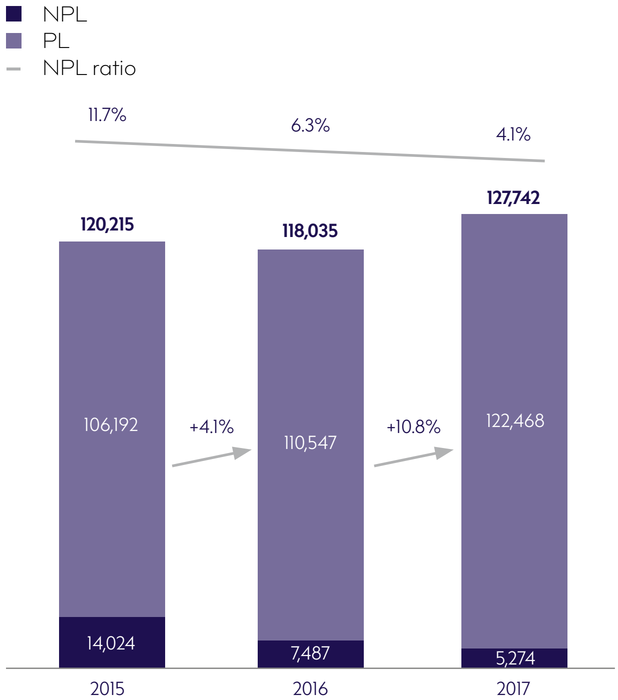
Financial assets declined by 14% year-on-year to CZK 11.8 billion as at 31 December 2017. The decline was a result of the sale of a part of the bonds portfolio, which allowed the Group to realize a gain of CZK 343 million during first half of 2017. Also, the Group decided to change the classification of its government bonds to held-to-maturity investments in compliance with IFRS 9 standard.

Loan portfolio

The Group's overall portfolio of net customer loans grew by 10.6% to CZK 123.7 billion year-on-year, maintaining a balanced mix of commercial and retail loans. The primary drivers of the growth were Mortgages (up CZK 4.8 billion, or 30.6% year-on-year) and Consumer loans (up 2.7 billion, or 8.3% year-on-year) in the Retail segment, and Investment loans (up CZK 3.2 billion, or 10.2% year-on-year) in the Commercial segment. Strong growth was also observed in the high-yielding small business lending.

Gross loans and receivables to customers development was impacted by a further reduction of NPL stock to CZK 5.3 billion as at 31 December 2017, down 29.6% from 31 December 2016. The Group further reduced its NPL ratio from 6.3% as at 31 December 2016 to 4.1% as at 31 December 2017, in line with management strategy and guidance. This was achieved mainly through write-offs of the legacy portfolio and through CZK 2.1 billion of legacy NPL sales (CZK 4.2 billion including off balance sheet). The Group maintained the total NPL coverage at 77.0% as at 31 December 2017 versus 82.5% at 31 December 2016, slightly below the guidance of ~80% due to improved quality of loan portfolio and highly covered legacy NPL sales.

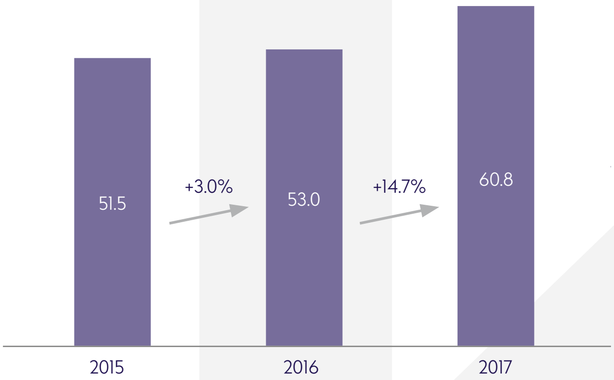
Gross receivables break down (CZK m)



[78] Figures in charts may not add up to total due to rounding differences
[79] Includes CZK 3.4bn of encumbered assets
[80] Excess liquidity exceeding 100% LCR

The net retail loan performing portfolio demonstrated strong growth during the period, with balance of CZK 60.8 billion as at 31 December 2017, 14.7% increase in comparison to the 31 December 2016 balance.

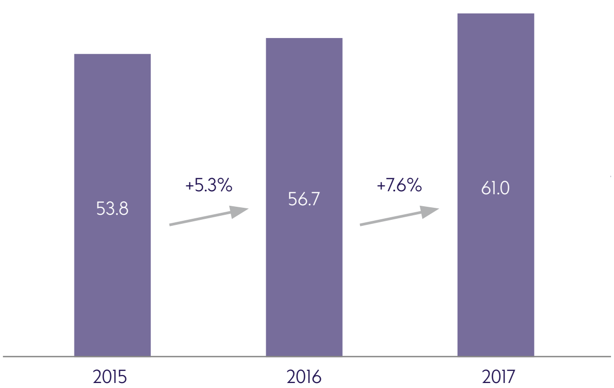
Net retail loan performing balance (CZK bn)



The growth in Retail is primarily attributable to a robust 148.7% year-on-year increase of new Mortgage production, gaining new volume market share of 4.3%[81] and driving the net Mortgage book up by CZK 4.8 billion year-on-year to CZK 20.3 billion as at 31 December 2017. A strong 26.2% year-on-year uplift was also observed in Consumer loans new production, while the net balance increased by CZK 2.7 billion to CZK 35.0 billion by the end of 2017. This was a result of strong production, as well as improved client retention. These developments were slightly offset by continuing decline in Credit cards and Overdraft portfolios, with a net balance drop of 13.3% year-on-year, in line with the market trend of consumers switching to instalment lending. Last, but not least, MONETA Auto lending witnessed a solid growth of 29.1% year-on-year in new production and a 24.8% (or CZK 0.5 billion) year-on-year increase in net balance.

The commercial net performing loan portfolio ended 2017 at CZK 61.0 billion, an increase of 7.6% from the previous year's balance driven by growth in both SME and small business segments.

Net commercial loan performing balance (CZK bn)



Investment loans were a major driver of growth in the commercial segment, recording a 10.2% (or CZK 3.2 billion) uplift year-on-year, and demonstrating growth in all observed sectors but mainly in Real Estate (35.9% growth year-on-year). Working capital net drawn balance increased by 7.0% year-on-year, mainly as a result of increased utilization, and stood at CZK 9.3 billion as at 31 December 2017.

The Group continued expansion of its small business sales force, which was represented by 159 bankers in the quarter ended 31 December 2017, a 67% year-on-year increase. This effort resulted in a significant uplift in new production of small business lending (up by 154.8% year-on-year) during 2017. The small business instalment net loan book expanded by 80.1% in the same period, while the net loan balance of unsecured business overdraft increased by 8.6%, supported by the introduction of a new commercial credit card. The Bank's online pre-approved lending proposition for small business clients also began to bear fruit, delivering 7.4% of all originated unsecured small business loans in 4Q 2017.

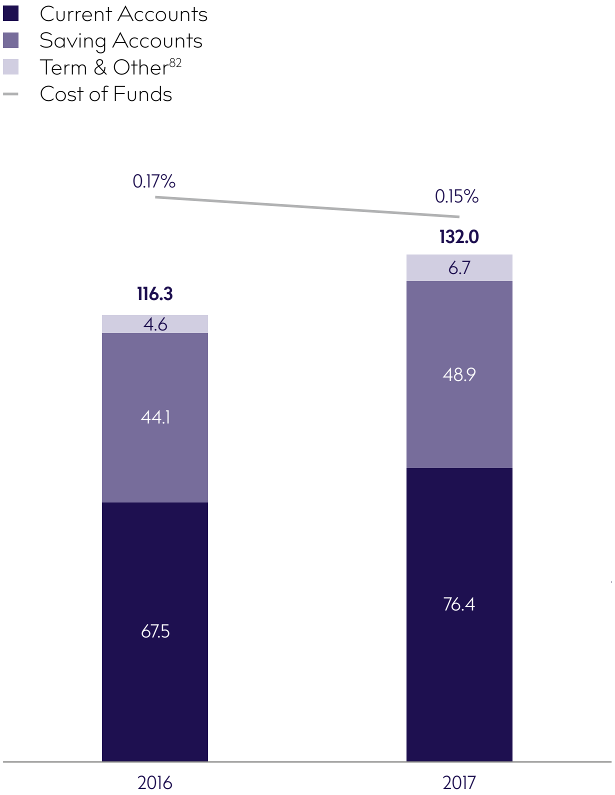
MONETA Auto commercial lending demonstrated a 19.3% year-on-year increase in new production, supporting net balance growth of 19.5% year-on-year to CZK 4.1 billion as at 31 December 2017. MONETA Leasing portfolio continues to decline, shrinking by 11.5% year-on-year, impacted by intense competition. Management has been working on a number of steps aimed to restructure the business and improve its efficiency.

Total Liabilities and Equity (bn CZK)

The Group's customer deposits showed growth in both the retail and the commercial segments, and stood at CZK 132.0 billion as at 31 December 2017, increasing 13.6% compared to 31 December 2016. Retail current and savings accounts were gradually growing during the period, with balance increase of 14.5% and 13.1% (CZK 5.4 billion and CZK 4.6 billion) respectively. Commercial deposits increased by 12.2% year-on-year driven by growth on current accounts term & other deposits (CZK 3.5 billion or 11.6% and CZK 2.3 billion or 59.8% respectively).

[81] Source: market data based on signed contracts from Hypoindex.cz (https://www.hypoindex.cz/hypoindex-vyvoj/)

Customer deposits (CZK m)

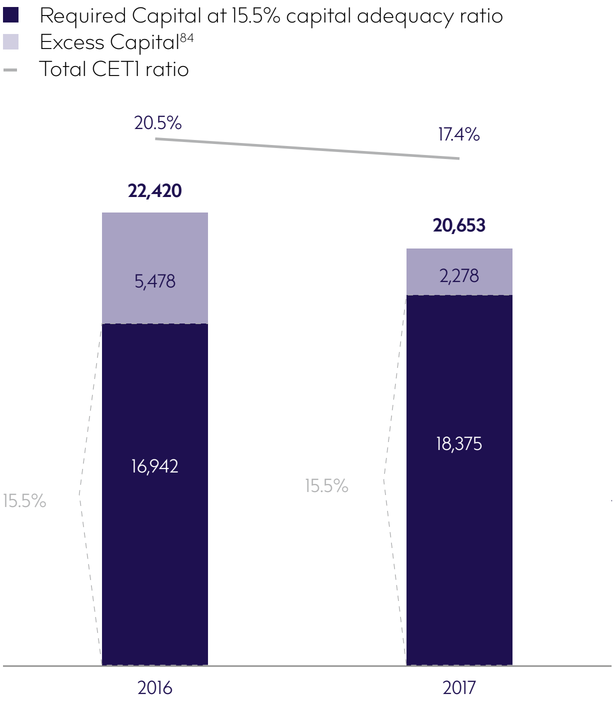


The loan to deposit ratio stood at 93.7%[82] (compared to 96.2% at 31 December 2016). The continued growth in deposits, driven by both, an increasing average balance and newly opened accounts, further reinforces the self-funding capacity of the Group and its solid liquidity position.

Capital position

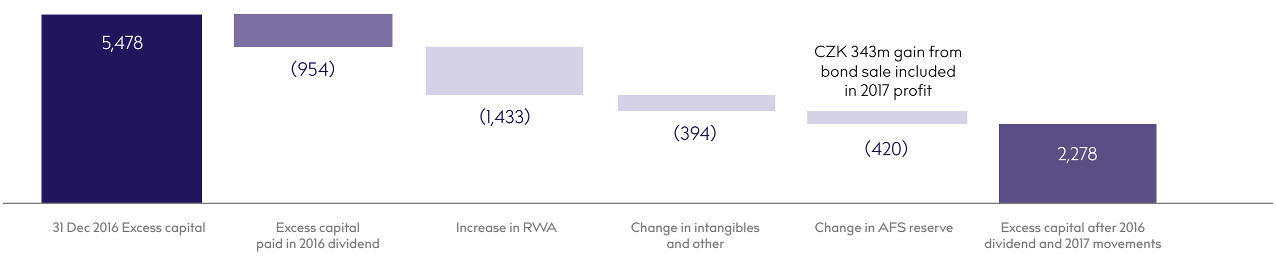
The Group continues to be one of the best-capitalised financial institutions in the Czech banking sector, reporting a CET1 ratio of 17.4% as at 31 December 2017, well above the medium-term capital adequacy target of 15.5%. The 310 basis points year-on-year decline in CET1 ratio is mainly driven by solid net loans balance growth, investment into intangible assets, sale of AFS portfolio and 954 million excess capital paid out in 2016 dividend[83].

Capital position CET1 (CZK m)



The amount of excess capital[84] amounted to CZK 2.3 billion as at 31 December 2017. In the next 12 months, this excess capital will be used for (1) anticipated loan book growth, (2) intangibles build-up following investments in digital and IT, and (3) a one-time IFRS 9 charge of CZK 638 million (recognized into equity in January 2018). Management intends to propose to shareholders for their approval a 2017 dividend pay-out of 104% of consolidated net profit.[85]

Capital usage (CZK m)



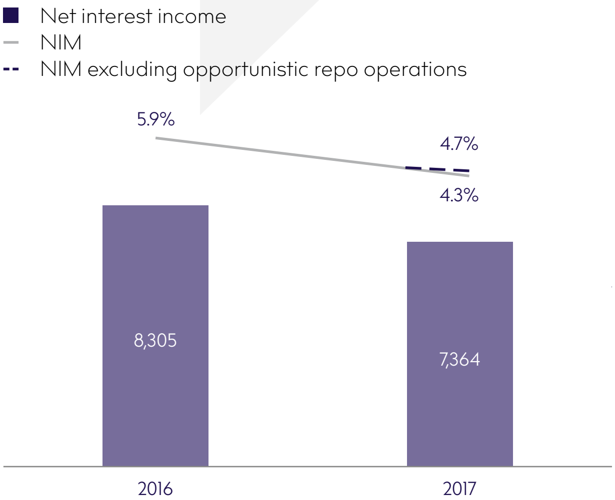
82 Excluding CZK 9.4 billion of repo transactions
83 Total 2016 dividend payment was CZK 5 billion as approved by the Annual General Meeting held on 24 April 2017 and consists of 2017 net profit of CZK 4.1 billion and CZK 954 million from 2016 excess of capital.
84 Excess capital against the medium-term management target CET1 capital ratio of 15.5%
85 Subject to corporate, regulatory and regulator's limitations and approval of the Annual General Meeting to be held in April 2018

2.4.2 Income statement

The Group generated net profit in the amount of CZK 3,923 million, significantly outperforming the initial 2017 guidance of CZK 3.4 billion[86]. This was primarily due to significantly lower Cost of Risk supported by a gain on legacy NPL portfolio sales. The total operating income amounted to CZK 10,335 million as at 31 December 2017, in line with management expectations and guidance, with CZK 343 million gain on bonds sale partly offsetting pressure on net interest income. The reported Return on Tangible Equity for 2017 reached 16.0%, well above 14% guidance, representing a 70 basis points increase year-on-year.

Net interest income reached CZK 7,364 million as at 31 December 2017, an 11.3% decrease year-on-year, which was partly offset by higher Treasury income driven mainly by reverse repo operations. Continuing pressure on yields in both the retail and the commercial segments resulted in net interest margin dropping from 5.9% in 2016 to 4.7%[87] in 2017. In the retail segment, this was a result of continuing repricing of Unsecured consumer loans to retain clients, lower front book pricing levels, a decline in Credit cards and Overdraft drawings and the product mix shift towards lower yielding secured mortgage lending. In the commercial segment, this was a result of continued intense competition across all products, with stabilization observed in 4Q 2017 after interest rate hikes in August and November 2017.

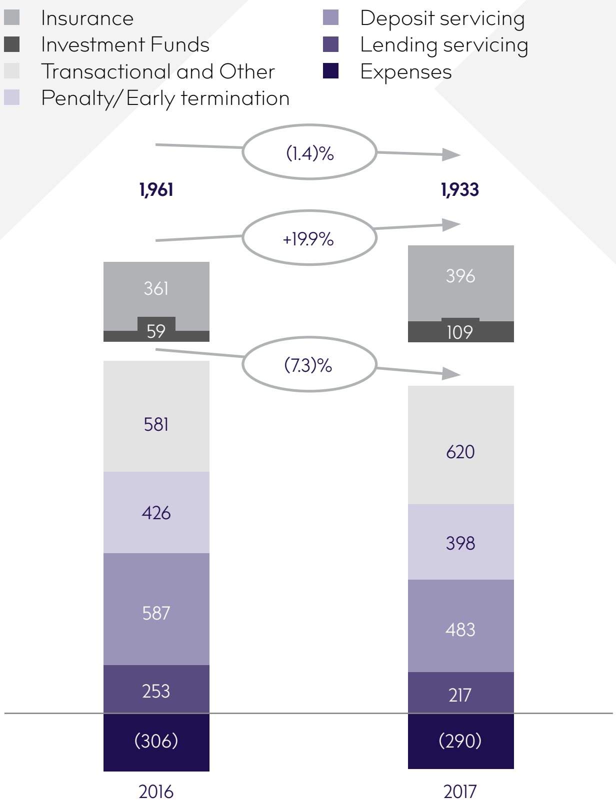
Net interest income (CZK m)



Net fee and commission income remained relatively flat year-on-year at CZK 1,933 million, compared to CZK 1,961 million as at 31 December 2016. The trend of customers actively switching to free accounts continued in 2017, driving the 16.7% year-on-year drop of servicing fees to a total of CZK 700 million as at 31 December 2017. Penalty and early termination fees declined 6.5% year-on-year, impacted by improved portfolio quality. Higher transactional and other fees, up 6.8% year-on-year to CZK 620 million, were a result of higher volume of client transactions.

Commissions from selling 3rd party products witnessed a 19.9% uplift year-on-year to CZK 505 million (compared to CZK 421 million by the end of 2016), driven by higher commissions from investment funds (up 82.7% year-on-year) and commissions from insurance companies (up 9.6% year-on-year). The balance of assets under management increased 12% year-on-year, building a base for growth of investment fund commissions in 2018.

Net fee & Commission Income (CZK m)

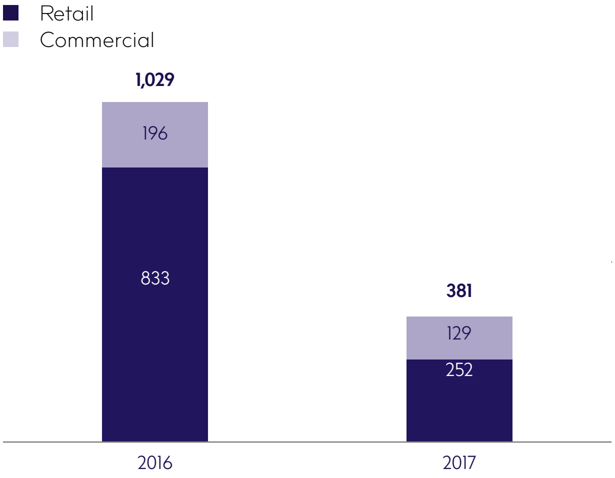


Net income from financial operations amounted to CZK 709 million in the year ended 31 December 2017 (CZK 598 million in 2016). The major driver of the increase was a gain of CZK 343 million pre-tax from the sale of part of the bonds portfolio during the first half of 2017, only partially offset by gains on sale of VISA and PSE shares in 2016 in the total amount of CZK 279 million pre-tax.

Net impairment of loans and receivables remained unprecedently low, amounting to CZK 381 million for the year ended 31 December 2017, which represented a 63% decrease year-on-year. The cost of risk stood at 32 basis points as at 31 December 2017 (against the initial guidance of 100 - 110 basis points), 61 basis points decrease compared to 93 basis points as at 31 December 2016.

86 Initial 2017 guidance published on 10 February 2017
87 Excluding impact of reverse repo funded by opportunistic repo operations

Net impairments (CZK m)[88]



Annualized Cost of Risk (%)	2016	2017
Retail	1.54%	0.43%
Commercial	0.35%	0.22%
Group	**0.93%**	**0.32%**

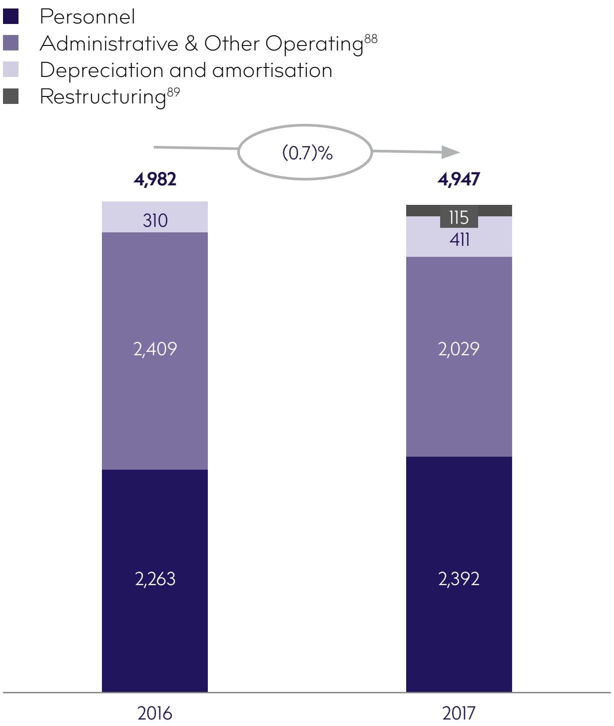
The major driver of the decrease was legacy NPL portfolio monetization, having CZK 315 million positive impact on the overall net impairment. Adjusted for this impact, the core cost of risk for 2017 would be 59 basis points, still well below 2016 levels. Net impairment was also positively impacted by continuing favourable macroeconomic conditions, as well as low NPL formation. On the commercial side, no major single default was incurred, with commercial cost of risk ended 2017 at 22 basis points. The retail segment cost of risk ended at 43 basis points (111 basis points decline year-on-year), impacted by reduction of NPL portfolio.

The 2017 consolidated income statement was also impacted by CZK 104 million impairment of goodwill on MONETA Leasing, due to revised outlook of MONETA Leasing performance as a result of increased competitive pressure mainly in trucks and trailers financing. The impact on the single level was CZK 1.3 billion.

Operating expenses

Operating expenses for the year ended 31 December 2017 amounted to CZK 4,947 million, down 0.7% year-on-year. There was a one-off restructuring charge booked in 4Q 2017 in the amount of CZK 115 million, related mainly to planned branch network downsizing and MONETA Leasing franchise reorganization in 2018.

Cost base (CZK m)



Personnel costs increased by CZK 129 million to CZK 2,392 million, driven primarily by increasing FTEs in front-end roles and digital functions. Additionally, 2016 was positively impacted by a retention provision release in the amount of CZK 46 million.

Administrative & Other expenses dropped by CZK 380 million year-on-year, amounting to CZK 2,029 million, due to Rebranding & IPO costs of CZK 254 million, savings on GE related charges (CZK 174 million lower MSA/TSA costs) and the release of solicitors provision (CZK 84 million) in 2017 were partially offset by higher Digital and IT related spend (CZK 60 million), higher contribution to Deposit insurance and Resolution fund (CZK 28 million) and release of restructuring reserve in 2016 (CZK 40 million).

Depreciation & amortization expenses increased by 32.7% to CZK 411 million, which was caused primarily by higher amortization due to investments in IT separation and Digital. Total Intangible assets balance grew 74.9% year-on-year.

[88] Change in presentation of external collection cost directly attributable to related loan within the profit or loss line "Net impairment of loans and receivables". Due to this change, the line "Net impairment of loans and receivables" and the line "Other operating expenses" of the consolidated profit or loss statement in 2016 were restated;

[89] Out of total restructuring costs of CZK 115m, CZK 64m was booked in Personnel Expenses, CZK 48m in Administrative Expenses and CZK 3m in Depreciation & Amortization

3. CAPITAL AND LIQUIDITY

3.1 CAPITAL

3.1.1 Regulatory framework

As the Group operates only in the Czech market, the Bank is subject to supervision by the Czech National Bank.

The framework used for capital management involves monitoring and complying with the capital adequacy limit in accordance with the Basel III rules codified in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended. Furthermore, from a local perspective, the regulatory framework is given by Banking Act No. 21/1992 Coll., as amended and CNB Decree No. 163/2014 Coll., as amended.

On a consolidated basis, the Bank manages its capital in order to meet the regulatory capital adequacy requirements prescribed in Basel III and codified in European regulation and allow the Group to continue its operations on a going concern basis while maximizing the return to shareholders through the optimisation of its debt and equity balance.

The minimum regulatory capital requirement (Pillar I) is equal to 8% of risk weighted assets. In 2017, the Bank was obliged to maintain a mandatory capital conservation buffer of 2.5% and countercyclical capital buffer of 0.5% that were applied for the whole Czech market. Therefore, the overall Pillar I capital requirement on an individual and a consolidated basis was 11%.

Under Pillar II (or also the Internal Capital Adequacy Assessment Process, hereinafter "ICAAP"), pursuant to the assessment of the Bank's report on the internal capital adequacy assessment process submitted in 2014, the Czech National Bank informed the Bank (in November 2014) that it expects that the Bank will meet the capital requirement, on a consolidated basis, by achieving Tier 1 Capital ratio of 14% from 2014. The Bank accepted the regulator's expectation and decided to maintain as a target a capital adequacy ratio at 15.5% on a consolidated basis.

Pursuant to the assessment of the Bank's report on the internal capital adequacy assessment process submitted in 2017, the Czech National Bank informed the Bank (in November 2017) about a new additional Pillar II capital requirement of 3% applicable from 1 January 2018 (i.e., the final required capital adequacy ratio remains at 14%).

3.1.2 Capital and risk weighted assets

The Group's capital on a consolidated basis primarily consists of share capital, share premium and unallocated profit from prior years, that is the highest quality Common Equity Tier 1 capital.

In order to calculate the regulatory capital requirement for credit risk, both on an individual and a consolidated basis, the Bank uses the standardised approach. To calculate the capital requirement for operational risk, the Bank uses the alternative standardised approach on an individual basis. However, the Czech National Bank has prescribed that the capital requirement for operational risk on an individual basis shall not fall below 75% of the capital requirement for operational risk per the standardized approach. The standardized approach is used to calculate the capital requirement for operational risk on a consolidated basis for the rest of the Group.

In order to calculate the internal capital requirement, the Bank applied methods similar to advanced approaches according to regulatory Pillar I, both on an individual and a consolidated basis.

3.1.3 Capital management

In accordance with applicable regulations, the Bank manages capital on a consolidated basis both above the level of the regulatory capital requirement and the internal capital requirement.

As of 31 December 2017, the Bank's Capital Adequacy Ratio was 17.4% on a consolidated basis and 18.2% on an individual basis. The Bank met all regulatory requirements and expectations regarding capital adequacy on an individual and a consolidated basis.

3.1.4 The Internal Capital Adequacy Assessment Process (ICAAP)

3.1.4.1 Internal Capital Requirement on a One-year Horizon

The internal capital requirement represents the stock of capital which is needed to cover unexpected losses in the following 12 months at the chosen confidence level.

To determine the internal capital requirement on an individual and a consolidated basis, the Bank currently uses the internal ECAP model. This model covers all regular risks that are material for the Group and for which the Group has decided to hold capital to cover. The ECAP model is calibrated and relevant risks are quantified on at least 99.95% confidence interval, corresponding to an AA credit rating.

Other risks not covered by the ECAP model that are material to the Group in the following planning period are identified through workshops with members of the Bank's Management Board and selected senior managers organised every year. The list of key identified risks, relevant stress scenarios and the ICAAP report resulting from this process are discussed and approved by the ERMC. Identified risks are subject to monitoring via quarterly reviews presented at the ERMC with possibility to add new risks.

Capital sources to cover the internal capital requirement are the same as the capital sources to cover the regulatory capital requirement.

3.1.4.2 Three-Year Capital Outlook and stress testing

In addition to the assessment of the internal capital requirement, the Bank annually prepares a three-year capital outlook on an individual and a consolidated basis, which includes the anticipated development according to the base case scenario of the economic environment and at least one stress scenario. The capital outlook includes the outlook of the regulatory capital requirement, outlook of the internal capital requirement, outlook of capital sources and outlook of economic results. The main stress scenario assumes the worsening of the most significant risk factors that may occur once in a 25-year period; the other stress scenarios cover the most significant identified strategic and other risks. This outlook is reported to the Czech National Bank on a yearly basis as a part of the ICAAP report.

In 2017, the capital outlook, together with stress testing results, confirmed that the Bank and the Group are capable of keeping the Capital Adequacy Ratio safely above 15.5%, even under the circumstances of unexpected adverse macroeconomic developments.

3.1.5 Recovery plan

Given the regulatory requirements, the Bank also prepares a recovery plan. The recovery plan includes three stress scenarios provided by regulation (idiosyncratic event, system-wide event and a combination of the two events) with a proposal of relevant measures to ensure it is possible to respond to the developing situation in a timely and proper manner as and when needed.

3.2 LIQUIDITY

3.2.1 Regulatory framework

Liquidity risk represents the risk of inability to meet financial liabilities when due or to finance assets.

The new Basel III framework for liquidity risk measurement, standards and monitoring was introduced into EU and Czech law by Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended, and by Commission Delegated Regulation (EU) 2015/61 of 10 October 2014, to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions, which specifies the Liquidity Coverage Ratio (LCR) requirement.

The LCR addresses the liquidity risk of banks over a 30-day period and aims to ensure that banks have a sufficient buffer of high quality liquid assets available to meet their short-term liquidity needs in a given stress scenario. The LCR became effective as a binding regulatory requirement in October 2015. The minimum required level for LCR was implemented progressively in accordance with the following schedule: 60% from 1 October 2015, 70% from 1 January 2016, 80% from 1 January 2017 and 100% from 1 January 2018. The Bank maintains an LCR well in excess of the requirement of 100% that needs to be achieved in 2018 (31 December 2017: 183%, 31 December 2016: 161%).

The second liquidity ratio introduced by the Basel III framework is Net Stable Funding Ratio (NSFR), which will establish the criteria for a minimum amount of stable funding to support a bank's assets and activities in the medium term (i.e. over one year). The binding minimum standards for NSFR have not yet been adopted by the EU and are not expected to come into effect in 2018. Nevertheless, the Bank already monitors its NSFR for internal purposes, calculating the metric based on the existing Basel methodology.

3.2.2 Liquidity portfolio

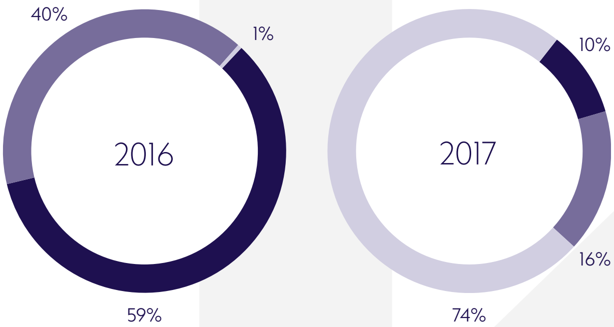
The liquidity buffer is monitored only by the Bank as the other companies of the Group are funded predominantly by the Bank and any excess liquidity is used mainly to reduce funding from the Bank.

The Bank currently invests its free cash only into safe securities, such as Czech government bonds. As at 31 December 2017, around 28% of total cash (excluding the part derived from opportunistic repo operations) was invested in securities, with the remainder held in Central bank and interbank deposits. All these investments were eligible as collateral with the CNB for central bank funding or with street for the purpose of funding EUR assets. As at 31 December 2017, CZK 3.3 billion nominal value of assets were encumbered as for funding EUR book.

The Group has a strong liquidity position. Under the new Basel III framework for liquidity risk measurement, the Bank will be required to maintain LCR of at least 100% from 2018. The Bank held excess liquidity of CZK 16.1 billion as at 31. December 2017. The chart below sets out the composition of the Group's liquid assets as at 31 December 2017 and its comparison with the position as of 31 December 2016:

Breakdown of Liquidity Portfolio

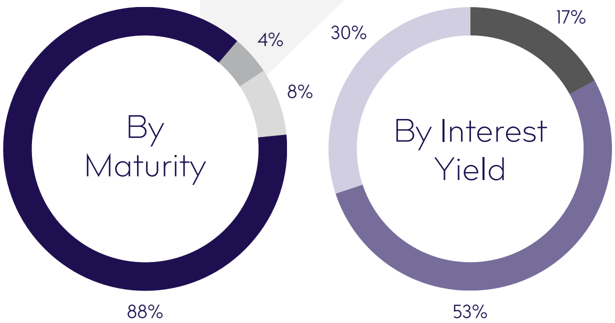
- Cash and cash equivalents with CNB
- Financial assets available for sale or held to maturity
- Loans and receivables to banks (including reverse repo)



The securities held by the Group during 2017 were entirely reclassified from available for sale to held to maturity to prevent AFS reserve volatility and its impact on equity. The chart below sets out the securities portfolio by maturity and interest yield as at 31 December 2017:

Breakdown of Securities Portfolio (December 2017)

- 3m-1y
- 1y–5y
- >5y
- <50bps
- 50–100bps
- >100bps



Funding

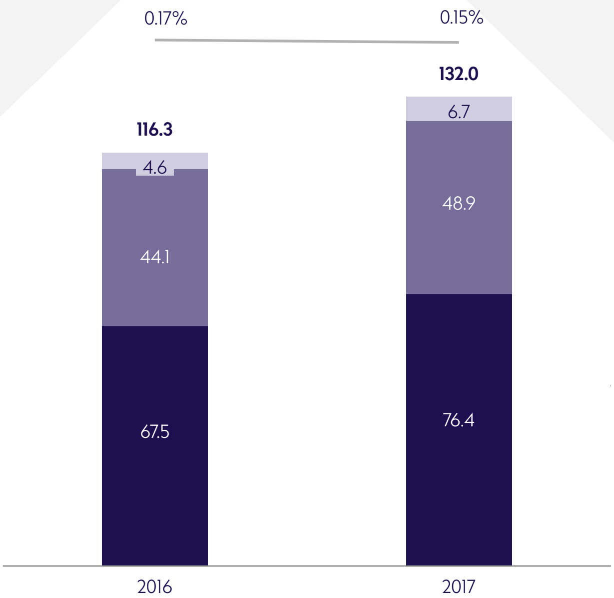
The Bank is an important source of funding for the rest of the Group. The Bank itself is not reliant on wholesale funding as customer deposits and equity together exceed customer loans. The vast majority of these customer deposits are demand deposits, 95%[90] as at 31 December 2017.

The Bank's funding model benefits from an established and stable client base comprising customer deposits of CZK 132.0 billion[90] as at 31 December 2017. 73% of customer deposits were covered by the DIF[91] as at 31 December 2017. In terms of deposit concentration, the top 10 depositors accounted for 5.1% of total customer deposits (excluding repo operations) as at 31 December 2017.

The Bank is funded primarily by deposits, 93.2% being customer deposits and 6.8% being deposits from banks (excluding opportunistic repo operations), and retained earnings. The chart below sets out evolution of customer deposits breakdown including average cost of funds as at December 2017 and its comparison to December 2016:

Breakdown of Customer Deposits incl. Average Cost of Funds (CZK bn)

- Current Accounts
- Saving Accounts
- Term & Other[92]
- Cost of Funds



For the purpose of financing EUR-denominated assets, as at 31 December 2017, the Group borrowed CZK 4.2 billion in the interbank market consisting of both secured and unsecured borrowings. The Bank has also obtained 3-year unsecured funding from the European Investment Bank (EIB) totalling EUR 80.0 million to protect refinancing and interest rate risk and to provide attractive financing for SMEs and Mid-Caps in the Czech Republic with the possibility of drawing additional EUR 70.0 million secured funding arising from the signed frame agreement with EIB. Besides financing of the Bank, Moneta Leasing obtained funding from other banks totalling CZK 3.0 billion.

On top of that, the Group seeks to establish committed lines, replacing the RCA line from GE Capital Switzerland AG depending on the liquidity expectations, and has the CNB approved Bond issuance programme to prepare for MREL requirements.

90 Excluding CZK 9.4 billion of repo operations
91 Depositors Insurance Fund: deposit insurance scheme protects depositors at banks
92 Excluding CZK 9.4 billion of repo operations

The table below presents the period-end and average balances of due to customers and due to banks by type and weighted-average rates thereon paid during the years presented:

CZK m	31 December 2017			31 December 2016		
	Period-End Balance	Average Balance	Cost of Funds	Period-End Balance	Average Balance	Cost of Funds
Retail						
Current Accounts	42,586	39,884	0.0%	37,181	34,354	0.0%
Savings Accounts	40,033	37,721	0.4%	35,409	33,815	0.4%
Term Deposits	402	489	0.3%	577	811	0.9%
Commercial[93]						
Current Accounts	34,256	32,350	0.1%	30,445	30,605	0.1%
Savings Accounts	8,845	8,827	0.2%	8,809	8,698	0.2%
Term Deposits	6,817	5,571	0.1%	4,325	4,459	0.2%
Liabilities arising from repurchase agreement and Other due to customers and to banks	38,173	20,168	n/a	2,163	1,206	n/a
Total Deposits	**171,112**	**145,011**	**0.2%**	**118,909**	**113,948**	**0.2%**

Liquidity risk management is described in the Risk management part (section 5.4.3 Liquidity Risk).

[93] Includes due to banks balances

HUMAN CAPITAL

Given our ambition to be a responsible and an appealing employer, we are committed to create a modern and functional environment in which our people can co-operate and thrive. Our values and ethics are embedded in our workplace culture through the way we treat and reward our colleagues; and through the way our colleagues treat our customers.

4. CORPORATE GOVERNANCE

(A separate part of the annual report pursuant to Section 118 (4) (b), (c), (e) and (j) of Act No. 256/2004 Coll., on Capital Market Undertakings, as amended)

4.1 ORGANISATIONAL CHART

The rights of the Bank's shareholders (100% floated on Prague Stock Exchange, no majority shareholder) are exercised through (as set out in the chart below):

- decisions of the General Meeting of the Bank; and
- participation of persons elected by the General Meeting in the Supervisory Board of the Bank

The Bank has a two-tier corporate governance structure which ensures the separation of the executive and control functions. The Supervisory Board is an integral non-executive element of this structure and is responsible for oversight of the Bank's operations and the Management Board activities, while also contributing to the definition of the Bank's strategic direction.

The Supervisory Board has the following powers:

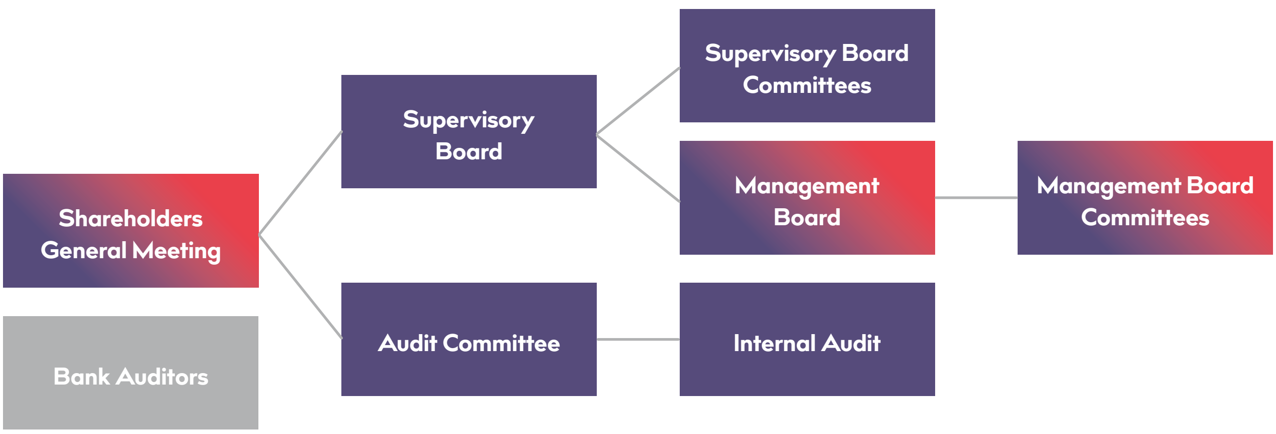
- to review financial reports and accounting records,
- to request information on all business activities and inspect all documents related to business activities of the Bank, and
- to convene General Meeting of Bank if required by law or if it is in the Bank's interest.

The Supervisory Board established the principles for the appointing members of the Management Board and the Supervisory Board and for composition and performance of the Management Board and Supervisory Board. These key principles ensure that the members of the Management Board and Supervisory Board are individuals with suitable professional, time experience and other qualifications so both bodies have balance of expert's qualifications and experience and that the composition of the Management Board and Supervisory Board as a whole is diverse.

The Nomination Committee assesses periodically or at least annually, that the members of the Management Board and the Supervisory Board have the trustworthiness, proper knowledge, skills and adequate professional qualifications, and experience.

The Supervisory Board has 7 members, represented by 1 woman and 6 men. The Management Board has of 5 members, represented by 5 men (for further information on the Bank's diversity policies please see section "Sustainability and Corporate Social Responsibility").

The Management Board is a second part of a two-tier corporate governance structure and is the corporate body which manages the Bank's business, including ensuring the proper keeping of the Bank's books, proper existence, timely evaluation and set up of the management and control system and that the Bank is compliant with law.



4.2 GENERAL MEETING

Participation at the General Meeting
The General Meeting may be attended by any person who is registered, at the record date, as a shareholder, shareholder's proxy, administrator, or person authorised to exercise rights attached to shares in the registry of book-entry shares maintained by the Czech Central Securities Depository Prague. The record date for the participation at the General Meeting is the seventh (7^{th}) day prior to the date of the respective General Meeting.

Furthermore, the General Meeting is attended by members of the Management Board, the Supervisory Board and the Audit Committee. Subject to an approval of the Management Board, the General Meeting may also be attended by individuals who can reasonably give their opinion on items on the agenda of the General Meeting, including the Bank's external auditors, advisers or individuals that make arrangements for the General Meeting.

Procedure at the General Meeting
The Chairman of the General Meeting shall ensure that all proposals, counterproposals, and requests for explanation made by shareholders are presented at the General Meeting, provided that they relate to the agenda of the General Meeting. A shareholder may request and shall receive at the General Meeting an explanation of matters related to the Bank or entities controlled by the Bank if such explanation is necessary to consider items on the agenda of the General Meeting or for exercising shareholder's rights at the General Meeting, unless it follows from the applicable law that providing the explanation may be denied. Explanations may be provided at the General Meeting as a summary answer to multiple questions with similar contents.

Explanations of matters related to the current General Meeting are provided by the Bank to a shareholder at the General Meeting. If that is not possible due to the complexity of the explanation, the Bank will provide the explanation to the shareholder within 15 days after the date on which the General Meeting is held.

Decision of General Meetings
The General Meeting constitutes a quorum if the present shareholders hold shares whose aggregate face value exceeds 50% of the Bank's registered share capital.

The General Meeting makes decisions by a simple majority of the votes of the shareholders present, unless a different majority is required by law or the Articles of Association.

Each Bank share with a face value of CZK 1 carries one vote. A total of all votes of the Bank's shareholders is 511,000,000 (in words: five hundred and eleven million).

1. The General Meeting is the highest corporate body of the Bank.

2. The General Meeting is empowered to::
   a) amend the Articles of Association, save for amendments resulting from increasing the Bank's registered share capital by the duly authorized Management Board or amendments resulting from other legal matters;
   b) decide on changes in the Bank's registered share capital;
   c) decide on an increase in the Bank's registered share capital by in-kind contributions;
   d) authorize the Management Board to increase the Bank's registered share capital;
   e) approve the offset of the Bank's receivable towards the Bank's shareholder for payment of a subscription price for the shares and the Bank's shareholder's receivable against the Bank;
   f) decide on issuing convertible or preference bonds;
   g) decide on restriction or limitation of the shareholders' pre-emptive right to subscribe for a pro rata portion of the new shares or the preference or convertible bonds issued by the Bank;
   h) elect and recall members of the Supervisory Board and the Audit Committee;
   i) approve service contracts with members of the Supervisory Board and the Audit Committee;
   j) approve any compensation to members of the Supervisory Board and the Audit Committee, unless such compensation is established by applicable laws, by a service contract or by the Bank's internal rules;
   k) if applicable, set a proportion between fixed and variable components of compensation of each member of Management Board, the Supervisory Board and the Audit Committee at a level higher than 100% (one hundred per cent.), whereas the total variable component in case of none of members of the Management Board, the Supervisory Board and the Audit Committee may exceed 200% (two hundred per cent.) of fixed component of his/her total compensation;
   l) approve contracts for settlement of loss caused by a breach of the duty of due care by a member of the Bank's body;
   m) approve a distribution of profit or other own resources of the Bank or on compensation of loss;
   n) approve a distribution of the profit to a person that is not a shareholder of the Bank;
   o) decide to unwind the Bank;
   p) approve a proposed distribution of the Bank's liquidation balance;
   q) decide to apply for listing or delisting the Bank's securities on the European regulated market;
   r) approve a transfer or a pledge of the Bank's undertaking or a part thereof constituting a substantial change of the existing structure of

the Bank's undertaking or a substantial change of the Bank's scope of business;
s) decide on a change of classes of the shares;
t) decide on a change of rights attached to individual classes of the shares;
u) decide on a conversion of registered shares to bearer shares and vice-versa;
v) approve restrictions or limitations of the shares' transferability;
w) decide on a merger of two or more shares into one share;
x) decide on splitting shares;
y) decide on an acquisition of the Bank treasury shares;
z) approve a transfer of all other shareholders' shares to the Bank's shareholder that owns Bank shares in the total nominal value corresponding to at least 90% (ninety per cent.) of the Bank's registered share capital created by shares with voting rights, and carrying at least 90% (ninety per cent.) of voting rights in the Bank;
aa) approve a transformation of the Bank in compliance with Act No. 125/2008 Coll., on transformations of companies and cooperatives, as amended (hereinafter the "Transformations Act");
ab) approve the Bank's annual, extraordinary or consolidated and, if required, interim financial statements;
ac) appoint an auditor to perform the statutory audit;
ad) approve principles for the Management Board, the Supervisory Board or another Bank's body, and give instructions to the Management Board, the Supervisory Board or another Bank's body, all subject to the terms set forth by applicable laws and the Articles of Association; and
ae) exercise all other powers vested to the General Meeting by applicable laws or by the Articles of Association.

3. The General Meeting may not reserve powers which are not vested to it by applicable laws or by the Articles of Association.

A majority of at least two-thirds of the votes cast by shareholders at a General Meeting is required to make decisions of the General Meeting on:

a) amend the Articles of Association, save for amendments resulting from increasing the Bank's registered share capital by the duly authorized Management Board or amendments resulting from other legal matters;
b) decide on changes in the Bank's registered share capital;
c) authorize the Management Board to increase the Bank's registered share capital;
d) approve the offset of the Bank's receivable towards the Bank's shareholder for payment of a subscription price for the shares and the Bank's shareholder's receivable against the Bank;
e) decide on issuing convertible or preference bonds;
f) decide to unwind the Bank;
g) approve a proposed distribution of the Bank's liquidation balance;
h) approve a transfer or a pledge of the Bank's undertaking or a part thereof constituting a substantial change of the existing structure of the Bank's undertaking or a substantial change of the Bank's scope of business;
i) decide on splitting shares;

Resolutions under Article 2 Lett. b) and s) hereof shall be passed at a General Meeting by a qualified majority of at least two-thirds (2/3) of the votes cast at a General Meeting by the Bank's shareholders holding each class of the shares, whose rights are affected by such resolutions.

4. Resolution under Article 2 Lett. m) hereof shall be passed at a General Meeting by a qualified majority of at least two-thirds (2/3) of the votes of all Bank's shareholders.

5. Resolutions under Article 2 Lett. c), g) and o) hereof shall be passed at a General Meeting:

a) by a qualified majority of at least three-quarters (3/4) of the votes cast at a General Meeting; and also
b) by a qualified majority of at least three-quarters (3/4) of the votes cast at a General Meeting by the Bank's shareholders holding each class of the shares, unless the respective resolution will not affect any rights of owners of these classes of the shares.

6. Resolution under Article 2 Lett. r) (only as for delisting the Bank securities) hereof shall be passed at a General Meeting by a qualified majority of at least three-quarters (3/4) of the votes cast at a General Meeting by the Bank's shareholders holding the classes of the shares affected by this resolution.

7. Resolutions under Article 2 Lett. t), u), v) and w) hereof shall be passed at a General Meeting:

a) by a qualified majority of at least two-thirds (2/3) of the votes cast at a General Meeting; and also
b) by a qualified majority of at least three-quarters (3/4) of the votes cast at a General Meeting by the Bank's shareholders holding the classes of the shares affected by such resolutions.

8. Resolutions under Article 8 sub. 2 Lett. k) and l) hereof shall be passed at a General Meeting with a qualified majority of at least three-quarters (3/4) of the votes cast at a General Meeting (qualified majority of at least two-thirds (2/3) of the votes cast at a General

Meeting is sufficient, provided that at least 50 % (fifty per cent.) of the shares are represented at a General Meeting).

9. Resolution under Article 2 Lett. x) hereof shall be passed at a General Meeting:

   a) by a qualified majority of at least two-thirds (2/3) of the votes cast at a General Meeting; and also
   b) by all shareholders of the Bank whose shares are to be merged.

10. Resolution under Article 2 Lett. aa) hereof shall be passed at a General Meeting by a qualified majority of at least 90% (ninety per cent.) of the votes of all Bank's shareholders.

11. Resolution under Article 2 Lett. bb) hereof shall be passed at a General Meeting by a qualified majority of at least three-quarters (3/4) of the votes cast at a General Meeting by the Bank's shareholders holding each class of the shares, however:

   a) a demerger of the Bank with an unequal shares exchange proportion shall be approved by a resolution passed at a General Meeting by a qualified majority of at least 90% (ninety per cent.) of the votes of all Bank's shareholders holding each class of the shares; and
   b) a transfer of all Bank's assets to the Bank's shareholder shall be approved by a resolution passed at a General Meeting by a qualified majority of at least 90% (ninety per cent.) of the votes of all Bank's shareholders.

4.3 SUPERVISORY BOARD

4.3.1 Position and powers of the Supervisory Board

The Supervisory Board is the Bank's body that oversees the Management Board and the Bank's activities, and informs the General Meeting on results thereof.

The Supervisory Board shall decide on all matters and exercise all powers, rights and duties vested to the Supervisory Board by applicable law or by the Articles of Association. The Supervisory Board shall among others:

a) review annual, extraordinary or consolidated and, if required, interim financial statements, proposal for the distribution of profit or compensation of loss, and submit its opinion thereon to the General Meeting;
b) establish the Nomination Committee, the Remuneration Committee and the Risk Committee (hereinafter jointly as the "Supervisory Board Committees"), adopt statutes of the Supervisory Board Committees and have discretion to set up any other committees of the Supervisory Board and adopt their statutes;
c) elect and recall members of the Management Board, of the Supervisory Board Committees and of other committees of the Supervisory Board;
d) approve service contracts with members of the Management Board;
e) approve any compensation to members of the Management Board, unless a member's compensation is established by applicable law, by a service contract or by the Bank's internal rules;
f) propose to the General Meeting an auditor to perform the statutory audit;
g) convene a General Meeting if required by applicable law or by the Bank's interests and propose to the General Meeting appropriate measures to be taken;
h) designate one member of the Supervisory Board, who shall represent the Bank before courts or other authorities in disputes with members of the Management Board;
i) review the affiliated parties report and submit its opinion thereon to the General Meeting;
j) inspect all documents and records related to the activities of the Bank;
k) examine whether the Bank's books and records are kept properly, whether they comply with the true current state of affairs and whether the business activities of the Bank are carried out in compliance with applicable law and the Articles of Association;
l) grant its prior consent to certain decisions of the Management Board "Special powers of the Management Board under Czech law"; and
m) exercise all other powers, rights and duties vested to the Supervisory Board by applicable law, including powers, rights and duties of a controlling body under the CNB Regulation no. 163/2014 Coll., as amended.

The Supervisory Board makes decisions by a simple majority of votes cast at the meeting. The quorum for a meeting of the Supervisory Board is a simple majority of all its members. Members of the Supervisory Board may participate at the Supervisory Board meetings through telephone or other remote means. When necessary in matters of urgency, a decision may be made by the Supervisory Board without holding a meeting.

In accordance with the Articles of Association, meetings of the Supervisory Board are called by the Chairman of the Supervisory Board. The Chairman of the Supervisory Board is required to call the meeting at any member's request. At its discretion, the Supervisory Board may invite members of other Companies' corporate bodies, employees, or other persons to its meetings.

The Supervisory Board shall consist of seven members with four being independent, including the independent Chairman of the Supervisory Board. For purposes of the Articles of Association an independent member of the Supervisory Board shall mean a member who is:

a) independent of the Bank's management;
b) not an employee of the Bank or any of its affiliates;
c) not closely related to the Bank or its management through significant economic, family or other ties; and
d) independent of the Bank's controlling shareholder(s), if any.

No member of the Supervisory Board may be a member of the Management Board or the Bank's procura holder (if any).

Members of the Supervisory Board are elected and recalled by a decision of the General Meeting.

Members of the Supervisory Board serve four-year terms and may be re-elected.

Members of the Supervisory Board elect and recall the Chairman and Vice-Chairman of the Supervisory Board from among members of the Supervisory Board.

The relationship between a member of the Supervisory Board and the Bank is governed by a service contract concluded between the Bank and the respective member of the Supervisory Board and further by applicable law. There are no service contracts entered into between the Bank and the members of the Supervisory Board providing for benefits upon termination of their office.

A member of the Supervisory Board may resign from the Supervisory Board by a written notification delivered to the Supervisory Board or by a written notification addressed to the Supervisory Board and delivered to the Bank's registered office. A member of the Supervisory Board may also resign by an oral declaration made in the meeting of the Supervisory Board and recorded in the minutes of the Supervisory Board meeting. A member of the Supervisory Board may not resign at improper time for the Bank.

A member's office terminates one month after the delivery of the member's resignation to the Supervisory Board or to the Bank's registered office, unless the Supervisory Board approves another date at the resigning member's request.

If the office of no more than one half of the Supervisory Board members has been terminated for any reason, the Supervisory Board may appoint substitute Supervisory Board members until the next General Meeting.

4.3.2 Members of the Supervisory Board

Members of the Supervisory Board as at 31 December 2017:

Name	Role	Position held from	Term ends on
Maria Luisa Cicognani	Chair	22 May 2017[94]	24 April 2021
Miroslav Singer	Vice-Chairman	22 May 2017[94]	24 April 2021
Ronald Clarke	Member	21 April 2016	21 April 2020
Michal Petrman	Member	21 April 2016	21 April 2020
Denis Arthur Hall	Member	21 April 2016	21 April 2020
Gabriel Eichler	Member	26 October 2017	26 October 2021
Tomáš Pardubický	Member	26 October 2017	26 October 2021

Members of the Supervisory Board whose function terminated in 2017:

Name	Position terminated on
Christopher Chambers	20 May 2017
Richard Alan Laxer	23 April 2017

MARIA LUISA CICOGNANI is the Chair of the Supervisory Board of MONETA Money Bank.

Mrs. Cicognani graduated from the business and administration programme at the University of Bocconi in Milan, as well as from the Japanese economy and business programme at the International University of Japan. She has extensive experience in the field of banking and corporate governance.

In the years 1993-2005 she worked in the European Bank for Reconstruction and Development in London, subsequently she was a Director of financial institutions at Merrill Lynch and Managing Director, Head of Financial Institutions at Renaissance Capital, in London and Moscow. At Renaissance Capital she focused on the development of the bank's financial institutions practice in Africa and the former USSR.

From October 2008 to June 2014, she was Managing Director of the London branch of Mediobanca, where she was responsible for M&A advice to clients in emerging markets (except China and South America). From October 2014 to November 2016, she was a member of the Board of Azimut Global Counselling Srl (Italy) and Azimut International Holding SA (Luxembourg). Since March 2015, she has been a Non-Executive Member of the Board of Arafa Holding (Egypt). From November 2016 to March 2017, she was a Senior Advisor to Crown Agents Asset Managements (UK).

Since November 2016, Mrs. Cicognani has been an adviser to the CEO of Kudi Digital Bank, which is a fully licensed digital e-payment platform in Ghana, looking to expand to other African countries and transform Kudi into a digital bank.

[94] Between 24 April 2017 and 22 May 2017, member of the Supervisory Board

The service contract between Mrs. Cicognani and the Bank was entered into on 26 October 2017 and will terminate upon the termination of her office.

MIROSLAV SINGER is the Vice-Chairman of the Supervisory Board of MONETA Money Bank.

Mr. Singer graduated from the Prague School of Economics, where he obtained an engineering degree in econometrics and operations research as well as from the University of Pittsburgh, where he earned a doctoral degree in econometrics and labour.

Mr. Singer served for 11 years as the Vice-Governor (from February 2005 to June 2010) and the Governor (from July 2010 to June 2016) of the Czech National Bank. He also has broad experience from having served on a number of boards. Mr. Singer served from 1994 until 1996 at the Centre for Economic Research and Doctoral Studies at the Charles University, within the Economic Institute of the Academy of Sciences of the Czech Republic, where he was the Deputy Director for Research. Between 1995 and 1996, Mr. Singer worked as a member of the Supervisory Board and the Board of Directors of Česká pojišťovna. He subsequently joined Expandia Group, where he served as the Chief Economist and a member of the Supervisory Board of Expandia Bank.

From 2001 to 2005, he was a Director of Business Restructuring Services at the international consulting firm, PwC.

Apart from his position as the Vice-Chairman of the Supervisory Board of MONETA Money Bank he currently serves as a member of the Supervisory Board of Generali Pojišťovna (since May 2017), Chairman of the Supervisory Board of Česká pojišťovna (since May 2017) and Director for Institutional Affairs and Chief Economist in Generali CEE Holding (since January 2017), in which he also became a member of EXCO from January 1 2018.

The service contract between Mr. Singer and the Bank was entered into on 26 October 2017 and will terminate upon the termination of his office.

RONALD CLARKE is a member of the Supervisory Board of MONETA Money Bank.

Mr. Clarke holds an Associate's Degree from Dalhousie University.

He worked as HR Manager of Pfizer and also of Warner-Lambert, based in Canada, before joining Telefónica, where he was HR Executive Director, and, later, a member of the Board from 2009 until 2010. At Telefónica, he was based in Prague, reporting to the Director of Human Resources in London. Mr. Clarke was responsible for Commercial & Technical Learning across European region. He designed and implemented Telefónica's European Region Commercial/Technical Learning & Development Organization, which led to a cost reduction of 50%.

He has substantially contributed to the successful transition of the Supervisory Board during a challenging period, while it separated from GE Corporation.

Apart from his position as a member of the Supervisory Board of MONETA Money Bank he currently holds the position of partner of ReDefine, s.r.o. (since February 2015).

The service contract between Mr. Clarke and the Bank was entered into on 26 October 2017 and will terminate upon the termination of his office.

MICHAL PETRMAN is a member of the Supervisory Board of MONETA Money Bank.

Mr. Petrman is also an independent consultant advising clients on finance and management and a lecturer at the University of Economics, Prague.

Mr. Petrman spent most of his career at Deloitte in the Czech Republic where he held a number of senior partnership roles including the Managing Partner of the Czech and Slovak offices and a member of the executive committee of Deloitte Central Europe.

From January 2013, he has been a member of the Supervisory Board of the Vaclav and Dagmar Havel foundation VIZE 97 and a member of the Board of University of Economics, Prague. He is the Chairman of the Audit Committee of Net4Gas and member of the Audit Committee of Allianz in the Czech Republic. He has executive director roles in few start-up companies: Auxilium Consultum, s.r.o., 6D Academy, z.u, and 6D Services, s.r.o. Since 2009, he has been managing director of INCELA s.r.o.

The service contract between Mr. Petrman (as a member of the Supervisory Board) and the Bank was entered into on 26 October 2017 and will terminate upon the termination of his office.

DENIS ARTHUR HALL is a member of the Supervisory Board of MONETA Money Bank.

Previously, Mr. Hall held senior executive positions as Chief Risk Officer in Citibank (1985-2001), Deutsche Bank (2001-2007) and GE Capital International (2007–2016). From 2008 to November 2016, he worked as a Supervisory Board Member and a Chairman of the Risk committee at BPH Bank SA and from November 2013 to March 2017 as a Non-Executive Board Member of Hyundai Capital Cards. From 2012 to June 2015, he worked as a member of the Supervisory Board of Budapest Bank Zrt and from October 2013 to December 2016 as a Chairman of the Board of UK Home Lending Ltd.

He is currently a member of the Supervisory Board of Hyundai Capital Bank Europe based in Frankfurt. Since May 2014, he has served as a Board and Audit and Risk Committee member of Cembra Money Bank, Zurich, a bank listed on the SIX Swiss Exchange. He is also a Non-Executive Board member and a Chairman of the Risk committee of the Skipton Building Society in the UK.

The service contract between Mr. Hall (as a member of the Supervisory Board) and the Bank was entered into on 26 October 2017 and will terminate upon the termination of his office.

GABRIEL EICHLER is a member of the Supervisory Board of MONETA Money Bank.

Mr. Eichler studied economics and international relations and has degrees from Brandeis University, The University of Chicago, and the University of Toronto.

Apart from his position as a member of the Supervisory Board of MONETA Money Bank he currently holds the positions as Founder and Senior partner of Benson Oak, a boutique investment bank, later a private equity group which he founded in August 1991. He is also Chairman of the Supervisory Board of Vaclav Havel Library.

He began his international banking career at Bank of America where he spent 15 years (1975-1990), half of it in the bank's headquarters in the US and half as regional General Manager for Bank of America in Paris, Vienna and Frankfurt. After leaving Bank of America, Mr. Eichler spent a year as a partner and Executive Vice-President (EVP) in a US private equity group.

In 1998–2001, Mr. Eichler was the Chairman of the Board, President & CEO of Východoslovenské železiarne (VSŽ). From 1994 to 1998 he was the Vice-Chairman of the Board and until the end of 1996 CFO of ČEZ.

Mr. Eichler also acted as the Vice-Chairman of the Supervisory Board of Československá obchodní banka, a member of the Supervisory Boards of Česká pojišťovna and Slovenská sporitelna.

Until September 2016, Mr. Eichler was Vice-Chairman (earlier Executive Chairman) of AVG Technologies Supervisory Board. Mr. Eichler helped to bring AVG Technologies, as the first Central European company, to the New York Stock Exchange (NYSE).

The service contract between Mr. Eichler and the Bank was entered into on 7 November 2017 and will terminate upon the termination of his office.

TOMÁŠ PARDUBICKÝ is a member of the Supervisory Board of MONETA Money Bank.

Mr. Pardubický started his professional career in banking and over his career gained extensive experience both in the financial sector, as well as in real estate development.

He was a member of the team that founded Expandia Banka, later known as eBanka, which was the first Internet banking project in the Czech Republic. Subsequently, he worked as the Chief Executive Officer of eBanka, where he was also responsible for its sale process, since one of the objectives of the eBanka was to build a bank with a new strategic partner. Mr. Pardubický subsequently joined international advisory company PwC, where he was responsible for the banking and insurance sector advisory.

Subsequently he worked for Komerční banka, where he was one of the Executive Directors responsible for project management and organization. In 2007, he joined FINEP, one of the leading property developers in the Czech Republic. In FINEP he participated in the group's expansion and transformation to a holding structure. Mr. Pardubický currently works as the CEO of FINEP. The list of entities operating in the real estate sector, where he is active and holds positions of member of the body is as follows: ERDEX a.s., EYSCHA a.s., F.R.C., a.s., FINEP HOLDING, SE, FINEP Hostivař a.s., FINEP Hostivař OMEGA a.s., FINEP Modřany a.s., FINEP Real a.s., FINEP Vysočany a.s., FINEP Zlíchov a.s., FLams a.s., INGRAS a.s., NATURE CITY a.s., Pensum a.s., PROBYDLENÍ a.s., PROBYDLENÍ FINANČNÍ SLUŽBY a.s., PROSEK Development, a.s., TPK Real a.s., WAsia a.s. a WELHAM a.s. During the last 5 years he has held positions in the Office Center Stodůlky GAMA and Office Center Stodůlky BETA v likvidaci.

The service contract between Mr. Pardubický and the Bank was entered into on 26 October 2017 and will terminate upon the termination of his office.

Except as stated above, none of the members of the Supervisory Board has been a partner or member of a body of any entity in the past five years.

4.3.3 Activity report of the Supervisory Board

Following the step down of Mr. Chambers (the former Chairman of the Supervisory Board) and Mr. Laxer (the former member of the Supervisory Board) from the Supervisory Board in the first half of the year 2017, the Annual General Meeting held on 24 April 2017 elected Mrs. Cicognani and Mr. Singer as the new members of the Supervisory Board. At the same time, the Supervisory Board established separate Risk, Remuneration and Nomination Committees, enabling each area to receive the attention and focus they deserve.

At the General Meeting held on 26 October 2017, the Supervisory Board has been expanded from five members to seven with the election of Mr. Eichler and Mr. Pardubický. The General Meeting held on 26 October 2017 also adopted the new remuneration scheme for the Supervisory Board which was prepared on the basis of a PWC study regarding remuneration levels of non-executive directors in a comparable peer group of publicly-traded banks operating in CEE, continental Europe and the UK.

In 2017, the Supervisory Board held seven regular meetings. The average meeting length was five hours.

The Supervisory Board reviewed the Bank's separate and consolidated financial statements as of 31 December 2016 prepared under International Financial Reporting Standards (IFRS) and audited by the external auditor, KPMG Česká republika Audit, s.r.o. The Supervisory Board recommended to the General Meeting held on 24 April 2017 to approve these financial statements.

The Supervisory Board reviewed the Management Board's proposal for distribution of profit after tax for the financial year 2016 and recommended to the General Meeting to approve this proposal.

Furthermore, the Supervisory Board reviewed the Report on Relations among Related Entities in 2016 which was drawn up by the Management Board under Section 82 et seq. of Act No. 90/2012 Coll., on business corporations and co-operatives (the Act on Business Corporations), as amended, and the Supervisory Board concluded that, based on the presented documents, the Bank did not suffer in 2016 any harm resulting from the contracts, agreements other legal acts made or adopted by the Bank or from any influence otherwise exerted by any controlling person.

Upon recommendation of the Audit Committee, the Supervisory Board proposed to the Annual General Meeting held on 24 April 2017 to appoint KPMG Česká republika Audit, s.r.o. as an auditor to conduct the statutory audit of the Bank for the financial year 2017. As KPMG Česká republika Audit, s.r.o. continues to meet all independence requirements, has eminent experience with audit of credit and financial institutions as well as listed companies, the Supervisory Board will, upon recommendation of the Audit Committee, propose to the General Meeting to be held in April 2018 to appoint KPMG Česká republika Audit, s.r.o. to conduct the Bank's statutory audit for the financial year ending 31 December 2018.

In 2017, the Supervisory Board was continuously informed of the Bank's activities and was regularly presented reports and analyses. The Supervisory Board assessed, in particular, the functionality and efficiency of the Bank's internal control systems, concluding that the internal control systems are functional and effective. Moreover, it examined the 2016 annual assessment report on the Bank's system for anti-money laundering and preventing the financing of terrorism including a related risk assessment and the annual compliance management report.

Further, as a result of a tender for an auditor to conduct the Bank's statutory audit for the year ending 31 December 2019, the Audit Committee recommended to the Supervisory Board to propose as the new auditor of the Bank the audit firm Deloitte Audit s.r.o. which also meets all the requisite independence and professional requirements.

The Supervisory Board regularly discussed the Bank's quarterly financial results and its position on the market with a view to development of the macroeconomic environment. Furthermore, it discussed the actions of the Internal Audit and their results in individual periods of the year, changes in the audit plan for 2017, as well as the internal audit plan for 2018.

In the course of its activities, the Supervisory Board continued to rely on the opinion of its Risk, Nomination and Remuneration Committees and was informed of the issues discussed by the Audit Committee.

Further activities of the Supervisory Board in relation to the 2017 financial statements and annual report are described in the Supervisory Board report in chapter 7 and Section "Letter from the Chair of the Supervisory Board".

The Supervisory Board discussed remuneration of the members of the Management Board and decided on the amounts of bonuses for the performance year 2016, the payment of which is subject to the principles (scheme) of deferred bonuses.

On 24 April 2017, the Annual General Meeting of the Bank with the aim to achieve alignment of interests of the Management Board with interests of the shareholders, approved the following proposal of the Bank's qualified shareholder – the funds of the Franklin Templeton group: „The General Meeting approves that the Supervisory Board shall propose and implement a stock-based incentive scheme for Management Board members ("Scheme"). The annual value of such Scheme should not be less than the total annual base compensation of the Management Board members under the assumption that the annual share price returns per share (including cash distributions) of the company reach or exceed 15% in the relevant annual period." The resolution was approved by the Annual General Meeting with 73.25% of the votes present and quorum of 65.69% of the Bank's registered share capital.

As the above resolution of the Annual General Meeting is binding upon the Supervisory Board, both the Supervisory Board and the Remuneration Committee of the Supervisory Board supported by the reputable consultancies PricewaterhouseCoopers and Willis Towers Watson commenced revision of the Management Board variable remuneration.

The new remuneration scheme for members of the Management Board consists of the following three pillars:

a) Annual Fixed Salary

- The fixed salary of the Management Board members is set in their service contracts with the Bank.
- The fixed salary is set according to local competitive benchmarks and based upon recommendation of the above mentioned international advisers.
- The fixed salary can be adjusted upon the approval of the Supervisory Board (based on an assessment carried out by the Remuneration Committee).

b) Annual Executive Variable Incentive Plan (EVIP)

- The EVIP supersedes and replaces the previous annual executive incentive plan (AEIP) which was part of the legacy from the GE Capital pre-listing era.
- The Management Board members and senior executives are eligible to be granted with the EVIP awards.
- The annual EVIP award opportunity depends upon the position of the respective Management Board member and senior executive of the Bank and in 2017 ranged between 9% to 80% of his/her annual fixed salary.
- The annual EVIP award is granted to the Management Board members on a yearly basis and is subject to performance against annual targets in the respective performance year.
- The EVIP strengthened the role of the Phantom Shares (not actual shares of the Bank) to reflect the shareholder value interest and performance of the Bank, when:
    - o 50% of the annual EVIP award comprises of the Phantom Shares (compared to 40% under the AEIP)
        - ◊ a number of the awarded Phantom Shares is calculated on the basis of the market price of shares in the Bank in the first year following the performance year;
        - ◊ in each of the second, third and fourth year (each a "payment year"), the value of 1/3 of awarded Phantom Shares is paid in cash;
        - ◊ the value of the Phantom Shares in each payment year is calculated based on the then current market price of shares in the Bank, subject to progression or regression tied to the Total Shareholder Return in the preceding year, rather than based on the Risk Adjusted Return on Capital (RAROC) used under the AEIP.
    - o 50% of the annual EVIP award comprises of cash (compared to 60% under the AEIP)
        - ◊ 30% is paid in cash in the first year;
        - ◊ 20% is deferred and paid in cash in three equal instalments in the second, third and fourth year.
- For further information regarding the EVIP please see section 4.9.1.2 "Remuneration and Benefits of the Management Board Members – Key Principles - Variable Remuneration for Performance (Fiscal) year 2017".

c) Long Term Incentive Plan (LTIP)

- The LTIP was developed, as a share-only incentive plan, based upon benchmarks from relevant peer banks of a similar size and business model.
- Members of the Management Board are eligible to be granted with the LTIP awards.
- The annual LTIP award opportunity ranges from 30% to 50% of the annual fixed salary.
- The annual LTIP award is granted in the form of actual shares in the Bank, where the proportion of the award that vests is conditional on the satisfaction of mid-term performance targets.
- The LTIP (through the Share Holding Guidelines) also seeks to achieve a minimum number of shares in the Bank retained by the Management Board members as long as they continue to serve as the Management Board members. The minimum shareholding level ranges from 30% to 50% of the annual fixed salary relative to the position held. The purpose of this requirement is to further align interests of the Management Board members with those of the Bank's shareholders.

The Supervisory Board adopted the EVIP upon the proposal of the Remuneration Committee on 7 November 2017 in order to eliminate inconsistencies stemming from the AEIP inherited from the GE pre-listing era. Hence, the Management Board members and senior executives of Moneta currently enjoy benefits of the first two pillars above, the fixed salary and the EVIP.

As regards the LTIP, the newly proposed third pillar of the remuneration scheme, it is intended to further incentivise the Management Board members to achieve medium-term targets set by the Supervisory Board and outlined in Moneta's medium-term guidance.

Due to the important nature of the proposed LTIP, the Supervisory Board wishes to consult our shareholders. Therefore, the Supervisory Board will respectfully solicit a feedback from them so that the LTIP will be finalised and adopted by the Supervisory Board based upon received comments.

As the combination of the EVIP and the LTIP may result in the amount of the annual variable remuneration exceeding 100% of the Management Board member's annual fixed remuneration and, under the Czech banking law, the maximum amount of the annual variable remuneration of each member of the Management Board may exceed 100% (to up to 200%) of his/her annual fixed remuneration only with an approval of the General Meeting, the Supervisory Board will seek the requisite approval of the General Meeting before the implementation of the new proposed remuneration scheme for members of the Management Board.

4.4 COMMITTEES ESTABLISHED BY THE SUPERVISORY BOARD

The Nomination Committee, the Remuneration Committee and the Risk Committee established by the Supervisory Board, together with their powers and duties, and chairs and members, are described below.

4.4.1 Nomination Committee

The Nomination Committee is a supporting and advisory body of the Supervisory Board. The Nomination Committee consists of three members elected and recalled by the Supervisory Board from among its own members, with a majority of members being independent.

The Committee shall in particular:

a) identify and recommend for the approval of the Supervisory Board or the General Meeting, as the case may be, candidates to fill the vacancies on the Management Board or the Supervisory Board, as the case may be;
b) periodically, and at least annually, assess the structure, size, composition and performance of the Management Board and the Supervisory Board and make recommendations to the Supervisory Board with regard to any changes;
c) periodically, and at least annually, assess the trustworthiness, knowledge, skills and experience of individual members of the Management Board and of the Supervisory Board; of the Management Board collectively and of the Supervisory Board collectively; and report to the Supervisory Board accordingly;
d) periodically review the policy of the Management Board and the Supervisory Board for selection and appointment of senior management and make recommendations to the Supervisory Board; and
e) exercise other powers and responsibilities vested to the Committee by applicable law, the Bank's Articles of Association or by the Bank's internal rules, to the extent that those comply with applicable law.

The Nomination Committee makes decisions by a simple majority of votes cast at the meeting. The quorum for a meeting of the Nomination Committee is a simple majority of all its members. Meetings of the Nomination Committee are called by the Chairman of the Nomination Committee.

As of 31 December 2017 the following persons were members of the Nomination Committee:

Name	Role
Ronald Clarke	Chairman
Maria Luisa Cicognani	Member
Miroslav Singer	Member

From 16 January 2018 the following persons are members of the Nomination Committee:

Name	Role
Ronald Clarke	Chairman
Gabriel Eichler	Member
Michal Petrman	Member

4.4.2 Remuneration Committee

The Remuneration Committee is a supporting and advisory body of the Supervisory Board. The committee consists of three members elected and recalled by the Supervisory Board from among its own members, with a majority of members being independent. The Committee shall, in particular:

a) establish the remuneration strategy for the Bank;
b) establish and maintain principles for remunerating new and current members of the Management Board and members of the Material Risk Takers group;
c) review and approve all aspects of fixed and variable compensation for the Management Board;
d) approve annual consolidated variable compensation report for the banks employees;
e) opine on Material Risk Takers compensation matters, as they arise;
f) review and approve all aspects of fixed and variable compensation for the Head of the Internal Audit and Compliance function; and
g) exercise other powers and responsibilities vested to the Committee by applicable law, the Bank's Articles of Association or by the Bank's internal rules, to the extent that those comply with applicable law.

The Remuneration Committee makes decisions by a simple majority of votes cast at the meeting. The quorum for a meeting of the Remuneration Committee is a simple majority of all its members. Meetings of the Remuneration Committee are called by the Chairman of the Remuneration Committee.

As of 31 December 2017 the following persons were members of the Remuneration Committee:

Name	Role
Ronald Clarke	Chairman
Maria Luisa Cicognani	Member
Miroslav Singer	Member

4.4.3 Risk Committee

The Risk Committee is a supporting and advisory body of the Supervisory Board. The committee consists of three members elected and recalled by the Supervisory Board from among its own members, with a majority of members being independent.

The Committee shall in particular:

a) advise the Supervisory Board on the Bank's overall current and future risk approach, risk strategy and risk appetite;
b) assist the Supervisory Board in overseeing the implementation of the risk strategy by the Bank's senior management;
c) on a quarterly basis, review the regulatory risk profile of the Bank or any of its subsidiaries;
d) on a quarterly basis, review MONETA Companies' IT security policies and measures;
e) on a quarterly basis, monitor major regulatory risks or issues along with compliance with the Risk Appetite

and with all other risk policies (as approved by the Management Board) and oversee any actions taken as a result of material risk policy breaches;

f) on a quarterly basis, oversee changes MONETA Companies' regulatory risk management environment and other emerging risks and MONETA Companies' readiness for such changes;

g) on a quarterly basis, oversee MONETA Companies' capital and liquidity position via escalation and regular reporting from the Enterprise Risk Management Committee ("ERMC") and Asset and Liability Committee ("ALCO");

h) on an annual or as may be required basis, review key management and control function information and reports (from, including but not limited to, the ERMC and the ALCO to assess the level and nature of the risks MONETA Companies are facing and to make recommendations to the Management and Supervisory Board to adjust its Risk Appetite if necessary); and

i) provide other activities pertaining to business risks of the bank.

The Risk Committee makes decisions by a simple majority of votes cast at the meeting. The quorum for a meeting of the Risk Committee is a simple majority of all its members. Meetings of the Risk Committee are called by the Chairman of the Risk Committee.

As of 31 December 2017 the following persons were members of the Risk Committee.

Name	Role
Miroslav Singer	Chairman
Denis Arthur Hall	Member
Michal Petrman	Member

From 16 January 2018 the following persons are members of the Risk Committee:

Name	Role
Miroslav Singer	Chairman
Denis Arthur Hall	Member
Tomáš Pardubický	Member

4.5 AUDIT COMMITTEE

The Audit Committee is a separate body of the Bank and consists of three members. Composition of the Audit Committee and qualification of its members complies with the requirements set forth by Act No. 93/2009 Coll., on auditors and on amending other acts, as amended, and the members of the Audit Committee also comply with the same eligibility qualifications as members of the Supervisory Board.

The Audit Committee is empowered to:

a) monitor the effectiveness of the Bank's internal control and risk management system;

b) monitor the effectiveness of the Bank's internal audit and its functional independence;

c) monitor the process of compiling the Bank's consolidated and non-consolidated financial statements, and submit recommendations on ensuring the integrity of the accounting and financial reporting systems to the Management Board or to the Supervisory Board;

d) recommend an auditor to the Supervisory Board whereas such recommendation shall be duly reasoned, unless provided otherwise by directly applicable law of the European Union on specific requirements regarding statutory audit of public-interest entities;

e) evaluate the independence of the Bank's auditor and providing non-audit services by that auditor;

f) discuss with the Bank's auditor threats to his/her independence and the safeguards applied by that auditor to mitigate those threats;

g) monitor the process of the statutory audit;

h) opine on the termination of obligation arising from the agreement on performance of the statutory audit or the withdrawal from the agreement on performance of the statutory audit, pursuant to Section 17a sub. 1 of Act No. 93/2009 Coll., on auditors and on amending another laws, as amended (hereinafter the „Act on Auditors");

i) evaluate whether the Bank's auditor engagement shall be subject to an engagement quality control review by another auditor pursuant to Article 4 sub. 3 first subsection of Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, as amended (hereinafter the „EU Regulation No. 537/2014");

j) inform the Supervisory Board of the outcome of the statutory audit and its findings discovered within monitoring the process of the statutory audit;

k) inform the Supervisory Board how the statutory audit contributed to the integrity of the accounting and financial reporting systems;

l) decide whether the statutory audit shall be further carried out by the Bank's auditor pursuant to Article 4 sub. 3 second subsection of the EU Regulation No. 537/2014;

m) approve providing other non-audit services;

n) approve a report on outcome of selection procedure in the selection procedure pursuant to Article 16 of the EU Regulation No. 537/2014;

o) be entitled to inspect documents and records related to the activities of the Bank to the extent required for execution of its activities;

p) receive and discuss with the Bank's auditor information, declarations and notifications as required by applicable laws;

q) provide other Bank's bodies with information on matters within the Audit Committee's competences;

r) prepare a report on its activities, evaluating its activities in relation to the activities specified in Section 44a sub. 1 of the Act on Auditors, and provide this report to the Council for public audit supervision; and

s) exercise all other powers, rights and duties vested to the Audit Committee by applicable laws.

The Audit Committee makes decisions by a simple majority of votes cast at the meeting. The quorum for a meeting of the Audit Committee is a simple majority of all its members. The Audit Committee has discretion to invite to its meetings members of other Bank's corporate bodies, employees, or other persons.

As of 31 December the following persons are members of the Audit Committee:

Name	Role	Position held from	Term ends on
Michal Petrman	Chairman	21 April 2016	21 April 2020
Denis Arthur Hall	Member	21 April 2016	21 April 2020
Zuzana Prokopcová	Member	26 October 2017	26 October 2021

Members of the Audit Committees whose function terminated in 2017:

Name	Position terminated on
Christopher Chambers	20 May 2017

Members of the Audit Committee serve four-year terms and may be re-elected.

The relationship between a member of the Audit Committee and the Bank is governed by a service contract concluded between the Bank and the respective member of the Audit Committee and further by applicable laws. There are no service contracts entered into between the Bank and the members of the Audit Committee providing for benefits upon termination of their office or employment.

For information about **MICHAL PETRMAN**, please see section "Supervisory Board". Service contract between Michal Petrman (as a member of the Audit Committee) and the Bank was entered into on 26 October 2017 and will terminate upon the termination of his office.

For information about **DENIS ARTHUR HALL**, please see section "Supervisory Board". Service contract between Denis Arthur Hall (as a member of the Audit Committee) and the Bank was entered into on 26 October 2017 and will terminate upon the termination of his office.

ZUZANA PROKOPCOVÁ is a member of the Audit Committee of MONETA Money Bank.

Mrs. Zuzana Prokopcová graduated from the University of Economics in Prague, Faculty of finance and accounting. She has extensive experience as an auditor in international advisory company and in the management of large companies. She began her professional career at the international consulting company PricewaterhouseCoopers (PwC) in 1998, where she served as an auditor, focusing mainly on financial institutions. Subsequently, she held the same position for one year in Russia and for two years in Kazakhstan, again within the framework of her work at PwC. In 2014, she became the Vice-Chair of the Board of Directors and CFO of Czech Aeroholding, the leading company in the field of air transport in the Czech Republic, where she was responsible for treasury, accounting, tax, controlling, internal audit and risk management areas. She held the position of the Chair of the Supervisory Board of Czech Airlines Handling, a.s., Czech Airlines Technics, a.s., Realitní developerská, a.s., Sky Venture a.s., Whitelines Indurstries a.s., and B. aircraft, a.s. Zuzana Prokopcová was recommended for her knowledge of financial reporting and IFRS, she is also a Certified member of the Association of Charted Certified Accountants.

Service contract between Zuzana Prokopcová and the Bank was entered into on 26 October 2017 and will terminate upon the termination of her office.

Except as stated above, none of the members of the Audit Committee has been a partner or member of a body of any entity in the past five years.

4.5.1 Activity report of the Audit Committee

In May 2017, Mr. Chris Chambers stepped down from the Audit Committee. In June and July 2017, the Nomination Committee of the Supervisory Board in cooperation with the Audit Committee, conducted a search for suitable candidates for the vacant position. The Nomination Committee, with the support from the Audit Committee, proposed Mrs. Zuzana Prokopcová as the new member. Mrs. Prokopcová was elected to the Audit Committee at the General Meeting held on 26 October 2017.

In 2017, the Audit Committee held 5 meetings and adopted 5 decisions outside the meeting through per rollam voting. The Audit Committee met outside the regular meetings to review proposals for the external statutory auditor. While the Audit Committee, as a whole, is responsible for conducting all its duties in accordance with applicable law, its members agreed to split the main areas of responsibility as follows: Mr. Petrman is responsible for the internal and external audit, Mrs. Prokopcová is responsible for the financial reporting and controls, Mr. Hall is responsible for the risk management.

The Audit Committee activities primarily focused on the following five major areas:

I. Internal control system, compliance and risk management matters

The Audit Committee discussed with the Chief Finance Officer, the Chief Risk Officer and the Chief Compliance Officer internal controls, in particular, around financial reporting, risk and compliance matters. Any significant changes and/or issues relating to these matters were on the agenda of the Audit Committee. In 2017, the Supervisory Board established the Risk Committee focusing on all aspects of the risk management and compliance of the Bank. The Audit Committee continues to oversee effectiveness of internal controls and risk management, with focus on the financial reporting.

II. Preparation of annual financial statements

The Audit Committee reviewed processes and controls relating to the financial reporting and, in particular, to the preparation of the Bank's annual separate and consolidated financial statements for the year 2017. The review of the annual financial statements included inquiries regarding major accounting policies and their changes, significant accounting estimates, compliance with accounting standards and major trends in financial results.

Based on the above and on the basis of the oversight of external audit activities (see below), the Audit Committee concluded that the annual separate and consolidated financial statements for the year ended 31 December 2017 were prepared in accordance with applicable law and accounting standards.

III. Selection of the external statutory auditor and approval of non-audit services provided by the statutory auditor

Based upon the proposal of the Supervisory Board and the recommendation of the Audit Committee, the Annual General Meeting held on 24 April 2017 appointed KPMG Česká republika Audit, s.r.o ("KPMG") as an auditor to conduct the statutory audit of the Bank for the financial year 2017. As KMPG continues to meet all independence requirements, have eminent experience with audit of credit and financial institutions as well as listed companies, the Audit Committee recommends to the Supervisory Board to submit to the General Meeting a proposal for appointment of KPMG to conduct the Bank's statutory audit for the year ending 31 December 2018.

The Audit Committee reviewed the statutory auditor appointment again during 2017 and recommended a new tender for 2020 onwards. Such an early selection should allow to avoid any conflict of interest. In this tender the Bank received offers from all Big 4 firms. The management proposed to shortlist Deloitte Audit, s.r.o. and PricewaterhouseCoopers Audit, s.r.o. as the future statutory auditor of the Bank and also proposed to appoint new auditor already for 2019. Subsequently, PricewaterhouseCoopers Audit, s.r.o. withdrew its proposal due to conflict of interest. The management then proposed Deloitte Audit s.r.o. and Ernst & Young Audit, s.r.o. as the statutory auditor for 2019 onwards with a clear preference for Deloitte Audit s.r.o. This proposal was reviewed and supported by the Audit Committee. As a result of the above steps, the Audit Committee recommended to the Supervisory Board to propose KPMG as the statutory auditor of the Bank for 2018 and Deloitte Audit s.r.o. as the statutory auditor for 2019.

In 2017, the Audit Committee reviewed and approved all requests for performance of non-audit services by KPMG. In its review, the Audit Committee focused on any potential threats to KPMG's independence.

IV. Oversight of internal audit activities

The Audit Committee approved the 2017 internal audit plan and approved all changes of this plan proposed during the year 2017. Summary of key internal audit findings and remedial action plans were regularly presented to the Audit Committee. Implementation of the 2017 internal audit plans was regularly monitored by the Audit Committee. The Audit Committee received and discussed the regular reports from the Head of Internal Audit on the implementation of the Internal Audit Reinforcement Plan. In December 2017, the Audit Committee approved the 2018 internal audit plan.

The Audit Committee did not identify in the year 2017 any material deficiencies in respect of the functioning and independence of the Bank's internal audit function.

V. Oversight of external audit activities

The Audit Committee also monitored the process of the statutory audit of the Bank's annual separate and consolidated financial statements for the year ended 31 December 2017 conducted by KPMG.

The Audit Committee discussed with the external auditor the audit report and the process of the annual statutory audit including unadjusted audit differences and other matters as specified in the agenda.

The Audit Committee reviewed and acknowledged the KPMG's 2017 audit report where KPMG concluded that in their opinion, the consolidated and separate financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The Audit Committee was satisfied with assuring the auditor's independence and with the scope and execution of the statutory audit.

The Supervisory Board was informed by the Audit Committee of the outcome of the 2017 statutory audit, the Audit Committee's observations resulting therefrom and contribution of the statutory audit to the integrity of the Bank's accounting and financial reporting system.

VI. Conclusion

In conclusion, the Audit Committee states that it has fulfilled all of its responsibilities as set forth in applicable Czech and EU law, the Bank's Articles of Association, the Bank's internal rules and policies and where relevant gave recommendations to the Bank's Supervisory Board. Within the scope of its responsibilities, the Audit Committee did not identify any substantial facts relating to the Bank and its activities of which the General Meeting should be informed.

4.6 MANAGEMENT BOARD

4.6.1 Position and powers of the Management Board

The Management Board is the corporate body which manages the Bank's business. The Management Board is charged with business management, including ensuring the proper keeping of the Bank's books. The Management Board further guarantees proper existence, timely evaluation and set up of the management and control system, and ensures the Bank is compliant with law.

The Management Board is responsible for continuous functioning and effectiveness of the management and control system, and creates conditions for the independent and objective performance of compliance-related operations and of internal audit. The Management Board ensures the establishment, maintenance and implementation of the management and control system to ensure the adequacy of information and communication in conducting the Bank's operations. The Management Board shall decide upon all matters concerning the Bank unless assigned to the competence of the General Meeting, the Supervisory Board or the Audit Committee by law or by the Articles of Association.

The Management Board consists of five members (individuals) who comply with law for serving as a member of the Bank's Management Board. They are to be elected for a four-year term by a majority of all Supervisory Board members at the recommendation of the Nomination Committee. The Nomination Committee ensures the trustworthiness, adequate professional qualifications, and experience of the members of the Management Board. The professional qualifications, trustworthiness, and experience of the members of the Bank's Management Board are assessed by the Czech National Bank.

4.6.2 Special powers of the Management Board under Czech law

The Management Board is responsible for the Bank's management and conducts the business activities of the Bank. The Management Board represents the Bank in all matters.

The Management Board shall decide on all the Bank's matters, save for matters reserved for other Bank's bodies by applicable laws or by the Articles of Association. The Management Board shall, inter alia:

a) ensure proper maintenance of the Bank's book-keeping;
b) decide on an increase in the registered share capital, provided that the Management Board has been duly authorized by the General Meeting;
c) decide on establishing and dissolving the Bank's funds and reserves, on the rules relating to such funds and reserves and on the use of resources from such funds and reserves, unless stated otherwise by applicable laws;
d) have discretion to set up any committees and other bodies of the Management Board (hereinafter the "Management Board Bodies") and adopt their statutes;
e) elect and recall members of the Management Board Bodies;
f) exercise rights of the Bank as a shareholder in the Bank's subsidiaries, if any;
g) exercise employer's rights;
h) convene a General Meeting and implement its resolutions;
i) prepare and submit to the General Meeting the following documents:
   i) annual, extraordinary or consolidated and, if required, interim financial statements;
   ii) proposal for a distribution of profit or for a compensation of loss;
   iii) affiliated parties report;
   iv) report on the Bank's business and its assets;
   v) summary report pursuant to Section 118 sub. 9 of the Czech Capital Markets Act;
   vi) proposals to amend the Articles of Association;
   vii) proposals to increase or decrease the registered share capital;
   viii) proposals to issue preference or convertible bonds;
   ix) other documents and proposals, if required by applicable laws or by the Articles of Association; and
j) exercise all other powers, rights and duties vested to the Management Board by applicable laws, including powers, rights and duties of a managing body under Regulation of the CNB No. 163/2014 Coll., on activities of banks, saving and credit unions and securities traders, as amended, or, as the case may be, under any replacement thereof (hereinafter the "CNB Regulation").

Decisions of the Management Board on the following matters or actions are subject to the prior consent of the Supervisory Board:

a) approval or modification of the Bank's strategy, business plan, annual budget and/or organization rules;
b) issue or modification of any material terms or approval of pre-payment of any bonds or any other debt securities (other than deposit taking), unless:
   i) issue of bonds is reserved by applicable laws for the General Meeting; and
   ii) issue or modification of any material terms or approval of pre-payment of any bonds or any other debt securities are included in the approved Bank's business plan and/or annual budget;
c) entering into or modification of any material terms of any agreements concerning loan, credit, guarantee or any other instruments incurring to the Bank financial indebtedness (other than deposit taking), unless included in the approved Bank's business plan and/or annual budget;
d) entering into or modification of any material terms of any loan, credit or guarantee agreements with persons with a special relationship to the Bank pursuant to Act No. 21/1992 Coll., on banks, as amended (hereinafter the "Act on Banks");
e) entering into or modification of any material terms of any agreements concerning loan, credit or any other

financial products with the Bank's receivables in the aggregate nominal value in excess of 5% (five per cent) of the Bank's consolidated equity as recorded in the latest available consolidated quarterly financial statements of the Bank (hereinafter the "Equity"), unless included in the approved Bank's business plan and/or annual budget;

f) approval of any corporate transformation of the Bank, unless approval of such corporate transformation is reserved by applicable laws for the General Meeting;

g) establishment, corporate transformation, dissolution or liquidation of, or acquisition, disposition or encumbrance of any ownership interest in, or increase in the registered share capital of any Bank's subsidiary, unless included in the approved Bank's business plan and/or annual budget;

h) approval or modification or cancellation of any investment with the acquisition value in excess of 5% (five per cent.) of the Equity, unless included in the approved Bank's business plan and/or annual budget;

i) disposition of any non-performing loan, credit or other financial products receivables with the aggregate nominal value in excess of 5% (five per cent.) of the Equity, unless included in the approved Bank's business plan and/or annual budget;

j) acquisition, disposition or encumbrance of any other assets of the Bank with the book value in excess of 5% (five per cent.) of the Equity, if outside the Bank's ordinary course of business and unless included in the approved Bank's business plan and/or annual budget; and

k) approval of any compensation to members of the Bank's staff identified in the Bank's internal rules.

The Management Board makes decisions by a simple majority of votes cast at the meeting. A quorum is present when a simple majority of members of the Management Board is present at a meeting. Members of the Management Board may participate at the Management Board meetings through telephone or other remote means. When necessary in matters of urgency, a decision may be made by the Management Board without holding a meeting. The Management Board has discretion to invite to its meetings members of other Bank's corporate bodies, employees or other persons.

The Management Board consists of five (5) members. No member of the Management Board may be a member of the Supervisory Board or the Audit Committee. Members of the Management Board are elected and recalled by a decision of the Supervisory Board. Members of the Management Board serve four (4) year terms and may be re-elected. Members of the Management Board elect and recall the Chairman and Vice-Chairman of the Management Board from among members of the Management Board. The relationship between a member of the Management Board and the Bank is governed by a service contract concluded between the Bank and the respective member of the Management Board and further by applicable laws.

A member of the Management Board may resign from the Management Board by a written notification delivered to the Chairman of the Supervisory Board or by a written notification addressed to the Chairman of the Supervisory Board and delivered to the Bank's registered office. A member of the Management Board may not resign at an improper time for the Bank.

4.6.3 Members of the Management Board

Name	Position	Appointed	Current end period
Tomáš Spurný	Chairman of the Management Board	1 October 2015	1 October 2019
Philip Holemans	Vice-Chairman of the Management Board	20 April 2016[95]	17 July 2018
Carl Normann Vökt	Member of the Management Board	25 January 2013	25 January 2021[96]
Jan Novotný	Member of the Management Board	16 December 2013	16 December 2021[97]
Albert Piet van Veen	Member of the Management Board	1 May 2017	1 May 2021

The Bank is represented by two board members, one of whom must be the Chairman or Vice-Chairman.

TOMÁŠ SPURNÝ holds a bachelor's degree from New York University and an MBA from Columbia Business School. He started his career at McKinsey & Company and has extensive experience from managerial positions in the banking and financial sector.

Most recently, he served as the CEO and the Chairman of the Management Board of Banca Comerciala Romana, a Romanian subsidiary of Erste Group. Previously he served as the CEO at major banks in the CEE region, including CIB in Hungary, VUB in Slovakia and held the CFO position at Komerční banka. Mr. Spurný also held the CEO positions at PPF and CCS.

On 1 October 2015, he was appointed CEO and Chairman of the Management Board of the Bank for four years. The current service contract between Mr. Spurný and the Bank was entered into on 29 September 2015, became effective on 1 October 2015 and will terminate upon the

95 From 17 July 2014 to 20 April 2016 Mr. Philip Holemans was a Member of the Management Board.

96 In January 2017, the Supervisory Board of the Bank approved the prolongation of the term of Member of the Management Board, Mr. Carl Normann Vökt, for further 4 years, i.e. until January 2021.

97 In December 2017, the Supervisory Board of the Bank approved the prolongation of the term of Member of the Management Board, Mr. Jan Novotný, for further 4 years, i.e. until December 2021.

termination of his office. The service contract provides for the following benefits upon termination of Mr. Spurný's office: in the period of up to nine months following the termination of his office, Mr. Spurný is entitled to receive monthly in arrears a salary continuance equal to his monthly pre-termination base salary, subject to compliance by Mr. Spurný with non-compete obligation. Mr. Spurný has also been a member of the Supervisory Boards of MONETA Leasing since November 2015 and MONETA Auto since May 2016. He was also a Managing Director of GE Capital (Czech) Holdings, s.r.o. between October 2015 and May 2016.

As the Chief Executive Officer, he actively fulfils his duties, which are set by applicable law, internal regulations of the Bank and decisions of the General Meeting of the Bank.

PHILIP HOLEMANS has a Master´s degree in applied economics from Leuven University in Belgium.

He joined GE Capital in 1998, where he worked in increasingly senior positions in Finance. Before joining the Bank, he held the position of the Chief Financial Officer at GE Capital Germany and Benelux for almost five years. Since January 2014, he has held the position of Chief Financial Officer and was appointed on 17 July 2014 as a member of the Management Board of the Bank for four years and on 20 April 2016 as the Vice-Chairman of the Management Board of the Bank. The current service contract between Mr. Holemans and the Bank was entered into on 1 October 2015 and will terminate upon the termination of his office. The service contract provides for the following benefits upon termination of Mr. Holemans's office: He is entitled to an extraordinary payment calculated based on his aggregate annual remuneration (including fixed and variable components) and actual length of his office with the group before the termination of the office. Such extraordinary remuneration would be paid to Mr. Holemans together with the last payment of remuneration.

He has been also a member of the Supervisory Boards of MONETA Leasing since November 2015 and MONETA Auto since May 2016. Mr. Holemans was a Managing Director of GE Money Multiservis between June 2014 and June 2016. In addition, Mr. Holemans is a board member of a Belgian company iSurgic CVBA.

As the Chief Financial Officer, he participates in key decisions pertaining to strategic initiatives, operating model and operational execution. He directs the execution of the finance strategy, and oversees multiple areas of finance (e.g. Controllership, Financial Planning & Treasury Analysis, Pricing).

CARL NORMANN VÖKT holds a university degree with a major in Finance and Marketing gained at the Karl-Franzens University in Graz, Austria.

His career started back in 1990 in Vienna in the area of Project and Structured Finance at Creditanstalt, followed by a short secondment to the International Finance Corporation in Washington. Since 1996 he was working in Poland. During his more than 15-year-stay in Poland, Mr. Vökt held different senior positions in Corporate Banking and Risk Management. The last position he held in Poland was as Chief Risk Officer and Deputy President of the Management Board at Bank BPH in Warsaw.

Since November 2012, Mr. Vökt has held the position of Chief Risk Officer at MONETA Money Bank. On 25 January 2013, he was appointed as a member of the Management Board of the Bank for four years and reappointed with effect from 25 January 2017 for a further four years. The current service contract between Mr. Vökt and the Bank was entered into on 1 January 2017 and will terminate upon the termination of his office. The service contract provides for the following benefits upon termination of Mr. Vökt's office: He is entitled to an extraordinary payment in the amount of nine months´ remuneration in case of the termination of the performance of the office. Such extraordinary remuneration will be paid to Mr. Vökt together with the last payment of remuneration.

He has been also a member of the Supervisory Boards of MONETA Leasing since November 2015 and MONETA Auto since May 2016.

As Chief Risk Officer, he is responsible for the overall direction of the Risk function for the Group. He leads the underwriting, portfolio management and risk management functions and also provides leadership to executive and senior risk managers. He is accountable for enabling the efficient and effective governance of significant risks, and related opportunities, to each business and its various segments.

JAN NOVOTNÝ has worked in several positions at the Bank since joining in 2003.

He began as a commercial banking analyst and later became the data team leader; Mr. Novotný also led product development and ultimately product management. He left in 2007 to gain more experience within the GE Capital Group in Singapore, where he was product manager for SME for the South-East Asia Region (Singapore, the Philippines, Thailand and China). He returned to the Czech Republic the following year, working as Head of the Micro and Small Enterprises Segment, and later as the Manager of the entire SME segment of the Bank.

Mr. Novotný was appointed Chief Commercial Banking Officer in May 2013 and on 16 December 2013 a member of the Management Board for four years. On 10 August 2017, his service contract was extended for additional four years and will terminate upon the termination of his office. The current service contract between Mr.

Novotný and the Bank was entered into on 19 September 2017 and will terminate upon the termination of his office. The service contract provides for the following benefits upon termination of Mr. Novotný's office: He is entitled to an extraordinary payment in the amount of nine months´ remuneration in case of the termination of the performance of the office. If Mr. Novotný becomes entitled to the extraordinary payment, the extraordinary payment will be paid to Mr. Novotný following the termination of performance of the office in nine equal monthly installments.

He has also been a member of the Supervisory Boards of MONETA Leasing since November 2015 and MONETA Auto since May 2016.

As a Chief Commercial Banking Officer, he is responsible for leading and managing all aspects of the client relationship and portfolio performance. His mandate is to manage and increase assets and accounts, profitably execute growth initiatives, introduce additional products, manage assigned resources and enhance client relationships in order to retain and grow the business.

ALBERT PIET VAN VEEN studied Management Science and Business Engineering at Eindhoven University of Technology, and Logistical and Physical Distribution Systems at Technical University of Crete.

During more than twenty years of his professional career he has gained experience in telecoms, banking and insurance from several countries. At ING, where he worked for 8 years, he was CIO for ING RE and responsible for the IT separation of ING Insurance and transformation into NN and for the IPO.

He came to MONETA Money Bank from Schiphol Group, where he was Chief Digital Officer. As the leader of digital transformation, he managed to accelerate digital services and, together with a team of innovators, he explored new technologies to find new business models for the Schiphol airport to become the best digital airport in the world.

In the Bank he is responsible for the Agile transformation of MONETA and in charge of IT, Shared Services Centre and the Project Management Team. Since May 2017, he has been Chief Operating Officer and a member of the Management Board of MONETA Money Bank. The service contract between Mr. Van Veen and the Bank was entered into on 1 May 2017 and will terminate upon the termination of his office. The service contract provides for the following benefits upon termination of Mr. Van Veen's office: Mr. Van Veen is entitled to an extraordinary payment in the amount of nine months´ remuneration in case of the termination of the performance of the office. Such extraordinary remuneration will be paid to Mr. Van Veen together with the last payment of remuneration.

Except as stated above, none of the members of the Management Board has been a partner or member of a body of any entity in the past five years.

4.6.4 Activity report of the Management Board

During 2017, the main tasks of the Management Board were supporting expansion of business activities across both the retail and commercial franchise and introducing new digital strategy of the Bank. The Management Board prepared and discussed the separate and consolidated annual financial results of the Bank for the financial year 2016 and notes thereto which were prepared under International Financial Reporting Standards (IFRS) as adopted by EU.

The Management Board submitted the separate and consolidated financial statements of the Bank for the financial year 2016 for review to the Supervisory Board and then to the Annual General Meeting held on 24 April 2017, where they were approved. The Management Board also submitted a proposal regarding 2016 net profit distribution to the Supervisory Board for review, which was subsequently approved at the Annual General Meeting held on 24 April 2017. At the Annual General Meeting, the Management Board also presented their report on the Bank's Business Activities and a proposal for appointment of the external statutory auditor. The Management Board also prepared and approved the Bank's Annual Report for the financial year 2016.

During 2017, the Management Board regularly reviewed and published the Banks's quarterly financial results.

In 2017, the Management Board held totally 50 meetings. The average length of Management Board meetings held in 2017 was 4 hours.

In 2017, the Management Board regularly evaluated the Bank's capital adequacy and approved the Internal Capital Adequacy Assessment Process (ICAAP) which was submitted to the Czech National Bank in accordance with the CNB Decree No. 163/2014 Coll., as amended. While taking into consideration the solvency test, the Management Board decided on the payment of dividends for the financial year 2016, as approved by the Annual General Meeting held on 24 April 2017. The Management Board also discussed capital management policy, reports on the market situation and the development in the structural risks for each quarter of the year 2017.

As part of its activities, the Management Board regularly assessed all risks to which the Bank is exposed. In the field of risk management, the Management Board discussed on a regular basis reports on the developments in market and capital risks and developments in lending on capital markets. At the same time, the Management Board discussed and approved limits on market risks and approved certain large loans provided to clients. The Management Board approved competences in providing the loans and dealt with issues on risk management supervision across the entire Group. In the operational risks area, the Management Board discussed the regular quarterly reports containing information on the results of the first level controls.

Compliance risks were evaluated by the Management Board both in the annual report for the financial year 2016 and in the quarterly reports on the development of these risks. At the same time, the Management Board approved the 2016 annual evaluation report on the Bank's system against money laundering and the financing of terrorism.

The Management Board continued to oversee preparation for future compliance with new regulation, most importantly the PSD II and GDPR preparations.

The Management Board identified those employees whose professional activities have a material impact on the Bank's risk profile. In the area of Internal Audit, the Management Board discussed a number of documents and was regularly informed of all actions carried out by Internal Audit. The management of remedial measures and their proper implementation were fully addressed by the Management Board.

The Board monitored the status of individual projects relating to IT and digital strategy, updated the information security policy and approved the information management strategy.

The Management Board evaluated the overall functioning and efficiency of the Bank's management and control system, which is functional and effective. Furthermore, the Management Board addressed reports on the handling of complaints and claims (including complaints sent to the Bank's Ombudsman).

The Management Board also discussed the Bank's strategic direction and business plan for the next year.

The Management Board discussed all issues falling within its competence as the sole shareholder in performing duties of the General Meeting in the Group's subsidiaries, such as approving financial statements, election and remuneration of members of company bodies, amendments to the articles of association, appointment of auditors and other matters.

As part of its activities, the Management Board decided on many other issues related to organisational structure, approving directives within various arms or granting powers of attorney.

Great attention was further devoted to corporate governance issues in the context of new developments in Czech legislation and in the context of corporate governance. The Management Board evaluated its own activities in 2016 and submitted its report on those activities for this period to the Supervisory Board.

4.7 COMMITTEES ESTABLISHED BY THE MANAGEMENT BOARD

The committees established by the Management Board, their roles and responsibilities, and their composition as of 31 December 2017 are listed below.

4.7.1 Asset & Liability Committee

The Asset & Liability Committee (ALCO) is responsible for the management and coordination of activities in the area of assets & liabilities management, market risk and liquidity risk management of companies of the Group.

Its main responsibilities include: advising the Management Board in the area of assets & liabilities management; market and liquidity risk management; monitoring market and liquidity risk, assets & liabilities structure, and approving remediation measures in case of adverse trends, or limit breaches; approving methods, scenarios and limits; approving limits for funding; approving investment products and transaction limits for Treasury transactions; approving investment strategy for Treasury transactions; approving Funds Transfer Pricing methodology; approving funding strategy for Treasury; and assessing profitability of Treasury transactions.

The committee makes decisions by a simple majority of votes present at the meeting. The quorum for a meeting of the committee is a half of its voting members exercising a simple majority of votes of all voting members. If absent, a voting member of the committee may appoint another voting member to exercise his or her voting rights. Non-voting members have no voting rights.

Voting members	
Chief Financial Officer	**Philip Holemans** (Chairman)
Chief Executive Officer	**Tomáš Spurný** (Vice-Chairman)
Chief Risk Officer	**Carl Normann Vökt**
Chief Commercial Banking Officer	**Jan Novotný**
Senior Manager Treasury, Finance	**Matej Godál** (till 31 December 2017)
Non-voting members	
Chief Products & Marketing Officer	**Andrew Gerber**
Chief Retail Growth Officer	**Aleš Sloupenský**
Chief Legal Officer	**Tomáš Černý**
Senior Manager Enterprise Risk Management, Risk Management	**Martin Kubíček**
Manager Treasury, Finance	**Ondřej Fuka**
Senior Manager FP&A, Finance	**Vít Legerský**
Manager ALM, Finance	**Petra Buzková**

4.7.2 Credit Committee

The Credit Committee (CRCO) is responsible for the management and coordination of activities in the area of credit risk of the Group.

Its main responsibilities include: advising the Management Board concerning credit risk; maintaining proper methods for credit risk management; managing the credit portfolio and its limits as well as collateral, including setting action plans in case of limit breaches; approving credit-risk-related stress tests and other parameters and monitoring of their results; tracking and assessing the changes of macro-economic environment as well as external legislation and regulation relevant for credit risk management; keeping the internal control system and processes for credit risk management efficient and adequate; informing other relevant bodies of the Group about significant events in the area of credit risk management; evaluating, approving and monitoring large exposures, including those towards financial institutions, governments and countries; monitoring of loan-loss provisions and their overall trends; and tracking large defaulted exposures and credit frauds.

The committee makes decisions by a simple majority of votes present at the meeting. The quorum for a meeting of the committee is a half of its voting members exercising a simple majority of votes of all voting members. If absent, a voting member of the committee may appoint another voting member to exercise his or her voting rights. Non-voting members have no voting rights.

Voting members	
Chief Risk Officer	**Carl Normann Vökt** (Chairman)
Chief Executive Officer	**Tomáš Spurný** (Vice-Chairman)
Chief Financial Officer	**Philip Holemans**
Chief Commercial Banking Officer	**Jan Novotný**
Non-voting members	
Chief Products & Marketing Officer	**Andrew Gerber**
Chief Retail Growth Officer	**Aleš Sloupenský**
Chief Legal Officer	**Tomáš Černý**
Senior Manager Commercial PMT & Underwriting, Risk Management	**Miroslav Sedlák**
Senior Manager Collections & Recovery, Risk Management	**Jana Pěchoučková**
Senior Manager Consumer risk, Risk Management	**Jan Dlabola**
Senior Manager Enterprise Risk Management, Risk Management	**Martin Kubíček**
Senior Manager Treasury, Finance	**Matej Godál** (till 31 December 2017)

4.7.3 Enterprise Risk Management Committee

The Enterprise Risk Management Committee (ERMC) is responsible for the management and coordination of activities in the area of risk management framework, internal control system, internal capital adequacy assessment process (ICAAP), operational risk and model risk management of the Group.

Its main responsibilities include: advising to the Management Board concerning risk management framework, internal control system and ICAAP; monitoring of effectiveness and adequacy of internal control system; ensuring effective, efficient and reliable methods for risk management; reviewing risk management limits; approving limits, scenarios, Key Risk Indicators and other parameters used in operational risk management; monitoring trends and limits in operational risk and approving remedial actions in case of adverse trends; reviewing and approving information security principles; approving ICAAP principles and remedial measures in case of recognised deficiencies; monitoring risks identified within ICAAP; and approving methodology for risk weighted assets.

The committee makes decisions by a simple majority of votes present at the meeting. The quorum for a meeting of the committee is a half of its voting members exercising a simple majority of votes of all voting members. If absent, a voting member of the committee may appoint another voting member to exercise his or her voting rights. Non-voting members have no voting rights.

Voting members	
Chief Risk Officer	**Carl Normann Vökt** (Chairman)
Chief Executive Officer	**Tomáš Spurný** (Vice-Chairman)
Chief Financial Officer	**Philip Holemans**
Chief Commercial Banking Officer	**Jan Novotný**
Chief Operating Officer	**Albert Piet van Veen**
Non-voting members	
Chief Legal Officer	**Tomáš Černý**
Chief Compliance Officer	**Thomas Dodd**
Senior Manager Enterprise Risk Management, Risk Management	**Martin Kubíček**
Operational Risk Manager, Risk Management	**Milan Hroníček**
Senior Manager Treasury, Finance	**Matej Godál** (till 31 December 2017)

4.7.4 Business Review Committee (former Pricing Committee)

The Business Review Committee is responsible for the management and coordination of activities in the area of rates and fees and overall profitability of products and segments of the Group.

The Business Review Committee mainly reviews and approves the Group's pricing strategy, approves rates and fees for particular products, ensures compliance of rates and fees with legal and regulatory requirements, and approves parameters and conditions of contracts with external distribution partners.

The committee makes decisions by a simple majority of votes present at the meeting. The quorum for a meeting of the committee is a half of its voting members. If absent, a voting member of the committee may appoint another voting member to exercise his or her voting rights. Non-voting members have no voting rights.

Voting members	
Chief Executive Officer	**Tomáš Spurný** (Chairman)
Chief Financial Officer	**Philip Holemans** (Vice-Chairman)
Chief Products & Marketing Officer	**Andrew Gerber**
Chief Commercial Banking Officer	**Jan Novotný**
Chief Retail Growth Officer	**Aleš Sloupenský**
Senior Manager Treasury, Finance	**Matej Godál** (till 31 December 2017)

Non-voting members	
Senior Manager Products Developments, Commercial Banking	**Lukáš Krejza**
Manager Product Finance, Finance (Retail Product Finance)	**Radovan Mareček**
Manager Product Finance, Finance (Commercial Product Finance)	**Ondřej Vejdovec** (till 30 November 2017)

4.7.5 Compensation Committee (former Incentive Payment Review Committee)

The Compensation Committee is responsible for management and coordination of activities in the area of compensations and benefits for the employees of the companies of the Group.

The main responsibilities include preparing compensation and benefits strategy and communicating it; defining Material Risk Takers and reviewing their compensation and benefits (except of members of the Bank's Management Board); approving budget and certain changes for salaries and incentive plans; and quarterly reviewing payments from incentive plans and exemptions.

The committee makes decisions by a simple majority of votes present at the meeting. The quorum for a meeting of the committee is a half of its voting members. Non-voting members have no voting rights.

Voting members	
Chief Executive Officer	**Tomáš Spurný**
Chief Financial Officer	**Philip Holemans**
Chief Risk Officer	**Carl Normann Vökt**
Non-voting members	
Chief Human Resources Officer	**Klára Sokolová** (Chair)

4.7.6 Compliance and Anti-Fraud Committee

The Compliance & Anti-Fraud Committee (CAFC) is responsible for the management and coordination of activities in the area of internal controls, compliance risk and anti-fraud management of companies of the Group.

Its main responsibilities include: using reliable, efficient and effective methods for managing compliance risk; maintaining a reliable and integrated framework for managing compliance risk; approving methods and limits for compliance risk management; approving remedial measures in case of identified deficiencies of internal controls; reviewing new legislation and regulation and addressing responsibility for their implementation; and reviewing anti-fraud reports and approving material remedial measures in the area of anti-fraud management.

The committee makes decisions by a simple majority of votes present at the meeting. The quorum for a meeting of the committee is a half of its voting members exercising a simple majority of votes of all voting members. If absent, a voting member of the committee may appoint another voting member to exercise his or her voting rights. Non-voting members have no voting rights.

Voting members	
Chief Compliance Officer	**Thomas Dodd** (Chairman)
Chief Risk Officer	**Carl Normann Vökt** (Vice-Chairman)
Chief Executive Officer	**Tomáš Spurný**
Chief Commercial Banking Officer	**Jan Novotný**
Non-voting members	
Chief Controller, Finance	**Martin Svozil** (till 31 December 2017)
Operational Risk Manager, Risk Management	**Milan Hroníček**
Chief Audit Officer , Internal Audit	**Martin Wrlík**

4.7.7 Clusters and Projects Investment Committee (former Project Management Committee)

The Clusters and Projects Investment Committee is responsible for project management issues, project tollgates approvals and the detailed allocation of human resources to individual projects and strategic activities of clusters of companies of the Group.

The Clusters and Projects Investment Committee mainly monitors projects and strategic activities of clusters; proposes and makes decisions regarding development activities and their prioritisation (Toplist – projects list, clusters); approves project tollgates for particular project phases (initiation, planning, execution and close-out); and approves changes to or terminations of projects, if relevant. The Committee also regularly monitors and assesses reports on pending projects and clusters and evaluates closed projects' contributions. Further, it considers the material content of important projects and strategic activities of clusters and their links, as well as their use of financial and non-financial resources.

The committee makes decisions by a simple majority of votes present at the meeting. The quorum for a meeting of the committee is a half of its voting members exercising a simple majority of votes of all voting members. If absent, a voting member of the committee may appoint another voting member to exercise his or her voting rights. Non-voting members have no voting rights.

Voting members	
Chief Operating Officer	**Albert Piet van Veen** (Chairman)
Chief Executive Officer	**Tomáš Spurný**
Chief Financial Officer	**Philip Holemans**
Chief Risk Officer	**Carl Normann Vökt**
Chief Commercial Banking Officer	**Jan Novotný**
Non-voting members	
Chief Information Officer	**Vladimír Klein**
Manager IT PMO, Information Technologies	**Miroslav Zvrškovec**

4.7.8 Capital Committee

The Capital Committee (CAPCO) was responsible for the coordination of activities in the area of capital management of the companies of the Group.

Its main responsibilities include: advising the Management Board on capital structure and dividend policy; monitoring capital, capital requirements (regulatory and internal); providing operational oversight over Internal Capital Adequacy Assessment Process; and reviewing and approving capital allocation to particular products (leverages).

The committee makes decisions by a simple majority of votes present at the meeting. The quorum for a meeting of the committee is a half of its voting members exercising a simple majority of votes of all voting members. If absent, a voting member of the committee may appoint another voting member to exercise his or her voting rights. Non-voting members have no voting rights.

In December 2017, the Management Board decided to cancel CAPCO and split its agenda between ALCO and ERMC since January 2018.

Voting members	
Chief Executive Officer	**Tomáš Spurný** (Chairman)
Chief Financial Officer	**Philip Holemans** (Vice-Chairman)
Chief Risk Officer	**Carl Normann Vökt**
Chief Commercial Banking Officer	**Jan Novotný**
Senior Manager Treasury, Finance	**Matej Godál** (till 31 December 2017)
Non-voting members	
Senior Manager Enterprise Risk Management, Risk Management	**Martin Kubíček**
Chief Controller, Finance	**Martin Svozil** (till 31 December 2017)
Senior Manager FP&A, Finance	**Vít Legerský**
Manager ALM, Finance	**Petra Buzková**
Manager Treasury, Finance	**Ondřej Fuka**

4.7.9 Business Continuity Management Committee

The Business Continuity Management Committee is responsible for the planning and preparation of the Business Continuity Management Programme.

Its main responsibilities include: advising the Management Board on business continuity management; recommending the Business Continuity Management Programme for the Management Board's approval; deciding on requirements for the risks connected with the area of business continuity management; reviewing and assessing control reports of regulatory authorities in the area of business continuity management; and reviewing the results of business continuity tests and monitoring remediate measures in case of any identified deficiencies.

The committee makes decisions by a simple majority of votes present at the meeting. The quorum for a meeting of the committee is a simple majority of all its members or their deputies. If absent, a member of the committee may appoint a deputy to exercise his or her voting rights.

Voting members	
Chief Shared Services Officer	**Jiří Huml** (Chairman)
Chief Information Officer	**Vladimír Klein**
Chief Compliance Officer	**Thomas Dodd**
Senior Manager Products Development, Commercial Banking	**Lukáš Krejza**
Senior Manager, Human Resources	**Alena Patrovská** (till 30 November 2017)
Senior Manager Communication and CSR, Communication	**Martina Lambert**
Senior Manager Enterprise Risk Management, Risk Management	**Martin Kubíček**
Product, Process & System Assurance Manager, Retail Sales	**Blanka Lešáková**

4.8 KEY EXECUTIVE MANAGERS

The Chief Products & Marketing Officer and the Chief Retail Distribution Officer are the Bank's Key Executive Managers. They provide strategic recommendations to the Management Board on retail products, marketing and retail franchise development and, in accordance with internal governance policies of the Bank, have the power to make certain managerial decisions that may affect future development and the commercial strategy of the Bank.

The Chief Products & Marketing Officer manages and executes retail product and digital strategies and aligns product development strategy with the wider business objectives and goals of the Bank.

The Chief Retail Distribution Officer participates in the key decisions related to strategic initiatives and operational execution in the retail franchise, being responsible for the alignment of the retail client relationship and portfolio performance in the retail franchise.

Name	Position	Employed since
Andrew Gerber	Chief Products & Marketing Officer	1 July 2016
Aleš Sloupenský	Chief Retail Distribution Officer	1 April 2014

ANDREW GERBER

Andrew Gerber holds a bachelor degree from Durham University in the United Kingdom. Mr. Gerber started his career at Bain and Company where he worked in Australia, Sweden and the UK. He entered banking permanently in 2002 working at several British institutions, including Royal Bank of Scotland where he was responsible for retail lending (incl. mortgages) and insurance activities. Before joining MONETA Money Bank, Mr. Gerber spent 5 years in Banca Comerciala Romana, a Romanian subsidiary of Erste Group as the Executive Director for retail product and segment management.

Since July 2016, he has held the position of Chief Products & Marketing Officer at MONETA. In this role Mr. Gerber is responsible for the strategy and performance of the Bank's retail franchiseproducts, including product development, pricing and financial performance. Mr. Gerber also leads the Bank's digital transformation and customer analytics/CRM development.

Employment contract between Mr. Gerber and the Bank was entered into on 1 July 2016 for an indefinite period of time. The employment contract provides for the following benefits upon termination of Mr. Gerber's employment: employee is entitled to an extraordinary bonus in the amount of six times the basic salary of the employee.

ALEŠ SLOUPENSKÝ

Mr. Sloupenský studied marketing and management at the Faculty of Economics of the University of West Bohemia in Plzeň and has an MBA degree from Nottingham Trent University in Great Britain. During his career, he has focused on retail banking. He worked in Česká spořitelna, where for 12 years he was responsible for management and development of the retail distribution network. He also held management positions in Komerční banka and Bank Austria Creditanstalt Czech Republic. Mr. Sloupenský gained foreign experience in Banca Comerciala Romana, where he cooperated to create a successful retail development strategy. Since April 2014, he has held the position of Chief Retail Distribution Officer of the Bank. As Chief Retail Distribution Officer, Mr. Sloupenský participates in the key decisions related to strategic initiatives, operating model and operational execution in the retail division of the Bank. He is also responsible for alignment of the client relationship and portfolio performance in retail and effective growth of the assigned portfolio to increase assets and accounts.

Employment contract between Mr. Sloupenský and the Bank was entered into on 1 April 2014 and was entered into for an indefinite period of time. The employment contract does not provides any specific benefits upon termination of Mr. Sloupenský's employment.

None of the Key Executive Managers have been a partner or member of any entity body in the past five years.

4.9 OTHER INFORMATION ON MEMBERS OF THE MANAGEMENT BOARD, THE SUPERVISORY BOARD, THE AUDIT COMMITTEE AND KEY EXECUTIVE MANAGERS

In the last five years, no member of the Management Board, the Supervisory Board and the Audit Committee, and no Key Executive Manager has been:

- convicted in relation to any fraudulent offence;
- subject to any official public incrimination and/ or sanctions by statutory or regulatory authorities (including designated professional bodies);
- disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer of securities or from acting in the management or conduct of the affairs of any issuer of securities; and
- associated with any bankruptcies, receiverships or liquidations, when acting in his/her capacity as a member of the administrative, management or supervisory body or as a senior manager.

There are no conflicts of interest between the duties of members of the Management Board, the Supervisory Board and the Audit Committee and Key Executive Managers and their private interests or other duties.

4.10 REMUNERATIONS AND BENEFITS OF MEMBERS OF THE MANAGEMENT BOARD, THE SUPERVISORY BOARD AND KEY EXECUTIVE MANAGERS

4.10.1 Remuneration and Benefits of the Management Board Members – Key Principles

For performance of their office, members of the Management Board are rewarded by a fixed remuneration and an annual variable remuneration. In addition, certain benefits are provided to the Management Board members.

The remuneration is rewarded, and the benefits are provided to the Management Board members in accordance with regulatory requirements under the CRD IV and its transposition into Czech law by the CNB Decree No. 163/2014 Coll., as amended.

4.10.1.1 Fixed Remuneration

The fixed remuneration is paid in cash by the Bank to the Management Board members monthly in arrears. The amount of the monthly fixed remuneration is agreed in a service contract between the Bank and a Management Board member.

The amount of the fixed remuneration reflects responsibility and professional experience of each Management Board member. The amount of the fixed remuneration is subject to an approval of the Supervisory Board (upon proposal of the Remuneration Committee).

4.10.1.2 Variable Remuneration for Performance (Fiscal) year 2017

Applicable Internal Policy

Awarding the annual variable remuneration to the Management Board members for performance (fiscal) year 2017 and onward is subject to the terms and conditions detailed in the Executive Variable Incentive Plan (the "EVIP") policy. The EVIP policy was adopted by the Supervisory Board (upon proposal of the Remuneration Committee).

The amount of the variable remuneration awarded to, but not received yet in cash as at the date hereof by, the Management Board members for the performance year 2017 under the EVIP policy is presented in the table in section "Remuneration and Benefits Awarded to and Received by Management Board Members within 2017", in the row "Variable remuneration awarded (related to performance (fiscal) year 2017, recognised, but not received in cash)".

Purpose
Annual variable remuneration under the EVIP policy is designed to reward performance of each Management Board member throughout the performance (fiscal) year, scored against performance, risk and non-financial targets of: (a) the Group, (b) each individual Management Board member, and (c) a business department managed by a Management Board member (together, the "KPIs").

The EVIP policy is based on the following principles:

- **Regulatory Compliance:** reflecting good corporate governance and regulatory compliance, ensuring sustainability and effective risk management;
- **Shareholder Alignment**: reflecting shareholder value interest, through the linking of the Management Board's variable remuneration and promotion of share ownership as an integral part of the EVIP policy;
- **Pay for Performance**: long established best practice, pay for performance, rewards or penalises, individual and group remuneration, based on performance against specific KPIs, both internally (individual / department / group objective achievement) and externally (shareholder return). Ultimately, ensuring attraction, retention and motivation of top performers and sound management of the Group; and
- **Equity - Internal / External**: EVIP policy reflects internal equity requirements and prudent risk management of the Group, based on organisational level, individual responsibilities, long term performance and non-discrimination. Further, the EVIP policy utilises external market benchmarks where feasible.

Key Performance Indicators of the Management Board
The quantitative and qualitative KPIs are approved for each Management Board member by the Supervisory Board in the early stages of each performance year.

Both quantitative and qualitative KPIs are approved by the Supervisory Board based on medium-term strategy and latest business plan and incorporate annual financial, risk and non-financial targets at the individual, department and Group levels which can be effectively measured and evaluated. Therefore, the eligibility of a Management Board member for the annual variable remuneration under the EVIP policy is primarily determined by the fulfilment of such KPIs.

The quantitative KPIs include ratios reflecting Group's main strategic areas, namely (i) Capital and Liquidity, (ii) Profitability, (iii) Efficiency, (iv) Risk management and (v) Growth.

The qualitative KPIs include, the Group's strategic objectives which are equally important in execution of the medium-term strategy and are complementary to quantitative objectives.

Application
Following the end of each performance (fiscal) year, a budget for the maximum aggregate annual variable remuneration which may be awarded under the EVIP policy to all Management Board members for the respective performance (fiscal) year is set, in accordance with the operation business plans, actual results, financial soundness and risk position of the Group.

The annual performance evaluation of the previous performance (fiscal) year at the individual, department and Group levels is conducted in the first quarter of the subsequent fiscal year.

Calculations and resulting variable remuneration awards under the EVIP policy to the individual Management Board members are subject to the prior approval of the Supervisory Board (based upon recommendation of the Remuneration Committee).

If the KPIs are delivered at the individual, division and Group levels, the annual variable remuneration under the EVIP policy (determined as a CZK amount) awarded to a Management Board member comprises the following components:

	Cash non-deferred	Cash Deferred	Phantom Shares deferred
	(paid in the performance (fiscal) year + 1)*	(deferred and released from performance (fiscal) year + 2 through to performance (fiscal) year + 4)*	
Percentage of annual variable remuneration award	30%	20%	50%

* The performance (fiscal) year + 1 means the fiscal year immediately following the performance year. The performance (fiscal) year + 2 means the second fiscal year following the performance year. The performance (fiscal) year + 3 means the third fiscal year following the performance year. The performance (fiscal) year + 4 means the fourth fiscal year following the performance year.

Cash Non-Deferred & Deferred
The non-deferred cash component of the annual variable remuneration awarded under the EVIP policy is payable to the Management Board members on the regular payroll date in the calendar month following the Annual General Meeting held in the performance (fiscal) year + 1.

The deferred cash component of the annual variable remuneration awarded under the EVIP policy is payable to the Management Board members on the yearly basis in three equal instalments from the performance (fiscal) year + 2 through to the performance (fiscal) year + 4. Each instalment is payable on the regular payroll date in the calendar month following the respective Annual General Meeting held in the performance (fiscal) year + 2 through to the performance (fiscal) year + 4.

Phantom Shares

The Phantom Shares under the EVIP policy represent cash settled share-based remuneration arrangement. The Phantom Shares are not existing shares or other securities issued by the Bank or any other member of the Group. The Phantom Shares are not exchangeable for any shares or any other securities issued (or to be issued) by the Bank or any other member of the Group. The Phantom Shares do not constitute an option or right to acquire any shares or any other securities issued (or to be issued) by the Bank or any other member of the Group.

In the performance (fiscal) year + 1, each member of the Management Board is awarded with a certain number of the Phantom Shares with the aggregate (CZK) value equal to 50% of the aggregate annual variable remuneration award. The number of the awarded Phantom Shares is calculated based on the average closing price of the Bank shares on the Prague Stock Exchange for the first twenty trading dates in the performance (fiscal) year + 1.

The value of the awarded Phantom Shares is paid in three cash instalments from the performance (fiscal) year + 2 through to the performance (fiscal) year + 4, subject to progression or regression tied to developments in the market price of the Bank shares and profit distributions by the Bank. Effective from the performance year 2019, utilization of a benchmark index (e.g. PX index) will be applied to the calculation of the value of the Phantom Shares to act as an additional accelerating/decelerating co-efficient.

Each Phantom Shares instalment is payable to the Management Board members on the regular payroll date in the calendar month following the respective Annual General Meeting the performance (fiscal) year + 2 through to the performance (fiscal) year + 4.

Deferred part of remuneration for the related period is evaluated each year. The number of phantom shares is multiplied by TSR (total shareholder return) coefficient. TSR is calculated as follows:

$$1.0 + \frac{\text{(MMB Share Price End – MMB Share Price Begin + Dividend per Share)}}{\text{MMB Share Price Begin}}$$

Adjusted for relative Capital change (e.g. dilution of total MMB shares traded)

MMB Fiscal and Performance Evaluation Year defined as January 1 - December 31.

Maximum Potential of Variable Remuneration

The maximum amount of the annual variable remuneration award to a member of the Management Board is 100% of the annual fixed remuneration of such Management Board member, unless higher ratio (up to 200% of the annual fixed remuneration) is approved by the General Meeting.

Malus & Clawback

The variable remuneration may be subject to malus and clawback. This enables the Supervisory Board to seek to recoup from the Management Board members part or all of the awarded and /or paid variable remuneration, in particular, if the Group suffers material financial or risk difficulties or in case of a material misconduct by a Management Board member.

4.10.1.3 Deferred and Non-Deferred Variable Remuneration for Performance (fiscal) Years 2013 to 2016

In the fiscal year 2017, the Bank paid to the Management Board members the following portions of the deferred cash variable remuneration:

- one third of the deferred cash variable remuneration awarded in 2014 to the respective Management Board members for the performance (fiscal) year 2013;
- one third of the deferred cash variable remuneration awarded in 2015 to the respective Management Board members for the performance (fiscal) year 2014; and
- one third of the deferred cash variable remuneration awarded in 2016 to the respective Management Board members for the performance (fiscal) year 2015.

In addition, the Bank paid in 2017 to the Management Board members the non-deferred cash variable remuneration awarded in 2017 for the performance (fiscal) year 2016.

For information on the Group's policy, under which the cash variable remuneration for the performance (fiscal) years 2013 to 2016 was awarded, please see pages 71 and 72 of the Consolidated Annual Report for the year 2016 published on the Bank's website.

In 2017, the Bank also paid in cash to the Management Board members the relevant portions of the value of the deferred Phantom Shares, as follows:

- one third of the deferred Phantom Shares awarded in 2014 to the respective Management Board members for the performance (fiscal) year 2013;

- one third of the deferred Phantom Shares awarded in 2015 to the respective Management Board members for the performance (fiscal) year 2014; and
- one third of the deferred Phantom Shares awarded in 2016 to the respective Management Board members for the performance (fiscal) year 2015.

The deferred Phantom Shares awarded for the performance (fiscal) years 2013 to 2015 were converted to cash in 2017 on the basis of the Risk Adjusted Return on Capital (the "RAROC") ratio as follows:

ΔRAROC	Deferred Phantom Shares
> 125%	130%
105% – 125%	110%
95% – 105%	100%
85% – 95%	90%
75% – 85%	80%
<75%	0%

RAROC ratio represents return on capital employed adjusted by risks that the Bank is facing.

The above described deferred and non-deferred variable remuneration for the (fiscal) years 2013, 2014, 2015 and 2016 paid in the year 2017 by the Bank to the Management Board members in cash:

- has been already shown as accruals in the respective annual financial statements of the Bank for the (fiscal) years 2013, 2014, 2015 and 2016 which are published on the Bank's website; and
- is presented in the table in section "Remuneration and Benefits Awarded to and Received by Management Board Members within 2017", in the row "Variable remuneration (received in cash and related to performance (fiscal) years 2013 - 2016)".

4.10.1.4 Benefits

The following benefits are provided to the Management Board members:

- insurance premium for life insurance in the amount of up to CZK 250,000 per year is paid to the benefit of one Management Board member;
- One member of the Management Board is entitled to receive the money as pension allowance to the maximum amount 14.66% of calculated pensionable earnings;
- school tuition for children less than eighteen years old is paid to three Management Board members, when two members are entitled to receive up to CZK 546,000 per year and one Management Board member is entitled to receive up to CZK 746,372;
- a company car is provided to each Management Board member;
- health care programme is provided to each Management Board member;
- contribution through the cafeteria plan valued at CZK 79,600 per year is provided to the Chairman of the Management Board for sport activities, leisure or pension plan use (the unused amount may be converted to cash); and
- contribution through the cafeteria plan valued at CZK 40,600 per year is provided to each member of the Management Board (other than the Chairman) for sport activities, leisure or pension plan use (the unused amount may be converted to cash).

4.10.2 Remuneration of Key Executive Managers – Key Principles

Key Executive Managers (for further information see section the "Key Executive Managers") are employed under employment contracts between them and the Bank.

For performance of their employment, members of the Key Executive Managers are rewarded by a fixed remuneration and an annual variable remuneration. In addition, certain benefits are provided to the Key Executive Managers.

The remuneration is rewarded and the benefits are provided to the Key Executive Managers in accordance with regulatory requirements under the CRD IV and its transposition into Czech law by the CNB Decree No. 163/2014 Coll., as amended.

4.10.2.1 Fixed Remuneration

The fixed remuneration is paid in cash by the Bank to the Key Executive Managers monthly in arrears. The amount of the monthly fixed remuneration is agreed in an employment contract between the Bank and each of the Key Executive Managers.

The amount of the fixed remuneration reflects responsibility and professional experience of each Key Executive Manager. The amount of the fixed remuneration is subject to an approval of the Management Board.

4.10.2.2 Variable Remuneration for Performance (Fiscal) year 2017

Awarding the annual variable remuneration to the Key Executive Managers for performance (fiscal) year 2017 and onward is subject to the terms and conditions detailed in the EVIP policy adopted by the Supervisory Board (upon proposal of the Remuneration Committee). For further information on the EVIP policy, please see section above "Remuneration and Benefits of Management Board Members – Key Principles - Variable Remuneration for Performance (Fiscal) year 2017".

For purposes of the EVIP policy, the quantitative and qualitative KPIs are approved for the Key Executive Managers by the Management Board. Calculations and resulting variable remuneration awards under the EVIP policy to the Key Executive Managers are subject to the prior approval of the Management Board.

The amount of the variable remuneration awarded to, but not received yet in cash as at the date hereof by, the Key Executive Managers for the performance year 2017 under the EVIP policy is presented in the table below included in section "Remuneration and Benefits Awarded to and Received by Key Executive Managers within 2017", in the row "Variable remuneration awarded (related to performance (fiscal) year 2017, recognised, but not received in cash)".

4.10.2.3 Deferred and Non-Deferred Variable Remuneration for Performance (fiscal) Years 2013 to 2016

In the fiscal year 2017, the Bank paid to the Key Executive Managers the respective portions of the deferred cash variable remuneration awarded in the years 2014, 2015 and 2016 for the performance (fiscal) years 2013, 2014 and 2015, respectively.

In addition, the Bank paid in 2017 to the Key Executive Managers the non-deferred cash variable remuneration awarded in 2017 for the performance (fiscal) year 2016.

In 2017, the Bank also paid in cash to the Key Executive Managers the relevant portions of the value of the deferred Phantom Shares awarded in the years 2014, 2015 and 2016 for the performance (fiscal) years 2013, 2014 and 2015, respectively.

For further information on the deferred and non-deferred remuneration awarded to the Key Executive Managers in the years 2014, 2015 and 2016 for the performance (fiscal) years 2013, 2014 and 2015, respectively, please see section "Remuneration and Benefits of Management Board Members – Key Principles - Deferred and Non-Deferred Variable Remuneration for Performance (fiscal) Years 2013 to 2016".

The above described deferred and non-deferred variable remuneration for the (fiscal) years 2013, 2014, 2015 and 2016 paid in the year 2017 by the Bank to the Key Executive Managers in cash:

- has been already shown as accruals in the respective annual financial statements of the Bank for the (fiscal) years 2013, 2014, 2015 and 2016 which are published on the Bank's website; and
- is presented in the table in section "Remuneration and Benefits Awarded to and Received by Key Executive Managers within 2017", in the row "Variable remuneration (received and related to performance (fiscal) years 2013 - 2016".

4.10.2.4 Benefits

The following benefits are provided to the Key Executive Managers:
- insurance premium for life insurance in the amount of up to CZK 250,000 per year is paid to one Key Executive Manager;
- a company car is provided to each Key Executive Manager;
- health care programme is provided to each Key Executive Manager;
- contribution through the cafeteria plan valued at CZK 40,600 per year is provided to each Key Executive Manager for sport activities, leisure or pension plan use (the unused amount may be converted to cash).

4.10.3 Remuneration and Benefits Awarded to and Received by the Management Board Members and Key Executive Managers within 2017

The table below set out the total remuneration and benefits awarded to and received by the Management Board members and Key Executive Managers within the year 2017:

Item	Amount (thousands CZK)
Remuneration for the year 2017	
Fixed remuneration	68,861
Variable remuneration recognized (not received in cash)	23,738
Benefits	6,632
Total remuneration for 2017[98]	**99,231**
Variable remuneration received in cash and related to performance years 2013–2016	**24,361**

4.10.4 Remuneration of the Supervisory Board Members

For performance of their office in the Supervisory Board and the committees established by the Supervisory Board, the Supervisory Board members are rewarded with:

- fixed remuneration, paid monthly in arrears

No variable remuneration (e.g., annual bonus) is awarded by the Bank or other member of the Group to the Supervisory Board members.

The table below set out the total remuneration received by the Supervisory Board members in the year 2017 for performance of their office in the Supervisory Board and the committees established by the Supervisory Board:

Item	Amount* (thousands CZK)
Total remuneration (fixed part)	10,985
Benefits	43
Total	**11,028**

*Does not include the remuneration paid to Mr. Petrman and Mr. Hall for performance of their office in the Audit Committee.

[98] Figures may not add up to total due to rounding differences

The General Meeting held on 26 October 2017 approved a new internal regulation concerning the remuneration of the Supervisory Board members for performance of their office in the Supervisory Board and the committees established by the Supervisory Board, as follows:

Position	Annual Remuneration (EUR)*
Supervisory Board	
Chairman	100,000
Vice-Chairman	70,000
Member	48,000
Risk Committee	
Chairman	17,000
Member	7,000
Remuneration Committee	
Chairman	16,000
Member	7,000
Nomination Committee	
Chairman	16,000
Member	7,000

*The above remuneration of the Supervisory Board members is fixed in CZK using the EUR/CZK exchange rate announced by the CNB as at 26 October 2017.

According to the decision of the General Meeting held on 26 October 2017:

- in respect of Mr. Eichler and Mr. Pardubický (elected at the General Meeting on 26 October 2017), the new internal regulation has been applied with effect from 26 October 2017;
- in respect of Mr. Clarke and Mr. Petrman (appointed prior to the IPO by the pre-IPO sole shareholder of the Bank, GE Capital International Holdings Limited), the new internal regulation has been applied with effect from 26 October 2017;
- in respect of Mrs. Cicognani and Mr. Singer (elected at the Annual General Meeting on 24 April 2017) and Mr. Hall (appointed prior to the IPO on the pro-bono basis by the pre-IPO sole shareholder of the Bank, GE Capital International Holdings Limited), the new internal regulation has been applied with effect from 24 April 2017.

Prior to the adoption of the new internal regulation, the Supervisory Board members had been rewarded with the remuneration as set out in their service contracts with the Bank.

4.11 REMUNERATION OF AUDIT COMMITTEE MEMBERS

For performance of their office in the Audit Committees, the Audit Committee members are rewarded with:

- fixed remuneration, paid monthly in arrears
- compensation of travel costs, if an Audit Committee member travels in connection with performance of his/her function.

No variable remuneration (e.g., annual bonus) is awarded by the Bank or other member of the Group to the Audit Committee members.

The table below set out the total remuneration paid to the Audit Committee members in the year 2017 for performance of their office in the Audit Committee::

Item	Amount* (thousands CZK)
Total remuneration (fixed part)	299
Benefits	2
Total	**301**

*Does not include the remuneration paid to Mr. Petrman and Mr. Hall for performance of their office in the Supervisory Board

The General Meeting held on 26 October 2017 approved a new internal regulation concerning the remuneration of the Audit Committee members for performance of their office in the Audit Committee, as follows:

Position	Annual Remuneration (EUR)*
Chairman	19,000
Member (within the Supervisory Board)	8,000
Member (outside the Supervisory Board)	15,000

*The above remuneration of the Audit Committee members is fixed in CZK using the EUR/CZK exchange rate announced by the Czech National Bank as at 26 October 2017

According to decision of the General Meeting held on 26 October 2017:

- in respect of Mrs. Prokopcová (elected at the General Meeting on 26 October 2017), the new internal regulation has been applied with effect from 26 October 2017
- in respect of Mr. Petrman (appointed prior to the IPO by the pre-IPO sole shareholder of the Bank, GE Capital International Holdings Limited), the new internal regulation has been applied with effect from 26 October 2017; and
- in respect of Mr. Hall (appointed prior to the IPO on the pro-bono basis by the pre-IPO sole shareholder of the Bank, GE Capital International Holdings Limited), the new internal regulation has been applied with effect from 24 April 2017.

Prior to the adoption of the new internal regulation, the Audit Committee members had been rewarded with the remuneration as set out in their service contracts with the Bank.

4.12 SHARES AND SHARE OPTIONS HELD BY MANAGEMENT BOARD, SUPERVISORY BOARD, KEY EXECUTIVE MANAGEMENT MEMBERS AND AUDIT COMMITTEE MEMBERS

The following table provides information on the number of shares issued by the Bank and share options relating to the Bank shares which were as at 31 December 2017 held by members of the Management Board, the Supervisory Board, Key Executive Management Members and the Audit Committee and their close persons:

	Shares	Share Options
Management Board Members (total)	74,426	0
Supervisory Board Members (total)	0	0
Audit Committee Members (total)	0	0
Key Executive Management Members (total)	0	0

4.13 RETENTION PROGRAMMES FOR MEMBERS OF THE SENIOR MANAGEMENT AND EMPLOYEES

4.13.1 Virtual Share Programme for Management Board Members and Employees

In connection with the IPO, the Group established in 2016 the virtual share programme as an incentive arrangement for the Management Board members and employees of the Group holding their positions as at the IPO (the "Virtual Share Programme"). Under the Virtual Share Programme, employees of the Group and all then members of the Management Board were awarded with a certain number of the Virtual Shares. The number of the Virtual Shares awarded to each Management Board member and a senior employee was based on the level of his or her seniority. Costs of the Virtual Share Programme are approximately USD 1.8 million and have been borne by the pre-IPO sole shareholder of the Bank, GE Capital International Holdings Limited. Members of the Management Board holding their positions as at the IPO were awarded with the Virtual Shares having the value USD 500,000. Selected senior employees holding their positions as at the IPO were awarded with the Virtual Shares having the value USD 1.3 million.

If any new Management Board member is elected in the period after the IPO and prior to May 2018, additional Virtual Shares may be awarded to such Management Board member under the Virtual Share Programme. In the year 2017, no additional Virtual Shares were awarded to any member of the Management Board. Costs of any addition award following the IPO is borne by the Bank.

The Virtual Shares Programme is cash settled share based incentive instrument. The Virtual Shares are not existing shares or any other securities issued by the Bank or any other member of the Group. The Virtual Shares are not exchangeable for any shares or any other securities issued (or to be issued) by the Bank or any other member of the Group. The Virtual Shares do not constitute an option or right to acquire any shares or other securities issued (or to be issued) by the Bank or any other member of the Group.

The value of the Virtual Shares awarded under the Virtual Share Programme track the market price of the Bank shares on the Prague Stock Exchange. The value of the Virtual Shares is to be paid in cash to the respective Management Board members and employees in June 2018, provided that, in May 2018, a member of the Management Board or employee, respectively, still holds his or her position.

If the office of a Management Board member or an employment contract is terminated for organisational reasons prior to May 2018, the value of the Virtual Shares will be reduced on the pro-rata basis and paid in cash to the relevant Management Board member or employee, respectively. Otherwise, the Virtual Shares are forfeited.

In the year 2017, the Bank paid CZK 479,216 under the Virtual Shares Programme to its 58 former employees, whose employment contracts were terminated in the year 2017 due to organisational reasons. These costs were borne by the pre-IPO sole shareholder, GE Capital International Holdings Limited, and as such netted within the profit or loss line "Personnel expenses".

The below table set out the split of Virtual Shares between Management Board members and employees of the Group as at 31 December 2017:

	Virtual Shares (pcs)
Management Board Members	174,412
Key Executive Managers	12,209
Employees	
MONETA Money Bank a.s.	323,252
MONETA Auto, s.r.o.	11,250
MONETA Leasing, s.r.o.	24,854
Inkasní Expresní Servis, s.r.o.	1,029
TOTAL	**547,006**

4.13.2 IPO Retention Programmes

IPO Retention Programme for Most Critical Members of Group's Senior Management

To retain 32 most critical members of the Group's senior management (including members of the Management Board and Key Executive Managers) after the IPO, the IPO retention programme was put in place in 2016 (the "IPO Senior Retention Programme"). Costs of the IPO Senior Retention Programme have been borne by the pre-IPO sole shareholder of the Bank, GE Capital International Holdings Limited, and as such netted within the profit or loss line "Personnel expenses".

Under the IPO Senior Retention Programme, the Management Board members, the Key Executive Members and senior top managers holding their positions as at the IPO were awarded with a retention bonus equal to a percentage of their annual fixed remuneration as follows:

- 31 members of the Group's senior management (including members of the Management Board and Key Executive Members) holding their positions as at the IPO received (i) the first cash instalment of the retention bonus on the first day of official trading in shares in the Bank on the PSE (10 May 2016), and (ii) the second cash instalment of the retention bonus on 10 November 2016; and 1 member of the Management Board received (i) the first cash instalment equal to 30 percent of the retention bonus on the first day of official trading in shares in the Bank on the PSE (10 May 2016), (ii) the second cash instalment equal to 20 percent of the retention bonus on 10 November 2016, and (iii) the third cash instalment equal to 50 percent of the retention bonus (i.e., CZK 4,790,784) on 10 November 2017. This amount is included in the total remuneration table in the section Remunerations and Benefits of Members of Management Board, Supervisory Board and other key Executive Management Members.

IPO Retention Programme for Other Critical Employees

The second IPO retention program was put in place to retain after the IPO 10 per cent. of the Group's critical employee population, other than the Management Board members and the senior managers participating in the IPO Senior Retention Programme described above.

Criteria for selection of employees to participate in this retention programme were (i) a unique expertise, (ii) an outstanding performance, or (ii) an exceptional know-how.

Under this retention programme, CZK 839,916 was paid to the employees in the year 2017. No further payment payments will be made to the employees. Costs of this retention programme are borne by the pre-IPO sole shareholder of the Bank, GE Capital International Holdings Limited, and as such netted within the profit or loss line "Personnel expenses".

New Retention Programme for Employees

In the year 2017, the Group established a new retention programme for selected 63 key employees with specific skills and expertise, other than the Management Board members. Under this new retention programme, CZK 5.6 million (in aggregate) was paid to the eligible employees in 2017 and CZK 1.6 million is expected to be paid in 2018.

4.14 INTERNAL AUDIT

The Internal Audit function operates in accordance with the CNB Decree No. 163/2014 Coll., as amended. The Internal Audit and its activities follow the International Professional Practices Framework issued by the Institute of Internal Auditors.

The Internal Audit in a complete and interconnected manner covers all activities within the Bank and focuses on identifying risks, to which the Bank is exposed. Internal audit provides objective and independent assurance to the Management Board, the Audit Committee and the Supervisory Board as to the functionality and efficiency of risk management, control and governance processes within Bank.

Internal Audit continued in 2017 in the reinforcement of its capacities and expertise. The main objective of the reinforcement is to ensure robust and reliable third line of defence. The enhancement of the Internal Audit resources resulted in extended coverage of Group processes and in 77% increase in the number of issued reports year over year.

In 2017, the Internal Audit was executing assurance engagements in accordance with the Strategic and Periodic Audit Plans based on regular risk assessments and reflecting regulatory requirements.

The Internal Audit in the Report on Evaluation of the Functionality and Efficiency of the Internal Control System for 2017, classified the overall internal control system of the MONETA Money Bank, a.s. as functioning and effective.

The independent external assessor, based on request of the Management Board and the Audit Committee, performed in the first quarter of 2018 an assessment of the internal audit function focusing, besides other, on 2017 audit activities. The result of this external assessment concluded that: "The work of the MONETA Money Bank, a.s. Internal Audit Department is fully in line with the International Standards for the Professional Practice of Internal Auditing, the definition of Internal Audit, and the Internal Auditor's Code of Ethics".

4.15 INFORMATION ON INTERNAL CONTROL AND APPROACH TO RISKS IN THE PROCESS OF ACCOUNTING AND PREPARING FINANCIAL STATEMENTS

The Group uses various technical and governance measures in order to maintain its financial statements. These measures ensure compliance with the relevant accounting standards, and provide users of the financial statements with a true and fair view of the financial position, cash flows and performance of the Group.

These measures comprise internal governance, namely the Group's consistent accounting policies, and process set-up. This means multi-level controls over transactions being recorded, and maximum attention being paid to the automation of booking accounting entries.

Pursuant to the Accounting Act, MONETA Money Bank, a.s. presents its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). Subsidiaries such as Moneta Auto or Moneta Leasing present their financial statements in accordance with Czech Accounting Standards and are subject to IFRS consolidation on the Group level.

The Group keeps its books through Oracle Financials, using inputs of several auxiliary systems which have either been subject to robust internal testing or been tested by an auditor before being incorporated into the Group's financial reporting environment.

Governance and process set-up measures control the circulation of documents supporting the journal entries. As a rule, any accounting record may only be posted on the basis of the multi-level approval process. This rule out any possibility of a single employee entering more than one role in the hierarchy. Approval takes place online through the approval process in Oracle's accounting system. In terms of organization, the accounting function is separated from the process of managing business partners (e.g. the setup of bank accounts or payment conditions) or procurement.

Only users with appropriate privileges have access to the accounting system. Access privileges for the system are granted by means of a software application and are subject to approval by both a superior and by the owner of the accounting process. Access is authorized according to the employee's job position and reviewed on a regular basis. Only employees of the relevant department have privileges for active operations (posting) in the accounting system. The accounting system allows identifying the user that created, changed or reversed any accounting record.

The Group utilises a system of defining responsibilities for individual balance sheet accounts (the so-called reconciliation system) under which a particular employee is responsible for account analysis of each account in the general ledger. The control over account analysis includes, in particular, the duty to specify the account balance and to monitor its balance and movements, as well as having responsibility for attending to the related documents. The control over account analysis is tracked by the supporting documentation in the reconciliation systems at regular intervals and is approved by a superior or senior member of the finance department (always different from the person who is reconciliation preparing). The system of account reconciliation verifies whether all risk and benefits associated with the Group's assets, obligations related to the liabilities, their valuation and measurement are precisely disclosed in the statement of financial position. Within the reconciliation process, the Group stipulates several criteria for proper account reconciliation, such as exact description of the account, timeliness, independent supporting documentation and its accessibility, and manager oversight control.

The correctness of the accounts and presented financial statements is monitored on an ongoing basis. In addition, financial statements are audited by an external auditor who carries out the audit of separate and consolidated financial statements as at the balance sheet date, i.e. 31 December of a given year.

4.16 CORPORATE GOVERNANCE HANDBOOK

The corporate governance structure of the Bank complies with the Act No. 90/2012 Coll., on Business Corporations and Co-operatives (Business Corporations Act), as amended, as well as stringent requirements under the Czech and EU banking regulation and international capital markets corporate governance standards. As a result, the Bank has a best-in-class corporate governance structure. To reflect this, the Bank has developed and adopted the Corporate Governance Handbook to document and provide guidance to all staff on the principles, structures, rights, responsibilities, and practices within the corporate governance framework of the Group.

In line with our strategy to establish and keep a sound and effective organizational framework, the Corporate Governance Handbook was designed to provide a strong foundation for operational processes, work-flows, and business activities.

The Corporate Governance Handbook represents the stand-alone manual containing the general principles and features of the internal guidelines, procedures and working instructions to be observed by Group staff.

The main objectives of the Corporate Governance Handbook are to:

a) ensure consistent and sound governance and monitoring of the Group;
b) ensure a comprehensive overview of the Group's corporate governance framework;
c) ensure a sound basis for a consistent, clear, and effective organizational framework within the Group;
d) enhance the internal controls system through the adoption of an integrated and comprehensive governance structure;
e) provide essential information about the structure and functioning of the Group; and
f) serve as a guide for the implementation of new processes.

The Bank also published the Corporate Governance Handbook on the Bank's website to provide investors and other stakeholders with an overview of our framework, including the overview of key principles and practices that are deployed by the Bank in its internal processes.

Since the Bank has a best-in-class corporate governance structure and that we adopted the Corporate Governance Handbook described above, the Bank did not adhere to any corporate governance codes.

4.17 REMUNERATION CHARGED BY AUDITORS OF THE GROUP IN 2017

CZK m*	Bank	Group
Statutory audit	(6)	(7)
Other assurance services	(7)	(7)
Tax services	0	0
Other services	0	0
Total	(13)	(14)

*Excluding VAT

4.18 OTHER LEGAL REQUIREMENTS

The summary explanatory report pursuant to Section 118(9) of the Capital Markets Act is based on the requirements set forth in Section 118(5)(a) through (k) of the Capital Markets Act.

a) Information on the structure of the Bank's equity as at 31 December 2017:

CZK m	
Share capital	511
Share premium	5,028
Statutory reserve	102
Available for sale reserves	(57)
Share based payment reserve	(2)
Retained earnings	20,181
Total equity	25,763

The registered share capital as at 31 December 2017 consisted of 511,000,000 shares, with a nominal value of CZK 1.00 each. The issue price of all shares had been paid up in full. All of the shares had been issued as registered book-entry shares.

The Bank's registered share capital is divided exclusively into common shares, with no special rights attached. All of the Bank's shares have been admitted to trading on the Prime Market of the Prague Stock Exchange in the Czech Republic.

b) Information on restrictions of the transferability of securities

The transferability of the Bank's shares is not restricted.

c) Information on significant direct and indirect shares in the Bank's voting rights

As at 31 December 2017, the following entities were recorded in the registry of book-entry shares maintained by the Czech Central Securities Depository in Prague as holding at least 1% of the registered share capital of the Bank:

Shareholder	Shareholding (%)
Chase Nominees Limited	17.02
J.P. MORGAN BANK LUXEMBOURG S.A.	6.09
STATE STREET BANK AND TRUST COMPANY	5.80
UBS Switzerland AG	4.38
Nortrust Nominees Limited	3.48
GIC PRIVATE LIMITED	3.46
Brown Brothers Harriman CO.	3.09
AMERICAN FUNDS DEVELOPING WORLD GROWN AND INCOME F	2.82
BROWN BROTHERS HARRIMAN (Luxemburg) S.C.A.	2.16
RBC Investor Services Trust	1.85
KUWAIT INVEST AUTHORITY	1.41
BNP PARIBAS SECURITIES SERVICES S.C.A	1.10
SOCIETE GENERALE SA	1.08
Goldman Sachs Funds	1.06
Bank Hungary Zrt. UniCredit	1.05
Silver Point Invest a.s.	1.00

As at 28 February 2018, the following entities notified the Czech National Bank pursuant to section 122 of the Capital Markets Act of holding a direct or indirect proportion of the Bank's voting rights of at least 1%:

Shareholder	Shareholding (%)
J.P. Morgan Securities Plc	5.96
The Capital Group Companies, Inc.	5.35
Rainer-Marc Frey	4.99
JPMorgan Chase & Co.	4.94
Artemis Investment Management LLP	4.84
BlackRock, Inc.	4.48
GIC Private Limited	3.89
The Goldman Sachs Group, Inc.	2.28
Templeton Asset Management Ltd.	1.72
NN Group N.V.	1.54
The Bank of New York Mellon Corporation	1.47
NN Investment Partners Luxembourg S.A.	1.36
Wellington Management Group LLP	1.36
Massachusetes Mutual Life Insurance Co	1.22
Prudential plc	1.10
Vanguard Total International Stock Index Fund	1.07
Société Générale SA	1.06
APG Asset Management N.V.	1.02
State Street Corp	1.00
Vanguard Emerging Markets Stock Index Fund, a series of Vanguard International Equity Index Funds	1.00

These entities have rights pursuant to Section 365 et seq. of the Business Corporations Act.

d) Information on owners of securities with special rights, including description of such rights

No special rights are attached to any of the Bank's shares.

e) Information on restrictions on voting rights

The voting rights attached to the Bank's shares are not restricted.

f) Information on agreements between shareholders that may restrict or limit the transferability of shares or voting rights

The Bank is not aware of any agreements between its shareholders that might restrict or limit the transferability of its shares or voting rights.

g) Information on special rules for the election of and recalling of members of the Management Board and amendments to the Bank's Articles of Association

Pursuant to the Bank's Articles of Association, members of the Management Board are elected and removed by the Supervisory Board by a simple majority of the votes of all its members.

The Articles of Association may be amended by a decision of the General Meeting by a qualified, two-thirds majority of the votes cast by shareholders at the General Meeting.

Apart from regulatory prudential requirements, no special rules for the election of and recalling of members of the Management Board and for adoption of the amendments to the Bank's Articles of Association are required.

h) Information on special powers of the Bank's Management Board

The Bank's Management Board has no such special powers.

i) Information on significant contracts relating to change in control over the Bank as a result of a takeover bid

The Bank has not entered into significant contracts that will become effective, change, or expire if control over the Bank changes as a result of a takeover bid.

j) Information on contracts with members of its Management Board or its employees binding the Bank in relation to a takeover bid

The Bank has not entered into any contracts with members of its Management Board or its employees in which the Bank would undertake to provide performance in case their service or employment is terminated in relation to a takeover bid.

k) Information on programs that allow acquiring the Bank's corporate securities

The Bank does not have any such programmes.

As the Bank did not have any controlling person in 2017, no report on relations according to the Business Corporations Act was prepared for the accounting period from 1 January 2017 to 31 December 2017.

5. RISK MANAGEMENT

5.1 RISK GOVERNANCE

5.1.1 Main principles and goals of risk management

The Group aims to achieve competitive returns at an acceptable risk level as part of its business activities. Risk management covers the control of risks associated with all business activities in the environment in which the Group operates and ensures that the risks taken are in compliance with regulatory limits, as well as falling within its risk appetite.

When managing risks, the Group relies on three pillars:

- people (the qualifications and experience of its employees);
- risk governance (including well-defined information flows, processes and responsibilities); and
- risk data (including the use of sophisticated analytical instruments and technologies).

This combination has supported the Group's success and the stability of its economic results.

The Group's risk management processes are underpinned by advanced analytics, based on an enterprise-wide data warehouse and centralised underwriting process. This allows the Group to price on a risk basis, according to its in-house scoring and rating models.

The level of risk is measured in terms of its impact on the value of assets and/or capital and the profitability of the Group. To determine this, the Group evaluates potential effects of changes in political, economic, market and operational conditions and changes to clients' creditworthiness on its business.

The Bank provides centralised risk management for the Group wherever possible and practical. It does this primarily through outsourcing or by providing methodology guidance to other Group members.

5.1.2 Risk Management Organisational Structure

The Bank's key committees for risk management of the Group, as established by the Bank's Management Board are:

- the Enterprise Risk Management Committee (ERMC) for the risk management framework, internal control system and internal capital adequacy assessment process;
- the Credit Committee (CRCO) for credit risk management;
- the Asset & Liability Committee (ALCO) for asset and liability management, market risk and liquidity risk management;
- the Capital Committee (CAPCO) for capital management (the Bank's Management Board decided in December 2017 to cancel CAPCO and its agenda split between ALCO and ERMC since January 2018); and
- the Compliance & Anti-Fraud Committee for compliance, operational managing of internal controls and anti-fraud management.

The members of these committees include the members of the Bank's Management Board and other senior managers of the Bank. The committees are responsible for, inter alia:

- Approval of the relevant risk management framework including the basic methods, limits, scenario assumptions and any other parameters used in the risk management process;
- Monitoring the development of relevant risks, including the observance of limits, approval of remedial measures in the case of exceeded limits or unfavourable development trends; and
- Monitoring the adequacy, reliability and efficiency of internal regulations, processes and limits for risk management in the area of their responsibility.

Other Bank's committees that are established by the Bank's Chief Risk Officer (CRO) and who manage individual risks include the following:

- The Credit Monitoring and Management Committee (CMMC) monitors and manages the credit risk of the Bank's commercial credit portfolio not in work-out process. Members of the committee are employees of the Risk Division and the Commercial Banking Division. The CMMC reports to the CRCO.
- The Problem Loan Committee (PLC) monitors and manages the credit risk of the Bank's commercial credit portfolio in the work-out process for commercial individually managed loans and its members are employees of the Risk Division and the Legal Division. The PLC reports to the CRCO.
- The New Product Introduction Council (NPIC) coordinates development and implementation of new or material changes of current products. Its members are employees of relevant Bank's divisions. The NPIC reports to the ERMC.
- The Model Risk Oversight Committee (MROC) monitors the model risk. Its members are employees of the Risk Division and the Finance Division. The MROC reports to the ERMC.

The Bank's Risk Division is responsible for risk management on an individual and a consolidated basis. The Risk Division is headed by the CRO, who is also a member of the Bank's Management Board. The Risk Division primarily:

- Monitors, measures and reports credit, market, model, operational and liquidity risks and proposes remedial measures in the case of limits being exceeded or unfavourable trends;
- Sets terms and conditions for granting loans and lines of credit including their subsequent approval;
- Assesses the adequacy of collateral given by borrowers to the Bank as security for extending loans and lines of credit;
- Manages the loan portfolio;
- Executes controls in the area of credit deals;
- Ensures methodology support and control functions in the area of information security;
- Administers the data infrastructure and analytical systems supporting risk management;
- Ensures the model risk management;
- Maintains and develops models for credit risk management, collections, provisioning, management of operational risks and capital allocation;
- Monitors indicators of fraudulent operations in the credit portfolio and is involved in the prevention of credit frauds; and
- Collects amounts due from borrowers.

The particular departments of the Risk Division are responsible mainly for the following:

- The Commercial Portfolio Management & Underwriting department: commercial credit risk (products' conditions, underwriting, monitoring, reporting, quality assurance and controls);
- The Consumer Risk department: consumer credit risk (products' conditions, underwriting, monitoring, reporting, quality assurance and controls);
- The Collateral Management department: collateral management (methodology, valuation);
- The Risk Infrastructure department: risk IT infrastructure (information systems, applications and data structures for credit risk management purposes);
- The Planning, Reserving & Models department: credit and provisioning model development;
- The Collections & Recovery department: collections (including commercial early work-out process);
- The Enterprise Risk Management (ERM) department: market, liquidity, model governance and operational risk methodology, measuring, monitoring and reporting, credit risk measurement, regulatory and internal capital requirement methodology and calculation;
- The IT Security department: information security management.

The Group's business activities involve the provision of: deposit accounts, loans and lines of credit to retail customers, and providing funding to entrepreneurs, as well as SME businesses, in the Czech Republic. The Group takes steps to avoid risks that are not associated with its main lines of business and to minimise all other risks. The principal objectives in the management of risks and tolerance of individual types of risks are defined in the Risk Appetite Statement document approved by the Bank's Management Board.

5.2 CREDIT RISK

Credit risk is the risk of loss for a party resulting from the failure of a counterparty to meet its obligations arising from the terms and conditions of the contract under which the party became the creditor of this counterparty. The Group is exposed to credit risk in particular in the case of credits granted, non-approved debits, guarantees provided, letters of credit issued and interbank deals.

5.2.1 Credit Risk Management

Credit risk management is organised along the following approval processes:

Individually managed exposures represent exposures to entrepreneurs and SMEs where loans and lines of credit are approved based on an individual assessment of the borrower's creditworthiness in connection with the loan size.

Portfolio managed exposures include exposures to natural persons, natural persons acting as entrepreneurs, and SMEs where loans and lines of credit are approved using an automated credit scoring process. Mortgages have a specific position as mortgages form a part of the retail exposures (usually portfolio managed) but a number of the processes and methods used fall within the category of individually managed exposures.

The exposures to counterparties on the financial market include the exposures to financial institutions and governments. These exposures primarily arise as part of liquidity management and market risks management. Transactions on financial markets are performed only by the Bank; other entities in the Group have only receivables to banks in respect of current account balances. The credit risk of these exposures is managed through limits to countries and counterparties approved based on external ratings.

5.2.2 Individually managed exposures

5.2.2.1 Internal Rating

The Group uses an internal statistical rating model, which uses the most recent available qualitative and quantitative information to estimate the probability that a commercial borrower will default in the following 12 months. The rating calculation is based on an assessment of ratios of two types. The ratios of first type (financial) are derived from financial statements and reflect the financial strength of a borrower. The ratios of second type (non-financial) are used to assess the borrower based on qualitative information, which reflects non-financial attributes

of the customer's business. The financial ratios are more significant. The rating model assigns an "obligor rating" (OR) grade from zero to twenty-one to borrowers that are not in default. Borrowers in default are given the internal rating grade twenty-two (OR22 or ORD). The 23 ORs and their associated probabilities of default are:
a) OR0 to 5: 0% to 0.07%
b) OR6 to 10: 0.08% to 0.39%
c) OR11 to 15: 0.59% to 3.03%
d) OR16 to 21: 4.55% to 35.00%
e) ORD: 100%

The predictive power of the rating model is reviewed periodically and significant changes in the model, if any, are approved by the ERMC.

5.2.2.2 Approval Process

The approval process is based on an individual evaluation of a borrower. The approval process of the products of the Bank and MONETA Auto is executed at the Bank with approval required from CRCO or two authorised persons – one in the sales department and one in the Risk Division. Approval authorities are set on an individual basis and are determined by combining the level of exposure, the borrower's internal rating, maturity, product and collateral.

The approval process of the products of MONETA Leasing is executed at MONETA Leasing's level on the basis of the delegation of approval authorities up to a certain level; exposures above that level follow the approval process of the Bank.

As part of the approval process, the Group assesses the financial situation of the prospective borrower, the persons economically related to the borrower and the collateral being offered using internal and external data sources, including credit registers.

The Bank has implemented its own IT solution supporting the process of SME credit approval and administration facilitating the preparation of credit applications, the linking of them with data warehouses, document storage and the subsequent production of contract documentation. The system enables access to financial analysis tools including internal ratings.

5.2.2.3 Monitoring

All SME clients are monitored both individually and on a portfolio basis. Individual monitoring and any potential remedial measures concerning the Bank's clients are dealt with by the CMMC, which also decides on categorisation changes. MONETA Leasing's clients are monitored individually and potential remedial measures are discussed within MONETA Leasing on a monthly basis at meetings attended by the heads of risk management, financial management and collection and statutory executives of the MONETA Leasing.

Certain contractual conditions of MONETA Auto's borrowers with individually managed exposures are monitored at least weekly via standardized reports.

Reports on the quality of the commercial portfolio across the Group are discussed by the CRCO each month. And, if necessary, or if required by the CRCO or CRO, the CRCO will also review individual loan exposures.

Individually managed exposures above a certain threshold are also subject to at least a yearly credit review, which follows the approval process similar to new exposures.

5.2.2.4 Recovery of Debtors' Receivables

In order to achieve maximum recovery, the Collections & Recovery department of the Risk Division manages the Bank's loans where recoverability of the exposure is not reasonably assured. The department engages affected borrowers with a view to recovering the Bank's exposure. This may involve taking legal action against the borrower, restructuring the loans, taking relevant legal steps to realise collateral or debt sale or representing the Bank in insolvency proceedings.

MONETA Leasing and MONETA Auto use the assistance of external agencies in collecting their receivables from debtors.

5.2.3 Portfolio managed exposures

5.2.3.1 Scoring Instruments

When approving portfolio managed exposure, internal scoring models are used. These statistical models classify individual borrowers into categories of homogeneous exposures using socio-demographic and behavioural data. The development of these scoring models and monitoring of their predictive power is carried out by the Planning, Reserving & Models department of the Risk Division. The calculated score for the commercial portfolio managed exposures is, similarly to individually managed exposures, mapped to the OR scale. The calculated score for retail portfolio managed exposures is grouped into five "credit rating" (CR) grades with associated probabilities of default in the following 12 months as outlined below:
a) CR1: 1.3% and lower
b) CR2: 1.3% to 3.2%
c) CR3: 3.2% to 7.7%
d) CR4: 7.7% to 15.8%
e) CR5: 15.8% and greater

For reporting of the overall portfolio quality, the commercial OR grades are mapped to the above-mentioned five CR grades. In order to ensure methodological and factual accuracy, models are monitored on a regular basis.

5.2.3.2 Approval Process

The approval process is based on the use of internally-developed scoring models and access to external data sources (in particular credit registers). Approval strategies are set by the Risk Division for the products of the Bank and MONETA Auto.

Risk Division underwriters may approve individual exposures that do not pass the automatic approval process. For auto financing products, the automated approval process is almost always supplemented with individual assessment.

Mortgages are approved based on an individual assessment of the prospective borrower supported by an input from internally-developed scoring models with approval required from an authorized underwriter from the Risk Division.

MONETA Leasing's portfolio managed exposures are approved only based on individual assessments supported by an input from internally-developed scoring models.

5.2.3.3 Monitoring

The Risk Division regularly monitors segments of the portfolio managed exposures, which are reported to the CRCO.

5.2.3.4 Collection

The Collections & Recovery department of the Risk Division is in charge of the recovery process for the Bank's loans. The Bank has a comprehensive collection process which includes an automated collection system. The Bank optimizes its overall recovery capacity and performance by using external capacities (collection agencies) as well as debt sales of non-performing receivables.

MONETA Auto and MONETA Leasing use the assistance of external agencies in collecting their receivables to debtors.

5.2.4 Counterparties in the Financial Market

5.2.4.1 External Rating

The main tool for measuring the credit risk of countries and counterparties (financial institutions and governments) with respect to transactions in financial markets is the rating set by international rating agencies: Standard & Poor's, Moody's, and Fitch. The Bank sets individual limits for individual countries and counterparties for which it requires a minimum short-term rating of A-1 / P-1 / F1 (exceptions must be properly approved).

5.2.4.2 Approval Process

The approval of limits is based on an individual assessment with approval required from the CRO or an authorised approver from the Risk Division. The approval levels are determined individually and are based primarily on the combination of the limit, external rating, maturity and product. In selected cases, the prior approval of the CRCO is required.

5.2.4.3 Monitoring

All counterparties and countries with a determined limit are monitored individually. The subject of the monitoring is primarily the external rating. Remedial measures (decrease/cancellation of the limit, categorisation of receivables) are approved by an authorised approver from the Risk Division.

The Bank monitors compliance with limits. Any breach of limits is escalated to the Treasurer and CRO. In addition, intentional material limit breaches are escalated also to the CFO and breaches over CZK 100 million to the ALCO members.

5.2.5 Categorisation of Receivables

The Bank has assigned receivables to individual categories in compliance with CNB Decree No. 163/2014 Coll. The categorisation is used for regulatory reporting, impairment testing and calculation of loan loss allowances. The categorisation is as follows:

- Receivables without borrower default are classified as performing and without impairment. The Bank assigns receivables without borrower default to the sub-categories standard and watch.
- Receivables where the borrower has defaulted are classified as non-performing and impaired and assigned to one of three sub-categories: sub-standard, doubtful or loss.

Detail definitions of sub-categories are described in financial report.

The Bank automatically assesses the following criteria for this categorisation on a daily basis:

- The fulfilment of debt service (not assessed in non-approved debits on current accounts up to CZK 2 thousand and receivables of MONETA Leasing up to CZK 5 thousand);
- Borrower's internal rating (in respect of individually managed commercial receivables);
- Completed/not completed forbearance of the debt; and
- Announcement of the bankruptcy or allowed discharge from debt or reorganisation or settlement to the borrower's assets.

Receivables within other entities of the Group are categorised according to the similar principles.

5.2.6 Collateral Assessment

The Bank determines the nature and extent of a collateral that is required either by individually assessing a prospective borrower's creditworthiness or as an integral part of the given credit product. The Bank considers the following types of collateral acceptable for mitigating the credit risk on a loan or line of credit:

- Cash;
- Securities;
- Account receivables;
- Bank guarantees;
- Guarantee of a reliable third party;
- Insurance;
- Real estate properties; and
- Movable assets (machinery, equipment, breeding stock).

To determine the realisable value of a collateral, the Bank uses external expert appraisals or internal assessments made by the Collateral Management department of the Risk Division, which is a department operating independently of the Bank's sales departments. The ultimate realisable value of the collateral is then set by applying collateral acceptance ratios reflecting the Bank's ability to realise the collateral in case of default. Maximum values of collateral acceptance ratios are approved by the CRCO.

In determining the realisable value, MONETA Leasing uses a discount on the cost derived from model depreciation curves (describing the relation between fair value as a percentage of purchase price and time) for individual asset classes. Curves are reassessed yearly and approved by the CRCO.

5.2.7 Allowances Calculation

Allowances are determined in accordance with IFRS.

To calculate allowances, the portfolio is divided into unimpaired receivables and impaired receivables, which are further segmented into commercial and retail exposures by product.

The calculation of allowances for the non-impaired portfolio is based on statistical models. These models are used for calculation of probability of default (PD), loss given default (LGD) and the cure rate (CR). The PD, LGD and CR are calculated directly from statistical models. For some receivables (i.e. portfolio managed exposures) discounted anticipated cash flows from collection (effective interest rate is used as the discount rate) are used to derive the LGD.

Allowances for the impaired part of the portfolio are split into individual and portfolio allowances. Individual allowances are determined for impaired commercial individually managed exposures by calculating the discounted future cash flows. Portfolio allowances based on the LGD statistical approach are determined for remaining portfolios. For these, the LGD is adjusted to correspond to remaining anticipated cash flows. Since 2017, the expected discounted external collection costs are also included in the LGD.

A provision is recognised for irrevocable loan commitments using CCF (credit conversion factor) coefficients that determine which part of the loan commitment is brought onto the balance sheet until the receivable impairment moment.

Back testing is performed no less than annually; it assesses the adequacy of the volume of recognized allowances given the actual losses in the portfolio.

5.2.8 Credit Concentration Risk

As part of managing credit risk, the Bank regularly monitors and actively manages the credit concentration risk of the Group through the limits to countries, counterparties, collateral providers and economic sectors. Regional concentration is not relevant as most income is generated within the territory of the Czech Republic.

The top 10 commercial exposures (groups of customers) represents 8.6% of commercial receivables (exposure includes gross loans and receivables, unused commitments including credit lines and guarantees).

The top 3 sector exposures represent 32% Agriculture, 22% Services and 8% Wholesale on the Group's commercial portfolio.

The main collateral providers (via guarantees) are Českomoravská záruční a rozvojová banka, a.s. and European Investment Fund.

5.2.9 Credit Portfolio and its Quality

5.2.9.1 Non-performing loans and receivables to customers*)

	31 December 2017			31 December 2016		
CZK Million	Retail	Commercial	Total	Retail	Commercial	Total
Nonperforming Receivables	3,639	1,635	5,274	5,686	1,802	7,488
Allowances to NPL Receivables	2,453	927	3,380	4,094	1,216	5,310
NPL Ratio	5.6%	2.6%	4.1%	9.6%	3.1%	6.3%
Total NPL Coverage	79.6%	71.2%	77.0%	82.9%	81.2%	82.5%

*) Figures in the table may not add up to total due to rounding differences.

The NPL Ratio decreased from 6.3% at 31.12.2016 to 4.1% at 31.12.2017, which was significantly influenced by the legacy non-performing portfolio resolution and the improvement in the portfolio performance, driven by exceptionally positive macroeconomic environment. At the same time the Group maintained an conservative Total NPL Coverage of 77% on the total portfolio.

5.2.10 Forborne Receivables

Forborne receivables are receivables for which the Group provided the debtor with relief as it assessed that it would likely incur a loss if it did not do so. For economic or legal reasons associated with the debtor's financial position, the Group granted it relief that it would not otherwise have granted. These primarily include the reworking of the repayment plan, decrease in the interest rate, waiver of default interest, deferral of principal or accrued interest repayments. Forborne receivables do not include receivables arising from the roll-over of a short-term loan for current assets if the debtor met all of its payment and non-payment obligations arising from the loan contract.

The forbearance is reflected in the categorisation of receivables in accordance with the receivables categorisation rules. As categorisation rules also trigger impairment, allowances for forborne receivables are calculated accordingly. For commercial and mortgage receivables, the same methods as for receivables without forbearance are used. For other retail receivables, forborne receivables with impairment allowances are created up to the value of an estimated life time loss.

The Group applies the following general principles for the forbearance:

- Customer demonstrably lost ability to repay loan according to original loan contract,
- Customer demonstrates willingness and ability to pay his debts,
- Specific product/customer criteria must be met,
- Loan was not restructured more than once in last 12 months and more than twice during last 5 years.

For commercial loan/leases and mortgages, only instalments not past due are subject to rescheduling. The customer is obliged to repay all past due payments in full and delinquency status is calculated according the oldest unpaid instalment.

For retail products the Bank offers the customer a new loan contract. The customer´s original (delinquent) loans are, by signature of this new contract, repaid and closed and a new (restructured) loan with different monthly instalments, interest rate and maturity is opened as non-delinquent (current).

As impairment is driven by categorisation, in compliance with categorisation rules, forborne receivables become non-impaired if their categorisation improves to watch or standard.

5.3 RISK OF CONCENTRATION

The risk of concentration means the risk arising from the concentration of exposures with respect to a person, an economically-related group of persons, sector, region, activity or commodity. The Group manages the risk of concentration within individual risks, primarily the credit risk and liquidity risk. Activity and commodity concentrations are not relevant.

5.4 MARKET AND LIQUIDITY RISK

Market risk is the risk of a loss arising from changes in prices or rates on financial markets. Due to its activities, the Group is exposed only to interest rate risk and foreign exchange risk.

5.4.1 Interest rate risk

Interest rate risk is the risk of a loss arising from changes in interest rates on financial markets. The Group is exposed to interest rate risk as interest-bearing assets and liabilities have different maturity periods or interest rate readjustment periods.

The Bank strives to minimise the Group's interest rate risk by setting limits and keeping positions within these limits. The interest rate risk management activities are aimed at reducing the risk of losses. The Group's interest rate risk management is centralised in the Bank.

To monitor and measure interest rate risk, a model of interest rate sensitivity is used which serves to determine the sensitivity of the Group to changes in the market interest rates. The model is based on the inclusion of interest-sensitive assets and liabilities into relevant time bands. The Group prefers to use behavioural features of cash flows rather than those that are purely contractual. All behavioural assumptions are approved by the ALCO. The model works with 1-month time bands up to a 10 year period and a time band exceeding 10 years.

Simultaneously, the Bank carries out stress testing based on the parallel shift of the yield curve by 200 basis points for all currencies that account for more than 5% of the Group's assets or liabilities. In 2016 and 2017, only the portfolios denominated in Czech Koruna and Euro exceeded 5% share of the Group's assets/liabilities.

To manage the interest rate risk, the Group uses a limit for the impact of the stress test on the total capital and annual net interest income. The results of stress testing are presented to ALCO on a monthly basis. To manage the discrepancy between the interest sensitivity of assets and liabilities, interest rate derivatives may be used. In October 2017, ALCO approved the interest rate hedging strategy for hedge accounting and the Bank started to use interest rate swaps as hedging instruments.

5.4.2 Foreign Exchange Risk

Foreign exchange risk covers the risk of a loss due to changes in exchange rates. The Group is exposed to the foreign exchange risk primarily due to the provision of foreign exchange loan products to commercial borrowers and foreign exchange deposits.

The management of the Group's foreign exchange risk is centralised in the Bank. The Bank strives to minimise the foreign exchange risk of the Group. For this purpose, the Bank maintains a balance of assets and liabilities in foreign currencies (by using a mix of FX spots, forwards and swaps transactions).

To measure the foreign exchange risk on an individual basis, the Bank calculates daily net currency positions and FX Value at Risk. The Bank uses the following limits:
- Ratio of the absolute value of the net currency position to capital for each foreign currency;
- Ratio of the absolute value of the net currency position in Czech Koruna to capital;
- Ratio of the absolute value of the total net currency position to capital;
- Absolute value of the net currency position for each foreign currency; and
- FX VaR (maximum expected loss per business day at the 99% confidence level) for the foreign currency portfolio.

As MONETA Auto provides loans only in CZK and MONETA Leasing in EUR and CZK, the Bank measures on a consolidated basis only the net currency position in EUR (monthly frequency).

The foreign exchange risk at MONETA Leasing at an individual level is managed primarily by the funding structure (natural hedging due to EUR funding) and MONETA Leasing regularly closes its open FX position with the Bank.

5.4.3 Liquidity Risk

Liquidity risk represents the risk of inability to meet financial liabilities when due or to finance assets.

The daily measurement of liquidity risk includes:
- Calculation of the liquidity position based on the liquidity gap model, which measures net cash flows in set time bands;
- Calculation of the Liquidity Coverage Ratio; and
- Calculation of Early Warnings Indicators.

The monthly measurement of liquidity risk includes:
- Calculation of Loan to Deposit Ratio;
- Assessment of the impact of liquidity management stress scenarios on the Bank's liquidity position;
- Measurement of concentration in deposits;
- Calculation of Interbank borrowing to Total Assets Ratio; and
- Calculation of Net Stable Funding Ratio.

To manage liquidity risk, the Bank applies a system of the following limits:
- Liquidity positions in selected time buckets;
- Liquidity Coverage Ratio;
- Net Stable Funding Ratio;
- Liquidity buffer (based on liquidity stress tests);
- Structure of the portfolio for liquidity management;
- Concentration in deposits; and
- Interbank borrowing to Total Assets Ratio

and monitors a chosen set of Early Warning Indicators.

The Group has access to diversified sources of financing, which include deposits, loans taken (including external funding for MONETA Leasing), as well as the Group's equity. In 2017, the Bank obtained 3-year unsecured EUR funding from the European Investment Bank with an option of drawing additional secured EUR funding. The bond and money markets are used to further diversify sources of liquidity and to deposit excess cash. In line with a funding strategy which aim to diversify long-term funding sources, the Bank set up its bond programme (Base Prospectus approved by the Czech National Bank in 2017). Under this bond programme, the Bank may issue bonds that are governed by Czech law, in particular senior unsecured bonds, mortgage covered bonds and subordinated bonds. None of them was issued in 2017.

For the purpose of liquidity management under extraordinary circumstances, the Bank has a contingency plan containing measures for recovering liquidity. The Treasury regularly reviews the contingency plan and forwards it to the ALCO for approval.

The liquidity coverage ratio of the Bank as at 31 December 2017 was 183% (31 December 2016: 161%).

As other companies of the Group are either financed exclusively by the Bank or have only partial funding from banks (MONETA Leasing), the Group's liquidity management is executed as part of the Bank's liquidity management by including credit exposures to other companies of the Group.

5.5 OPERATIONAL RISK

Operational risk represents the risk of a loss resulting from inadequate or failed internal processes, people or systems, or from external events, including the risk of loss due to a breach of or failure to comply with a legal or regulatory requirement, or a threat to the Group's reputation. It also includes legal and outsourcing risk.

The Group implemented standard tools and processes for operational risk management, including Risk & Control Self-Assessment (RCSA), Loss Data Collection of actual internal operational risk losses, monitoring of external risk events, Key Risk Indicators, and Issue management that is used to record, monitor and report identified risks and issues. The Issue management system is also used for monitoring of the relevant action plans, if applicable, and is closely linked to RCSA process.

To mitigate operational risk, the Group produces and maintains business continuity plans for critical situations and operations recovery with the aim of ensuring business activities at a backup workplace and IT disaster recovery plans for key IT applications.

The Group also uses the following methods for mitigation of operational risk:
- Decrease of risk by means of process improvements, organization changes, introduction of limits, Key Risk Indicators or controls, or use of technologies;
- Transfer of risk via outsourcing;
- Decrease of risk impact via insurance (mainly for high severity and low frequency operational risk events); and
- Avoidance of risk by terminating risk-inducing activities.

The Bank's Management Board specifically approves the operational risk governance structure and framework, and the Group's objectives for operational risk management.

The ERMC oversees the Group's operational risk management process and approves methods, limits and Key Risk Indicators; monitors adherence to approved limits and Key Risk Indicators; and approves principal changes in the insurance programme and remedial measures.

The ERM department especially develops and maintains the operational risk methodology for RCSA, Loss Data Collection, Key Risk Indicators, outsourcing and insurance, provides measurement of operational risk using the Loss Data Collection process and Key Risk Indicators and reporting to ERMC.

Individual organisational units have operational risk coordinators who provide employees with methodological support for operational risk management and cooperate with the ERM department in operational risk management matters.

Other important parts of operational risk (compliance, information security, business continuity and legal risk) are managed by other organizational units as described below.

5.5.1 Compliance Risk

Compliance risk represents the risk of legal or regulatory sanctions, material financial loss or loss to reputation as a result of a failure to comply with laws, regulations, and relevant self-regulatory organisations' standards and codes of conducts.

The Bank's Compliance Division is an independent control function responsible for monitoring compliance with laws, regulations and internal policies. It oversees the implementation of applicable laws and regulations and provides compliance training to the Group's employees. The Compliance Division is headed by the Chief Compliance Officer, who functionally reports to the Bank's Management Board and organizationally directly to the Chief Executive Officer of the Bank.

The Group manages compliance risk by requiring business activities to adhere to the various compliance policies which it has established and by monitoring compliance with these standards. The Group also has an Issue management system in place to monitor and resolve any compliance issues as they arise.

The key areas of responsibility of the Compliance Division include:
- Managing day-to-day regulatory interactions, and management and follow-up of regulatory examination issues;
- Ensuring awareness of the Group of the latest legislative and regulatory news through the compliance early warning system process, including initiating the necessary implementation of the changes;
- Ensuring compliance of the Group's internal policies with applicable legal and regulatory provisions as well as the compliance with all other internal regulations;
- Covering the Integrity agenda: Anti-Bribery (Improper payments) and Corruption programme, Competitor Programme & Competitor Contacts database;
- Running the centralised anti-money laundering team, focusing on money laundering and terrorist financing prevention, detection, reporting and strategy;
- Running the anti-fraud risk management programme by the centralised anti-fraud team, covering all internal and external areas of fraud;
- Overseeing the data privacy and personal data protection agenda; and
- Verifying compliance with laws and regulatory requirements by implementing compliance monitoring and controls.

In the area of regulatory compliance, the Compliance Division acts as a single point of contact for communication to and from all regulatory bodies. Furthermore, it continues to work with other departments in the preparation for the implementation of the EU Markets in Financial Instruments Directive (MiFID II), the EU Payments Services Directive II (PSD II) and General Data Protection Regulation (GDPR) as these are transcribed into Czech legislation.

5.5.2 Information Security

The main objective of Information Security is to protect information assets by maintaining the confidentiality, integrity, availability and credibility of information. The Group understands the significance of well designed and implemented Information Security and regards it as one of its key priorities. Information Security is applied via a variety of security tools and processes ranging from antivirus software to user awareness. The aim is to ensure maximum risk coverage and protection of the Group information, including client data.

In April 2017 responsibility for information security management was transferred from Information Technologies Division to Risk Division to enhance independency of information security management from IT delivery functions.

During 2017 the Group focused on security enhancements, such as the implementation of real-time security monitoring and modernisation of perimeter security elements. Together with Compliance and Product units, new security challenges driven by GDPR and PSD II are being addressed. The Bank successfully passed a Cyber Security test organised by the Czech Banking Association in June 2017.

During 2017 the Bank sought to inform and educate clients via different channels to increase their security awareness. The Bank participated again in the Czech Banking Association awareness for schools focused on Cyber security to help even the younger part of population understand the risks of cyber world, including as these relate to online banking services.

5.5.3 Business Continuity

The main goal of the business continuity management is to ensure the lowest possible impact on the Group's business continuity in the case of an extraordinary situation with regard to employee security or health, while maintaining duties prescribed by legal and regulatory requirements.

The regular business continuity management process includes Risk Assessment – decisions about critical and noncritical processes, Business Impact Analysis and Business Continuity Plans for critical processes, Trainings, and Tests. The Group has developed Business Continuity Plans for all critical processes. The Group regularly tests Business Continuity Plans and reviews and assesses their adequacy.

During the past four years, the Group has experienced no material interruption in its business operations.

5.5.4 Legal Risk

Dealing with legal risk and managing it means minimizing uncertainty associated with enforcement and interpretation of applicable law, contracts and regulations. In addition to standard legal functions in the various areas such as contract, banking and corporate law, the main tasks of the Group's lawyers during 2017 consisted in keeping both the retail and commercial contractual documentation aligned with both the business strategy and various needs of the business departments of the Group and new regulations. Significant changes were made to the processes and contractual documentation on distribution of investment funds in connection with the implementation of MiFID II as well as preparatory works on PSD II. All these actions were taken in due time in order to fully comply with the new regulations.

5.5.5 Significant legal disputes

The pending significant legal disputes include (i) the court action by ARC equity services a.s. (formerly Arca Services a.s., "ARC Services") against the Bank in connection with the 1998 acquisition of a part of banking business of Agrobanka Praha, a.s., currently Agrobanka Praha, a.s. v likvidaci ("Agrobanka"; the "Acquisition") and (ii) the administrative proceedings initiated by the Czech Trade Inspection Authority ("CTI") against MONETA Auto, s.r.o. ("MONETA Auto").

5.5.5.1 Litigation risks in respect of the 1998 acquisition of a part of banking business of Agrobanka

In connection with the court action by ARC Services, the Bank notes that it is subject to the risks set out below in connection with the Acquisition and the ongoing liquidation of Agrobanka which could have a material adverse effect on the reputation, business, results of operations and financial condition of the Bank and the value of its shares.

Following the completion of the Acquisition in 1998, certain Agrobanka shareholders and members of its supervisory board filed claims against the Bank and Agrobanka in the Czech courts, alleging that the Acquisition was not legal, valid and enforceable. If this had been found to have been the case at the time, the consequences could have been the unwinding of the Acquisition and the return by the Bank to Agrobanka of all assets and / or liabilities deemed to belong to Agrobanka or, alternatively, a payment by the Bank of their financial equivalent to Agrobanka.

In 2010, the Bank and certain other entities affiliated with GE (the sole shareholder of the Bank at that time) reached a general settlement with Agrobanka and shareholders holding in aggregate more than 60 per cent of the shares in Agrobanka as a result of which: (i) the claims set out above against the Bank were withdrawn and terminated; and (ii) Agrobanka and its shareholders bound by the settlement waived any claims against the Bank in connection with the Acquisition (the "2010 Settlement"). In September 2014, the general meeting of Agrobanka approved the liquidation balance of Agrobanka in line with the 2010 Settlement by more than 96% majority of present Agrobanka shareholders.

- **Legal Challenges by Arca Group**

In October 2016, ARC Services, a minority shareholder of Agrobanka not bound by the 2010 Settlement and to our best knowledge a member of Arca Group, filed action with the District Court for Prague 4 against the Bank, Agrobanka and Mr. Jiří Klumpar (the forced administrator of Agrobanka in 1998) challenging the legality, validity and enforceability of the Acquisition. The Bank understands that ARC Services acquired shares in Agrobanka only in the course of 2016, i.e., two years after the approval of the liquidation balance of Agrobanka by its shareholders.

As a result of an initial response by the Bank, the High Court in Prague decided that the subject matter jurisdiction to hear the case belongs to the Municipal Court in Prague and the case was moved to, and will be heard by, the Municipal Court in Prague. The Bank believes (as the Bank and Agrobanka also declared in their joint submission to the Municipal Court in Prague of October 2017) that the Acquisition is legal, valid and enforceable, ARC Services, as well as any Agrobanka shareholders, directors and members of the supervisory board, does not have standing to take legal action to claim otherwise, and the court action of ARC Services is baseless. Likewise, the Czech National Bank declared in its statement dated 11 August 2017 and published on its official webpage that it considers the Acquisition valid.

The Bank will vigorously contest the court action of ARC Services and any other claim made against it, any of its subsidiaries or any of its or their respective assets. In this respect, the Bank notes that the Municipal Court in Prague (as the trial court) and the High Court in Prague (as the appellate court) have already dismissed similar court action filed by another Agrobanka's shareholder.

In the remote event that the court action filed by ARC Services is upheld by court there would be considerable uncertainty as to what remedial action a court could decide to take and what effect such decision would have on the Bank. The Bank believes that an unwinding of the Acquisition and return to Agrobanka of all assets and / or liabilities deemed to belong to Agrobanka would be difficult to implement in practice given that almost 20 years have elapsed since the completion of the Acquisition and substantially all assets and liabilities that were originally acquired by the Bank from Agrobanka no longer exist.

In such remote event a court may, therefore, award a payment by the Bank of a financial equivalent of such assets and / or liabilities to Agrobanka instead. It is uncertain how a court would determine the appropriate amount of such financial equivalent and there is a high likelihood of additional litigations to establish such amount.

In September 2016, ARC Services filed a criminal complaint, in which it asserted, inter alia, that the signatories to the 2010 Settlement and related transactions within Agrobanka's liquidation, including Agrobanka's liquidator and corporate bodies and representatives of two GE entities and the Bank, may allegedly have committed, by entering into the 2010 Settlement, certain criminal offences under Czech law, namely bribery and breaching of fiduciary duties when administering third party's assets. The Bank rejected and denied all such allegations as the 2010 Settlement and the process of Agrobanka's liquidation are in full compliance with law. Although Czech law recognizes, in addition to the criminal liability of individuals, the criminal liability of legal entities, the Bank rules out that this applies to it in this case.

- **Potential risk of Agrobanka insolvency**

Agrobanka has historically been at risk of insolvency. In such, albeit unlikely, case, Agrobanka bankruptcy trustee could treat the Acquisition as not being legal, valid and enforceable and attempt to treat any assets of the Bank that it deems to belong to Agrobanka as part of the bankruptcy estate, seek to assume control over such assets and challenge the Acquisition. Alternatively, a bankruptcy trustee could make a claim against the Bank to pay a financial equivalent of such assets.

Given that almost 20 years have elapsed since the completion of the Acquisition, the Bank believes that it would be difficult for a bankruptcy trustee to determine which assets of the Bank could be treated as part of Agrobanka's bankruptcy estate and assume control over any assets of the Bank, and the Bank would vigorously contest any attempts by a bankruptcy trustee to treat any assets of the Bank as part of Agrobanka's bankruptcy estate.

The risk of Agrobanka's insolvency has been significantly lessened by the 2010 Settlement and an agreement between the Bank and Agrobanka on the funding by the Bank of a portion of Agrobanka's ongoing liquidation costs. However, in an unlikely event of Agrobanka's insolvency, there is a residual risk that Agrobanka's bankruptcy trustee would violate the 2010 Settlement and attempt to challenge the Acquisition and assume control over any assets deemed to belong to Agrobanka, or make a claim against the Bank to pay a financial equivalent of the assets deemed to belong to Agrobanka. Nevertheless, the Bank believes that any bankruptcy trustee of Agrobanka would be bound by the 2010 Settlement and hence prohibited from challenging the legality, validity and enforceability of the Acquisition.

Agrobanka's insolvency may potentially arise from: (i) unforeseen tax liabilities of Agrobanka being determined by Czech tax authorities; and (ii) challenge to the liquidation balance of Agrobanka. To that end we note that the liquidation balance of Agrobanka was approved by the general meeting of Agrobanka in September 2014 by more than 96% majority of present Agrobanka shareholders and, as far as the Bank is aware, Agrobanka is not insolvent as of the date hereof.

- **Other potential risks**

Furthermore, there is a risk that also other Agrobanka shareholders not bound by the 2010 Settlement may attempt to challenge the Acquisition and, even though the 2010 Settlement documents provide that neither Agrobanka nor shareholders bound by the 2010 Settlement may challenge the legality, validity and enforceability of the Acquisition, there is also no guarantee that the 2010 Settlement parties will not do so in breach of the terms and conditions of the 2010 Settlement. No such claims have been notified to the Bank until date of this report.

Finally, negative developments in relation to Agrobanka, may generate negative publicity which may, in turn, have a material adverse effect on the reputation, business, results of operations, financial condition and / or prospects of the Bank and the value of its shares. The Bank follows thoroughly any such negative publicity and carefully react to any attempts to harm its business, good reputation and prospects.

- **Current status of Agrobanka liquidation**

Agrobanka is in the final phase of its liquidation, its shares were cancelled in 2016 and the process of the payment of the liquidation balance to Agrobanka shareholders was commenced in March 2017. Simultaneously, provision recorded by the Bank for Agrobanka was released in the amount of CZK 143 million that equals the amount to be paid. To date, a vast majority of Agrobanka shareholders have received their respective payments.

In this connection, we note that, under the applicable corporate law, it is possible to revive even an entity which was fully liquidated and ceased to legally exist in case any unknown assets are discovered. The Bank believes that the risks associated with renewal of the liquidation of Agrobanka after its deregistration will lessen over time.

5.5.5.2 Administrative proceedings initiated by CTI against MONETA Auto

In August 2015, the CTI issued a decision imposing a fine of CZK 5 million on MONETA Auto for alleged breach of Czech consumer credit law by MONETA Auto. According to the CTI, consumer credit agreements entered into from 2011 to 2014 between MONETA Auto and its consumer clients and related credit documents did not include correct information regarding the annual percentage rate of the loan ("APR") and the total amount repayable by the consumer to MONETA Auto in connection with the loan agreement.

MONETA Auto lodged an appeal against this decision with the General Director of the CTI. In July 2016, the General Director of the CTI decreased the amount of fine to CZK 4 million and affirmed the opinion of the CTI. MONETA Auto believes that the relevant consumer credit agreements concluded by MONETA Auto from 2011 to 2014 are in compliance with Czech consumer credit law and filed a court action against the decision of the General Director of the CTI in August 2016. In August 2017, the court dismissed the action of MONETA Auto and, consequently, MONETA Auto filed an appeal against this court decision with the Czech Supreme Administrative Court. The proceedings before the Czech Supreme Administrative court are ongoing.

Consumers which are parties to the relevant consumer credit agreements concluded by MONETA Auto from 2011 to 2014 may attempt to bring legal proceedings in light of the CTI decision alleging that (i) they are not liable to pay to MONETA Auto the interest rate and other fees agreed in the relevant consumer credit agreements and (ii) they are liable to pay only a discount rate published by the CNB and that MONETA Auto may be required to return to customers an amount of already paid interest and fees insofar as those interest and fees exceeded the CNB's discount rate.

The CTI initiated several additional administrative proceedings and reviews of MONETA Auto's compliance with Czech consumer credit law. As a result, the CTI imposed on MONETA Auto, (i) in October 2015, a fine of CZK 100,000, decreased by the General Director of the CTI to CZK 80,000, (ii) in April 2017, a fine of CZK 900,000, and (iii) in August 2017, a fine of CZK 800,000 for an alleged breach of Czech consumer credit law. MONETA Auto believes that it complied with all legal requirements and has challenged the above decisions of the CTI in administrative proceedings and, where relevant, before courts. None of the above matters has been finally resolved.

Consumers which were parties to the relevant consumer credit agreements may attempt to bring legal proceedings in light of the CTI decisions alleging that (i) the relevant consumer agreements are not valid and enforceable and (ii) that they are not liable to pay to MONETA Auto the interest rate and other fees agreed in the relevant consumer credit agreements and they are liable to only return the principal amount of the loan (or only a discount rate published by the CNB) and MONETA Auto may be required to return to customers an amount of already paid interest and fees.

5.5.6 Legal Challenges of General Meeting Resolutions by Arca Group

On 16 January 2018, Arca Capital Bohemia, a.s., a minority shareholder of the Bank and to our best knowledge a member of Arca Group, filed with the Municipal Court in Prague action against the Bank challenging the validity of the resolutions adopted by the General Meeting of the Bank held on 26 October 2017 concerning approval of the internal regulation on remuneration of the Supervisory Board and Audit Committee members and respective template service contracts. The Bank believes that the concerned General Meeting resolutions are valid and were adopted in compliance with applicable law, the Articles of Association of the Bank and good morals, and that the court action is baseless.

5.6 MODEL RISK

Model risk refers to the possibility of adverse consequences or other negative impacts emerging from decisions based on the results of a flawed model or the incorrect use of model outputs and / or reports (linked to errors in the development, implementation or use of the models).

The Group manages model risk mainly by actively managing individual phases of the model life cycle, among others by imposing requirements and standards on:

- Model Tiering,
- Model development documentation,
- Model validation,
- Model approvals,
- Model performance monitoring.

Model Tier reflects the influence, complexity and other aspects of models and triggers mainly the depth of model documentation, validation, and approval requirements.

The ERMC is responsible for the general set-up of the model risk management process in the Group, with the Model Risk Oversight Committee monitoring compliance and model performance on a regular basis and reporting regularly to the ERMC. The ERMC authorities cover notably approval of Tiering framework and approval of model use for the most influential models.

SUSTAINABILITY

We outlined our ambitions for a sustainable approach to the way in which we operate. We see sustainability as a competitive advantage, a driver of innovation, and an investment in the future of our employees, customers, and communities.

6. SUSTAINABILITY AND CORPORATE SOCIAL RESPONSIBILITY

In 2017, MONETA outlined its ambitions for a sustainable approach to the way in which we operate. We see sustainability as a competitive advantage, a driver of innovation, and an investment in the future of our employees, customers, and communities. It is not a superfluous cost, but rather it is fundamental to the way we conduct our business. We want to deliver value to our customers, whilst sustainably growing our business, and creating long-term shareholder value.

Through developing our sustainability strategy, we hope to secure our long-term social license to operate and provide a framework for action in times of change and further growth. Integrating a responsible approach into our day-to-day business activities sets out our commitment to meeting the environmental, social and economic challenges that we face today.

In 2017, we took the first steps towards our goal and established our Key Sustainability Priorities, which reflect the nature of our business. They are further described in the following sections of the Annual Report.

6.1 STRATEGY

6.1.1 Global Reporting Initiative (GRI) Standards Framework

Our initial focus has been on stakeholder engagement as defined by the GRI Standards, the international framework for sustainability reporting. Representatives of MONETA's key business departments (Commercial Banking, Compliance, Finance, Human Resources, Internal Audit, Legal, Operating, Products & Marketing, Retail Sales, Risk Management) identified the Bank's key stakeholders, their material sustainability issues and created a materiality matrix.

A systematic approach was adopted to align identified material issues with environmental, economic and social pillars as defined by the GRI framework and a trend and benchmarking analysis was conducted to assess their relevance in an industry context. Based on these findings, we determined five key areas of the MONETA Sustainability strategy.

Throughout the process, the main focus was on topics relevant to our key stakeholders, as well as on topics that aim to secure the Bank's sustainable growth and prosperity. In the following years, we will extend the process to involve internal and external stakeholders. This will help identify other material issues for MONETA and develop our strategy to generate the largest positive societal impacts through collaboration and partnerships.

Key Stakeholders

- Shareholders
- Regulatory bodies (national and international)
- Customers
- Employees
- Media
- Suppliers
- Local communities

Key Material Issues

Economic Issues

- Long-term stability and prosperity
- Dividend payments
- Financial performance
- Risk management
- Transparent communication
- Legislative and regulatory compliance
- Ethical conduct
- Sustainable finance and investment policies
- Reputation
- Customer privacy and data security
- Innovation and digitalization

Environmental Issues

- Climate change risks and opportunities
- Managing environmental impacts

Social Issues

- Fair remuneration
- Employee education and development
- Employee relationship management
- Supplier relationships

MONETA Five Key Sustainability Areas

1. Human Capital
2. Economic Sustainability
3. Customer Experience and Services
4. Environmental Sustainability
5. Corporate Citizenship

6.1.2 Company Vision, Mission and Values

Our business is formed around a carefully designed vision, mission and values to guide our strategic planning and long-term direction. Our vision, mission and values all guide MONETA's Sustainability strategy and Sustainability vision.

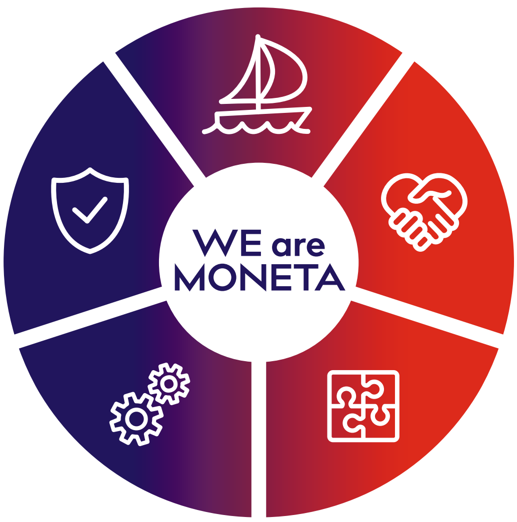
Vision

We strive to be the most innovative organization providing financial services in the Czech Republic in the eyes of our customers, employees and communities in which we operate.

Mission

We are an innovative, digital bank. We want to bring our customers an enjoyable customer experience. Our people cooperate, support each other and try to be close to our customers. We behave responsibly and respectfully towards our environment.

Values



Entrepreneurship

- We are innovating our business and creating banking services for the future.
- We are brave enough to change – we seek growth opportunities.
- In our business and all our decisions, we always consider acceptable amount of risk.

Respect

- We are fair to each other.
- We treat others the way we want to be treated.
- We take our competition seriously and learn from it.

Cooperation and Engagement

- We can achieve more together.
- We pursue a common goal.
- We enjoy our work.

Accountability

- We are all change agents.
- We are in it together.
- We share our achievements.

Credibility and Integrity

- Our word is our bond – we are consistent and transparent.
- We act and make decisions ethically according to our beliefs.
- We represent the MONETA brand.

6.2 PRIORITIES

6.2.1 Human Capital

Today, people seek to work for companies that align with their values and reflect their principles, no matter the circumstances. Given our ambition to be a responsible and an appealing employer, we are committed to create a modern and functional environment in which our people can co-operate and thrive. Our values and ethics are embedded in our workplace culture through the way we treat and reward our colleagues; and through the way our colleagues treat our customers.

MONETA respects and closely follows labour standards defined by Czech and international legislation, as we believe in equal opportunities, decent employment opportunities and dialogue with our employees, who are one of our key stakeholders.

MONETA has set out 3 priorities for its Human Capital Sustainability area:

1. Hiring
2. Workplace and Culture
3. Training

In 2017, the Group had 3,304 employees, compared to 3,114 in 2016.[99]

3,304
employees

[99] Employees are split into three segments: Front end, Enabling and Control and they are all based in the Czech Republic. The following number are FTE average for December 2017.

Total number of employees by employment contract (permanent and temporary), by gender

	Women	Men
Permanent contract	370	86
Temporary contract	1,772	1,008
Agreement to complete a job	24	5
Agreement to perform work	21	9

Total number of employees by region, by gender

region	Women	Men
Axis	469	149
BBC – Prague	478	575
BBC – region	42	38
Brno	45	23
MONETA Leasing – regions	11	11
Region West	213	65
Region Morava	234	47
Region North	247	76
Region East	223	52
Region South	225	72

6.2.1.1 Hiring

At MONETA, we recognize that maintaining a diverse workforce promotes an open, tolerant and positive work environment where everyone's talents and strengths can be utilized. We work to recruit, motivate, develop and retain the best talent. Our overall hiring strategy is based on the requirement to enhance our network to become a bank of choice for Czech households, entrepreneurs, independent professionals and small and mid-sized companies. Last year, we met our recruitment target and continued strengthening our sales network. In total, we hired 1,038 new employees.

Our participation in job fairs, in Prague, Ostrava and in other cities across the country, proved a successful channel to market open positions and to introduce the new MONETA brand. The Open House days at our Shared Services Centre in Ostrava were also beneficial. Our focus on students and high-school and university graduates – underscoring the Bank's commitment to innovation and its digital transformation – was underlined by our growing cooperation with universities all over the Czech Republic.

The HR department, in cooperation with other teams in the Bank, used modern resources for the recruitment process, with special focus on an "active approach" towards candidates. An example of this is the MONETA career website **www.moneta.cz/kariera** that we launched in 2016 and further developed in 2017. It is designed for all our prospective candidates and provides a full list of available job positions. It also offers additional information about the Group, its values and the benefits of working for our organization.

Among other modern recruitment techniques we also used videos, advertising in specialized web portals, as well as targeted social network campaigns. Throughout the year, our department managers were continually engaged in recruitment processes and we emphasized opportunities for internal candidates, reflecting our commitment to career progression. We also supported our referral programme, encouraging existing employees to identify external talent for new roles. Our 'Employee Handbook – Onboarding Tips' helped welcome new employees and smooth the onboarding process.

6.2.1.2 Workplace and culture

It is vitally important to us to create an engaged workplace where our people are united around a strong culture that stimulates each one to perform at their best. Promoting an open and united workplace makes us a stronger organization and one better able to serve our customer base.

Loyalty and motivation

We value the loyalty of our long-term employees. We realize our business growth is dependent on employee loyalty and motivation. Retaining qualified employees has become a priority in times of exceedingly low unemployment in the Czech Republic. MONETA rewards its employees for every 5 years of their commitment to the business and for their exceptional work performance. We run the eBenefit system, which is an extensive rewards and benefits scheme. eBenefit is designed to provide employees with the most flexible way of choosing a reward that meets their preferences.

As a part of our eBenefit system, we have also developed the Health Program, which incentivises our employees' good physical and mental health. Contributions are designed to motivate employees to practice sports and to eat healthy in our company canteen. We also organize seminars, workshops and sports events, such as the Week for Health, which takes place twice a year and is filled with healthy lifestyle activities.

eBenefit System in Use in 2017[100]

	%
Life insurance	6.5
Pension scheme	33.7
Meal vouchers	62.6
Transfer into salary	4.8
Free Day	9.4

[100] All active employees who worked for the MONETA Group in 2017 are enrolled in eBenefits' calculations. Employees on maternity leave or part-time employees over 20 hours per week are included in the analysis.

Internal Ombudsman
MONETA Group does not have a workers' council and is not subject to collective bargaining agreements. We do, however, have the Institute of Internal Ombudsman, who provides assistance and ensures the protection of rights and legitimate interests of employees in situations when they suspect a breach of internal rules and regulations, or when they feel they are not treated in line with our principles of integrity, equal opportunities and fair remuneration. All Internal Ombudsmen are represented by our employees and are appointed by the Chief Compliance Officer.

We are proud there were no significant complaints in 2017. Internal Ombudsman have noted 14 lower and medium importance complaints regarding HR processes, unethical behaviour and our remuneration and incentive model. Employing thousands of people across the country, we are pleased with these results, but we strive to reduce complaints even more by adjusting relevant internal policies when complaints prove legitimate.

We also operate a whistle-blower policy, protecting the identity of any employee who reports misconduct where it is not in conflict with the resolution of reported misconduct or with legislative regulations.

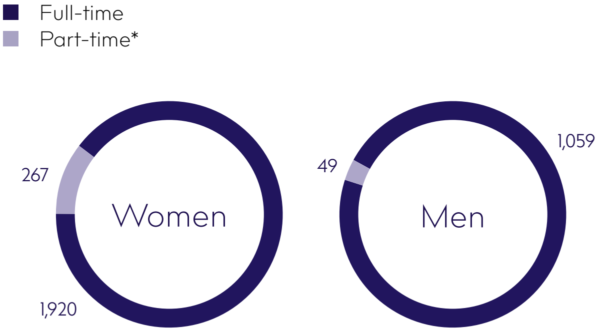
Work-life balance
We provide an attractive work-life balance package. 'Program Rozmanitě' aims to create an appealing workplace and good working conditions for the diverse needs of our employees. Students have the possibility of student leave, parents can use a parent's day to deal with childcare matters, and new fathers are offered 5 days off, available until their new-born completes 2 months of age. We also offer an opportunity of 'FlexPlace' that allows for employees to work from home for certain job positions or a career break for up to 12 months.

MONETA experiences high retention rates of employees that have taken maternity or paternity leave. In 2017, 164 parents returned to work and 71 terminated their employment after their parental leave ended, resulting in a 70% retention rate.

Diversity and Inclusion
As a responsible employer, MONETA continues to build a diverse, equal and inclusive workforce, and provides all employees with a positive work environment and opportunities to build a rewarding career. Our Code of Ethics reflects our commitment towards non-discrimination and our internal policies are designed to allow for equal opportunities for all.

Operating solely within the Czech Republic, one of the most pressing diversity issues we face is gender equality. Our policies are designed for equal pay in the same position and the Group is striving to close the gender pay gap. Currently, the female employee's average basic pay is equal to that of the average basic pay of their male counterparts. 67% of our employees are women.

Total number of employees by employment type (full-time and part-time), by gender

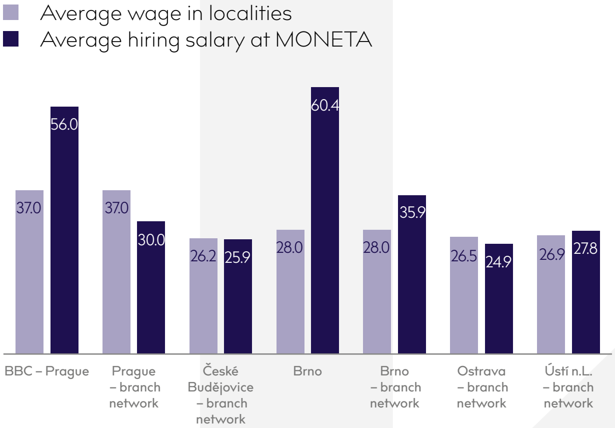


*Including Agreement to complete a job, Agreement to perform work

Employees above the age of 50, who usually find it more difficult to find employment in the Czech job market, represent over 11% of our employees. 109 of them are men and 278 are women. We have also created the No Barriers Program to support our colleagues with disabilities. MONETA looks after employees with physical disabilities by adjusting their workspace according to their specific needs and provides them with a designated car parking space. All employees with disabilities can also enjoy extra points in our eBenefit system. There are 25 employees with disabilities in our organization, 15 of them are women and 10 are men.

Remuneration Policies & Practices
Our remuneration policies, including all bonuses, incentives and other awards, are clearly defined to ensure equal treatment and fair opportunities. The role of the Nomination and Remuneration Committee, responsible for establishing remuneration strategy for the company and specific remuneration and benefits to members of the Management Board and Supervisory Board, as well as other members of the senior management, is discussed in section „Remuneration and Benefits of Members of the Management Board, the Supervisory Board and Key Executive Managers" of this Annual Report.

Average hiring salary compared to the level of average wage in localities with significant operations
(in thousands CZK)



Corporate Atmosphere
Recognizing employees as a crucial asset of our organization; we regularly assess their feedback to gain insight into MONETA's practices, levels of engagement and range of issues that matter to them. In 2017, our survey process was being reviewed; therefore, there are no results from the periodic Corporate Atmosphere survey. Despite that fact, our employees were continually encouraged to provide us with all relevant feedback independently. Feedback provided to our Internal Ombudsmen also remained an important measure of employee satisfaction in 2017.

6.2.1.3 Training
We aim to recognize the talents of each employee. We strongly believe that promoting the development of each employee to his or her fullest potential is the best way to increase the long-term collective strength of the Group and the best path to individual job satisfaction.

Training and development of employees is one of our important tools for employee motivation. The Bank provides a wide range of training and development activities focusing on our employees' professional and personal development and talent management. Apart from traditional seminar trainings, our employees are offered a range of e-learning and web-based trainings they can complete in their own time. In 2017, there were an average of 4.5 training days per employee, which is fully in line with our long-term benchmark.

Professional Development
The company strategy – "Become a digital banking leader" – has intensified the need to spread awareness of current trends, new technologies and digitalisation. To support our staff, we organized several lectures with Czech leading experts, e.g. on agile methods and management, social networks as a trend, World 6D, Fintech or rising new generations.

Moreover, we also helped colleagues to obtain professional and technical knowledge and expertise in IFRS, new IT systems and technologies or project and process management. We have a newly dedicated team to implementing Quality Standards or the new Claims and Complaints Handling Procedure. An important part of our core development activities consists of preparing the certification process for the new Consumer Credit Act. The new rules will affect almost 1,700 MONETA employees.

Talent management was top-of-mind for us when we decided to promote the talents of students and graduates under the Trainee Program. We want to give them the opportunity to become familiar with the Commercial department and to participate in its day-to-day operations.

All our employees have an opportunity to access professional development training sessions. In 2017, they were attended by 8,788 employees[10], out of which 24% were men and 76% were women.

Personal Development
MONETA provides a wide range of training to aid employee development in areas they would like to improve. Our personal development training sessions are available to all our employees and cover, for example, effective communication, emotional intelligence, conflict management, problem solving, creative thinking, personal brand and networking. By promoting these opportunities, we contribute to individuals' qualification, creating a balanced approach that gives back to the company and to our society.

Soft skills development focused on newly-defined key competencies for different roles in 2017. Given the Bank's focus on top quality customer service, client-facing employees remained at the centre of the Bank's attention from a training perspective and customer-facing divisions were supported by our internal trainers and coaches. Training activities focused on improving their development of management skills in leading a team, among other things.

In 2017, our attention also turned to managers. In our management academy, we aim to provide maximum support to leaders in key positions. A group of 20 managers went through the development centre, which was also one of the final steps of this development program and will help us measure the progress in participants' management skills.

[10] Number includes attendance of one employee in several training sessions and repeat attendance

We also became significantly involved in cross-business coaching and mentoring activities as part of the inter-corporate cooperation initiatives T2G and Corporate to Itself. The development activity pilot of supervisory groups for managers was successful and we have started the second cycle. This activity is interesting due to its format, as experienced managers from different companies regularly share their best practices during sessions organized and hosted by MONETA over the course of five months. In total, personal development training sessions were attended by 2,518 employees[102], out of which 40% were men and 60% were women.

6.2.2 Economic Sustainability

MONETA promotes sustainable development in its lending and investing practices, as well as in its broad organizational operation. We are committed to running our business ethically, including our relationships with suppliers and external organisations. Transparency forms our central, overarching guiding principle.

In Economic Sustainability, we have set out 3 priorities:

1. Transparency and Compliance
2. Supplier Relationship Management
3. Financial Crime

6.2.2.1 Transparency and Compliance

Our commitment is to conduct our operations in accordance with the highest standards of corporate social responsibility. We believe it is not only the right thing to do, but it is vital for the long-term success and profitability of our business. We are aware of our stakeholders' increasing interest in how MONETA conducts its business. Fostering a culture of transparency and integrity is a pre-requisite for doing business. By publishing credible information about our economic, environmental and social activities, we enable our stakeholders to make better-informed decisions in relation to our business. This develops trust, on which our relationship is dependent.

Codes of Conduct

Our Code of Ethics underpins the culture at MONETA. It provides guidelines to the basic rules of conduct for employees and members of the board, and details our values. It is based on the company vision, mission and values stated in chapter 6.1.2.

The Code of Ethics also declares the commitments of MONETA Group companies towards their employees, members of their boards, shareholders, business partners, and other third parties. Our employees complete annual, mandatory trainings related to the prevention of inappropriate behaviour, unethical conduct and conflicts of interest. All our suppliers receive a Code of Ethics document that spells out our expectations on integrity.

MONETA also follows Codes of Conduct established by the Czech Banking Association, whose aim is to set up general ethical standards for relationships between banks and their clients. Our operations are in line with the Code of Conduct on Client Mobility, Code of Conduct in Relations between Banks and Clients, Code of Conduct on Loans and Living and Code of Ethics for Financial Market.

We are a member of the Institute of Internal Auditors and our activities are bound by the International Professional Practices Framework. Additionally, we have adopted Codes of Ethics issued by other institutions such as the Code of Ethics of the Czech Capital Market Association, Memorandum of the Czech Leasing and Financial Association for Consumer Protection in the Provision of Consumer Credit, and Members Code of Conduct of Czech Leasing and Financial Association.

Cooperation with Control and Regulatory Bodies

We operate in line with relevant legislation and regulatory requirements and cooperate with Czech and European Union control and regulatory authorities on a regular basis.

The main regulatory body for MONETA and the banking sector in the Czech Republic is the Czech National Bank, which, as an independent institution, maintains price stability, supervises the financial system and supports its balanced development, and ensures smooth circulation of money and smooth payments MONETA deals also with other regulatory bodies, such as the Financial Arbitrator of the Czech Republic, the Office for Personal Data Protection, the European Banking Authority, the European Securities and Markets Authority, the European Insurance and Occupational Pensions Authority, the National Security Authority, the Czech Banking Association and other institutions, whose regulatory or administrative action could potentially result in financial or reputational risks for MONETA. As part of our risk management policies, our Compliance Department is therefore, among other activities, committed to timely and precise communication with these regulatory bodies, as well as coordination of implementation of legislative and regulatory requirements or decisions.

Tax Transparency and Accountability

We recognize the need to be transparent about our tax administration. MONETA is a tax resident only in the Czech Republic and all its tax duties are fulfilled in the country. Our stakeholders are assured that all our tax duties are filed and settled as required by Czech legislation. Tax filing and settling is monitored by our Tax department and it is independently reviewed by renowned Czech consultancy agencies. MONETA also has no unpaid tax balance. All corporate tax duties for 2017 are listed in financial section "Notes to Consolidated Financial Statements" of this Annual Report.

[102] Number includes attendance of one employee in several training sessions and repeat attendance

Sustainability, Risk Management and Responsible Banking

Risk management forms an inherent part of the banking sector. We comply with all legislative requirements for risk assessment set up for the banking sector. Our risk governance processes are described in detail in section "Risk Management" of this Annual Report.

On top of evaluating all legislatively required risks connected to our business activities, we are aware of sustainability risks that affect, or could affect, our business in the near future. These risks stem from sustainability challenges posed by climate change, such as water scarcity or increased periods of drought or loss of biodiversity; and by raw material scarcity, growing demand for energy, population growth and urbanisation. The banking industry is indirectly affected by these sustainability risks through its diverse range of clients.

MONETA strictly adheres to a Know Your Customer Policy that stipulates necessary measures for compliance with international trade sanctions, prevention of legalization of profits from criminal action or financing of terrorism. Above these measures, we have also set up policies to refrain from financing activities in possible high-risk sectors and activities with a money-laundering potential. Also, the Bank's Principles of Responsible Banking include ensuring strong governance, fair and transparent customer relations, positive contributions to the community and building an environmentally friendly business, while striving for financial health, responsible investment and financial stability.

6.2.2.2 Supplier Relationship Management

Suppliers help us facilitate our day-to-day activities in a smooth and reliable way. Forming an important part of our operations, we value every supplier as a key business partner and strive to build a long-term relationship based on respect and trust.

Selection and review of our suppliers is driven by internal regulations that establish selection guidelines (Procurement regulation) and guidelines for risk evaluation related to suppliers and their services (Supplier Risk Management regulation). Transparency of selection process and risk management is subject to regular internal audits. All supplier-related activities are evaluated in our internal vendor management application. The selection and risk evaluation processes involve, for example, an assessment of credibility and financial health of the subject, understanding of ownership structure, IT security controls, and Business Continuity Plan (BCP) assessment. In special circumstances, approval of the Management Board representative is necessary.

Approval process includes signing of the Non-Disclosure Agreement (NDA), along with Supplier Code of Conduct that presents our requirements related to openness, respect, working conditions, health and safety, environment and other forms of ethical behaviour. It was updated in 2017 in line with new requirements of the General Data Protection Regulation (GDPR). Under special circumstances, MONETA endorsed the NDA presented by the supplier, which was aligned with the Bank's standards and requirements. In some circumstances, where the nature of the relationship did not require sharing of sensitive data, signing of an NDA was exempted. All contracts and agreements between MONETA and its suppliers are based on mutually beneficial and equal relationship. This was recently fostered by shortening invoice due date to 30 days and reciprocal responsibility for obligations arising from NDA and subsequent obligations in case of breach of confidentiality.

MONETA cooperates with approximately 1,100 suppliers. Around 90% of our supplier spending is directed to suppliers based in the Czech and Slovak Republics, remaining suppliers are mostly based in the European Union and North America. Being a service-orientated company, MONETA's procurement is related mainly to IT (software and hardware), marketing and advertisement, payment cards and ATMs, legal services, telecommunication, building lease, printing services (now in decline due to digitalization) and postal services.

6.2.2.3 Financial Crime

Anti-Money Laundering and Anti-Fraud

The Bank is aware of the importance of measures preventing misuse of products and services from money laundering or financing of terrorism in a financial institution. We have set up a rigorous set of guidelines and control processes to make sure we operate in line with all relevant legislation and recommendations of international organizations (such as the FATF) in this area. All guidelines are subject to regular review and updates. Know Your Customer and Customer Risk Rating processes are carried out on a regular basis and include assessments in terms of national and international restrictive measures such as sanctions and embargoes.

All our employees undergo a regular specialized training related to prevention of anti-money laundering, including counter-terrorist financing and international sanctions matters. The Bank has also set up a training program focused on prevention of external as well as internal frauds, and also escalation mechanisms to report such activities, including anonymous reporting options. The Compliance & Anti-Fraud Committee (CACF) is responsible for management and coordination of activities around internal controls, compliance risk and anti-fraud management.

Anti-Bribery and Corruption

Our Anti-corruption policy has been put in place to prevent any corruptive behaviour or an unwanted conflict of interest. We have set up internal processes and procedures governing the selection of new suppliers, giving gifts to our clients or partners, but also in the case someone wants to gift our employees. For that, we have an internal process for donations to non-profit organizations. We also require the same anti-corruption standards from our employees, as well as from our partners and suppliers.

We are active in promoting our policy and diminishing any risks of corruption or bribery through a range of our regular employee training sessions that take place every year. Training sessions are divided into 5 categories: preventing unwanted payments, conflict of interest, whistleblowing policy, code of conduct and guidelines for education in compliance. All our employees have passed all compulsory training sessions on anti-bribery and corruption and are regularly trained in all categories apart from the guidelines for education in compliance training, which is voluntary.

6.2.3 Customer Experience and Services

Our aim is to provide the products and services our customers need every day, and we do this is in a way that reflects our values and ethics. Treating customers fairly and providing excellent customer service builds a key part of our commitment to ethical banking.

We have set out 3 priorities in the Customer Experience and Services area:

1. Innovation and Digitalization
2. Customer Experience
3. Responsible Sales Practice & Marketing

6.2.3.1 Innovation and Digitalization

Increasingly, our customers seek the convenience of digitalization and use of our services without having to visit one of our branches. We reflect this in our ambition and new company strategy to become a digital banking leader in the Czech Republic.

Apart from our Internet Banking and Smart Banka application, we focus on possibilities of online account activation. In 2017, we were the first and only bank in the Czech Republic to offer a current account that can be opened fully online, without the need to visit a branch, within several minutes. This current account has been set up in reaction to an increasing need for digitalization that goes hand in hand with meeting the needs and expectations of our clients.

For more information on our activities and detailed strategy for Innovation and Digitalization, please refer to section "Report on Business Activities" of this Annual Report.

6.2.3.2 Customer Experience

Client Satisfaction

Our long-term business success depends on client satisfaction and on our reputation as a banking digital leader in the Czech Republic. Therefore, we actively seek client opinions. Based on their feedback, our products and services are continually reviewed to ensure that they are easily accessible, clear and simple to understand. We also ensure that customers are provided with information that is accurate, not misleading and does not include any potential risk. We strive to understand the diverse needs of our clients and apply complex measures to improve their experience with MONETA.

On an annual basis, we measure long-term customer satisfaction (NPS – Net Promoter Score). Twice a year, we also conduct an analysis of sales and service process quality by means of external mystery shopper. Furthermore, we are currently developing a new short-term satisfaction evaluation designed to measure the quality of our branch service. Our monitoring also recently extended to Internet mapping that includes websites, social networks, forums, reviews etc. with regards to the banking sector, certain financial issues or just a mention of MONETA. This form of feedback represents a new tool that provides specific user reactions, outlines their behaviour over time (frequency of discussed issues), or helps to identify main touch points currently important to the public in connection with the banking sector.

In terms of social networks, we have set up a communication process through our Facebook page with an instant response to all client inquiries. We immediately react to all client issues and inform them about the next steps in resolving their queries. All issues are passed on to a relevant department or a specific staff member for final resolution. Our MONETA Forum website is also used in a similar way, and functions as a communications tool with hundreds of our clients. All client inquiries and issues are regularly summarized and evaluated within our internal product/process reviews. We reward our clients for all relevant remarks that are realized and produce impact on client experience.

The last customer satisfaction survey revealed our clients would have recommended MONETA more frequently than other banks they were using in 2017. With retail NPS score of 30%, MONETA was positioned at the centre of evaluated banks in the Czech market. The level of recommendation based on specific customer experience at our branch of 62% demonstrates that MONETA is a leader when it comes to discrete and professional behaviour and effective communication exercised by our branch staff. In terms of these services, we exceeded our biggest competitors in the banking sector. On the other hand, our customer experience reflects their preference for no-fee policy and targeted communication placing two of our competing banks on top ranking positions.

In order to reflect on our client feedback and to keep improving our customer experience, we focused on adjusting our branch environment in 2017. Our attention was directed towards the entire branch environment – re-designing branches, changing their disposition and organization, placing digital media equipment such as LCD screens and client tablets in waiting areas, background music, fragrance, free wi-fi network and coffee and refreshment options. A new design was applied to nine of our branches in 2017 and the modernization will continue in 2018.

Furthermore, we took new measures to improve our communication particularly on product fees, but also more broadly. Customers can contact MONETA in person at one of our branches, through the call centrum, via online chat, Internet banking or by e-mail. Our call centrum remained the most popular contact method in 2017 and the most frequent client requests were related to Internet Banking unblocking, inquiries about account balance or transactions.

Client Ombudsman and Complaint Management

All complaints directed at our company are taken seriously and handled with highest attention. Complaint reasons cover process failures, technical or human error, or a misunderstanding of our products, services or between our staff and clients. They all represent valuable customer feedback we can further work with and use for continued development of our services.

In 2017, a new complaint handling process was introduced, ensuring that 25% of client complaints are resolved within 10 minutes, leading to improved customer satisfaction. The complaints which required investigation were divided into standard complaints and serious cases, which were then handled by the Ombudsman for clients. Furthermore, we created a new process of 'Escalation to Management', when a specific process is set up for customers that wish to be connected to one of our managers. The client is either given a contact or is redirected immediately. In April, we also set up a new process for lost cash found in our ATMs. 60% of incidents were resolved by returning cash to our customers and expressing our thanks to who found it, along with a small gift.

Breakdown of Standard Complaints by Category

Category	2017
Marketing/Sales	423
Quality of service	2,531
Service fees/Charges	10,468
Collections – Quality of service	438
Collections – fees	1,254
Non-client	1,258
Total	**16,372**

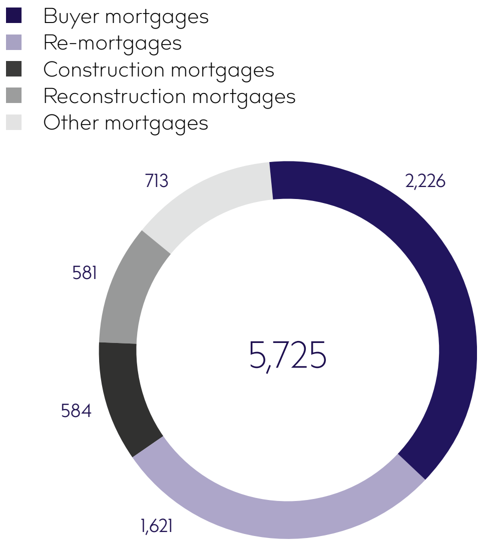
The Ombudsman for MONETA clients has been in place since 2012. The Ombudsman primarily deals with complaints from clients dissatisfied with the original handling of their case under standard procedures. Its role is to review the Bank's initial resolution and find the best possible solution for both parties. We are pleased that in 2017 we saw a decrease in the number of customers' serious complaints received. In 2017, the Ombudsman dealt with 619 cases compared to 694 in 2016.

Social Impact Banking – Individuals

We are aware that banking institutions can generate a range of positive impacts on the lives of their customers. From mortgage services to savings accounts and debt advisory services, at MONETA we support our customers who present a significant contribution to our economy and the communities in which we live and work.

In 2017, we assisted in 2,226 purchases and 584 constructions of new homes. We also helped 1,621 homes get re-mortgaged, saving homeowners money on their monthly payments and made 581 reconstructions possible, improving the living situations of our customers.

Overview of Mortgages 2017

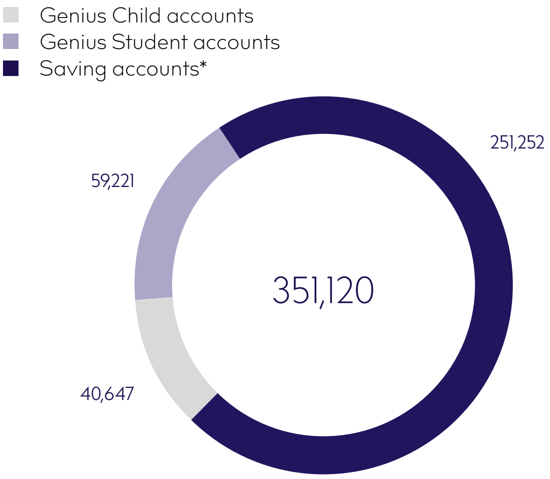


Note: For multiple purposes, the prevailing one is included in one mortgage.

By improving terms and conditions of our mortgage products, we increased our clients' ability to make regular repayments possible. In 2017, we improved our Flexible mortgage product by adding a possibility to postpone the start of repayments by up to 3 months. On top of this, this unique type of mortgage can automatically decrease the monthly instalment by applying the so called off-set, meaning that interest is calculated only from the difference between the actual mortgage balance and balance left on the client´s current account. It also includes a possibility of free annual repayment of up to 50% of the mortgage value or an option for lower monthly repayments at any time. MONETA also launched a new 7-year interest rate fixation and property price estimation using price mapping that reduced overall time needed for final mortgage approval by up to 10 days.

Furthermore, MONETA helped manage its customers' financial situation more effectively by offering a range of specially designed products. In this regard, we assisted many families to manage the needs of our young with our student and child accounts. We also helped more than 240,000 of our clients to save for the future and special occasions by getting bigger value out of their savings with several types of savings accounts.

Overview of Child, Student Accounts and Saving Accounts



*including deposit book

We strive to be a partner for disadvantaged clients by providing services that cater to their specific needs. We tailored our services for deaf customers (**www.bankaproneslysici.cz**) and want to be their bank of choice. And we also provide a network of 136 wheelchair-accessible branches.

Social Impact Banking – Organisations

Our commitment is to become a local champion in supporting Czech small and medium-sized companies (SMEs). By providing banking services to SMEs, as well as to many types of non-governmental organizations, we are supporting the Czech economy, job creation and development of community life and culture.

Our strategy continuously focuses on building and reinforcing our position in the SME segment of the market, namely becoming the bank of choice for self-employed professionals and small and medium-sized businesses. In 2017, MONETA supported 94,608 clients, who deposited 49.9 billion CZK and took out loans of 61.7 billion CZK. Volume of SME deposits grew by 14.5% and volume of SME lending by 7.8% in 2017. We also succeeded in expanding our support to the investment needs of our SME client base, namely in the agricultural sub-segment, where our investment loan portfolio increased by more than 7.5%.

MONETA SME and NGO clients

Clients	94,608
Common-interest associations and advocacy groups	1,465
Endowment funds	93
Foundations	49
Organizational components of foreign foundations	5
Total	**96,220**

Customer Data Protection

In times of increasing digitalisation of our services, customer data security is a priority. Information security is applied via a variety of security tools and processes ranging from antivirus applications to user awareness. The aim is to ensure maximum risk coverage and protection of the Group's information, including client data.

In 2017, MONETA experienced only a limited number of complaints related to small-scale secrecy incidents, individual or technical failures that could have led to potential access to data by unauthorised recipients. In total, there were 15 incidents, and appropriate measures have been applied to avoid similar situations in the future.

Our ATM network underwent a significant modernization, resulting in strengthened data security as well as personal security. This activity was started in 2016, when 147 ATMs were equipped with options for contactless service, resulting in faster and safer cash withdrawals. In 2017, a total of 307 ATMs were equipped with this type of service. Our customers no longer have to insert their payment cards and the chance of leaving their card in the ATM or having it misappropriated has also diminished.

The Bank continued educating its clients using a range of online and offline channels. It also participated in the Czech Banking Association's education program for schools focused on Cyber security that helps the younger population understand the risks of the cyber world, including online banking services.

6.2.3.3 Responsible Sales Practice & Marketing

Responsible Marketing

MONETA exercises a strict commitment towards fair and honest marketing and advertising. As our Code of Conduct stipulates, the Bank will only use true, correct and clear information in all its information and marketing materials and will avoid giving any type of misleading information. Internal regulations are set up to support this practice.

Our Responsible banking policy establishes principles of fair and ethical treatment of customers in all phases of contact – from purchase process to compliance with contractual conditions. All employees are regularly trained to practice these principles including, for example, respectful treatment of customers, high level of professionalism, refraining from any use of pressure to sign contracts, allowing customers adequate time to understand all commitments resulting from product purchase or informing them of any beneficial services available in connection with a product purchase.

Quality Service Guarantee
MONETA receives feedback in the form of client satisfaction surveys and direct interaction with clients is used to set up our Standards of Quality procedures. These reflect on the most sensitive areas of our services as perceived by customers. Quality is reflected into standards impacting the behaviour and professionalism of bankers, their professional performance, equipment and atmosphere of our branches or their accessibility. In 2017, Standards of Quality became binding for all employees and reflect the required level of service given to all types of clients.

Our branch network was newly evaluated for Standards of Quality in June 2017 and reached an 88% compliance, signalling high standards are maintained across our customer-orientated activities, despite the fact they were not in full effect and binding at the time. The best results reflected pleasant atmosphere at our branch, its clean interior, expertise and professionalism of our staff, including their dress code, their interest in the client and their open approach. In November 2017, our employees again surpassed 80% in their evaluation.

Quality is gradually applied in all our activities and we increasingly communicate it to our clients. Our website was updated with a new section on "Quality of Our Services" and in 2017 we have started a customer-oriented campaign to provide more information about MONETA's orientation on service quality in the form of quizzes, information on Internet Banking log-in page and on the main screen of our ATMs.

Credit Quality Award
MONETA was awarded with the highest possible GOLD award in the credit quality analysis of Czech banks conducted by Comsense Analytics. "Comsense Důvěryhodná banka" (Comsense Trustworthy Bank) is an analytical project that evaluates all banks based in the Czech Republic. Its goal is to provide an evaluation of Czech financial institutions' credit quality and it is focused on the ability of banks to meet their financial commitments. This evaluation is based on a deep analysis of financial statements and annual reports of all banks, alignment of values with international banking indicators and their correlation with more than thirteen hundred international banks.

6.2.4 Environmental Sustainability
MONETA respects the environment, feels accountable for the environmental impact of its activities and seeks to pursue innovative solutions. We work to reduce the Bank's carbon footprint and to promote responsible attitudes among employees, suppliers and customers.

We have set out 2 priorities for the Environmental Sustainability area:
1. Innovative Solutions
2. Our Carbon Footprint

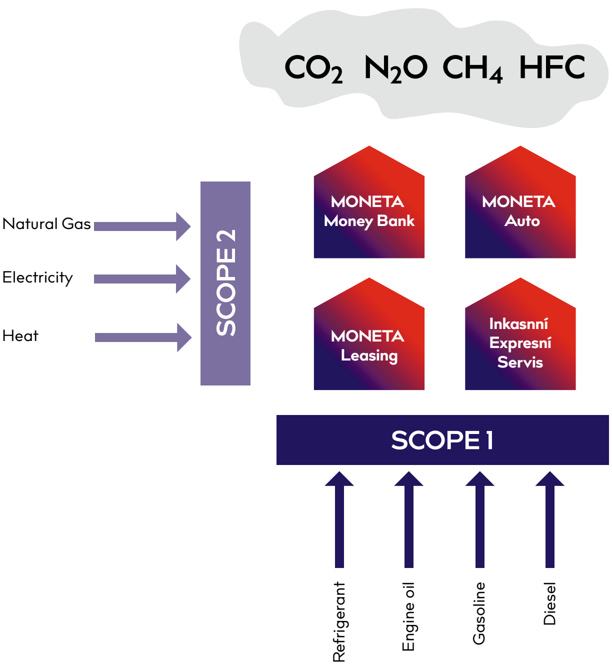
6.2.4.1 Innovative Solutions
Projects with Ecological Impact
Banks are uniquely positioned to facilitate the flow of capital towards environmentally and socially beneficial activity. We believe the benefits of such activities are likely to be most effective if they complement our existing activities in the financial sector.

One such example is our support for agriculture. It is an important part of our business strategy and we recognize the sector as one with high potential for generating positive ecological impact. Therefore, we help farmers with modernization of their businesses and the use of new green technologies and procedures. An integral part of this is the support for Eco-Energy projects. We provide farmers and entrepreneurs from the renewable energy sector with simple access to expert consulting, subsidies and loans. In order to be able to offer complete consultancy services in this area, we co-operate with Agroteam CZ and AgroConsult Bohemia.

6.2.4.2 Our Carbon Footprint
In 2017, we initiated cooperation with non-governmental organization CI2, o.p.s. with the aim to measure MONETA's carbon footprint and set up improvement goals. Those will help us reduce our impact on the environment, become more resilient, efficient and prosperous. Our carbon footprint measurement is realized in line with the GHG Protocol, the international standard providing accounting and reporting standards and calculation tools for businesses and governments. GHG measures the amount of greenhouse gases resulting from our business activity, and covers Scope 1–2 emissions.

The primary inventory of the Bank's emissions conducted in 2016 showed that our main emission sources are dominated by heat generation, company car fuel consumption (petrol and diesel) and electricity consumption. Reviewing the composition of our greenhouse gases showed CO_2 emissions amounted to 97.4%, HFC emissions amounted to 1.65% and Methane and Nitrous Oxide emissions amounted to 0.95% of our total emissions. Partial data available for 2017 suggest there are no significant changes in composition of our main emissions sources. The complete data for our total carbon footprint in 2017 will be available in the second half of the 2018.

Carbon footprint´s composition of MONETA Money Bank



When it comes to carbon footprint, we reached an important milestone in 2017. We committed to lower it by 35% by 2020 by implementing the following five planned measures. These measures will result in reduction of our carbon footprint by more than 2800 t CO_2e by the end of the year 2020.

1. Our branch network will rely on renewable energy.

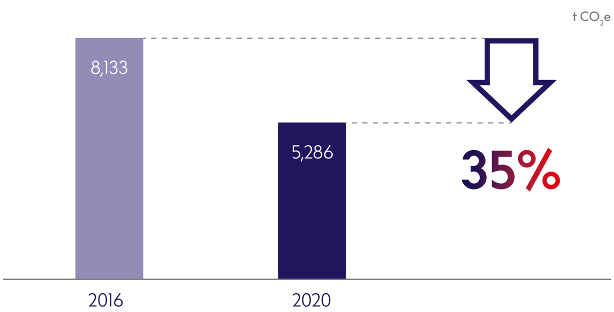
2. Our headquarters in Prague and Ostrava will rely on renewable energy.

3. We will gradually reduce the number of our branches that are powered with solid fuels.

4. We will reduce the number of company cars.

5. We will replace the majority of our diesel company cars with electric vehicles.

MONETA Commitment to Lower Carbon Footprint



Renewable Energy

Renewable energy and energy-efficient technology form an essential part of a low-carbon economy. Energy represents one of the key emission sources at MONETA. Keeping up with our commitment to reduce our carbon footprint, in 2017, we, therefore, committed to include renewable energy as a key source to supply our branch network and headquarters by 2020. These measures will result in the reduction of our carbon footprint by more than 1417 t CO_2e.

Electro-mobility

One of our most significant sources of direct emissions is company car fuel consumption. Currently, MONETA uses 503 company cars. The distance covered by use of these cars in 2017 was 12,467,060 km, compared to 9,444,748 km in 2016. Strong annual increase in kilometres covered translates into significantly higher impact on the environment. Since we are aware of the impact caused and want to lower our carbon footprint, we decided to change this.

In 2017, we announced that MONETA has officially decided to move most of its car fleet to electric vehicles within five years. By the end of 2017, we put 12 of electric Volkswagen e-Golf cars in use. Within two years, the company fleet of electric cars will contribute to reduce MONETA's carbon footprint by 740t CO_2e.

6.2.5 Corporate Citizenship

MONETA is serious about supporting local communities, in which its customers and employees live and work. Our corporate citizenship agenda and initiatives underscore the Bank's CSR mission to be a socially minded enabler, a reliable partner, and a catalyst for change.

We have set out 2 priorities for the Corporate Citizenship area:

1. Corporate Volunteering
2. Fundraising and Philanthropy

6.2.5.1 Corporate Volunteering

Social responsibility is an essential part of our company culture and business and, throughout the year, we encourage all employees to become more deeply connected to their communities. In 2017, MONETA employee volunteers donated 4,907.5 hours to the community and supported 43 organizations. We organized 113 voluntary events with the participation of 236 employees and 121 of their family members and friends.

Our volunteering activities were rewarded with a national Czech award TOP Odpovědná firma. MONETA received a golden certificate in the category "The Most Engaged Employees 2017" for our continuous volunteering efforts under PÁCHÁME DOBRO – MONETA Volunteers. This award is regularly dedicated to the most attractive activities in the area of corporate sustainability and responsibility.

ZLATÁ
TOP ODPOVĚDNÁ FIRMA 2017
NEJANGAŽOVANĚJŠÍ ZAMĚSTNANCI

To name one of the many voluntary events, in September MONETA volunteers organized a meeting with two of the top Czech tennis players Petra Kvitová and Tomáš Berdych for youngsters from children's homes in Radkov, Klánovice, Hrabová and Dlažkovice. MONETA became a general partner of the Czech Tennis Association earlier in 2017 and wanted to support new tennis champions in the Czech Republic. We are also engaged in long-term support of these children's homes as our volunteers regularly help with Saturday activity programmes.

6.2.5.2 Fundraising and Philanthropy

Our employees contribute to volunteering activities over the year and are a fruitful source for various organisations involved in charity initiatives. In 2017, our employees managed to raise more than 231,000 CZK by organizing a range of activities, such as bake sales, Easter and Christmas fairs or sports activities. All money raised was donated to organizations we have been co-operating with in the long-term.

In April 2017, we became partner of the charity fundraising project "Help the Children" (Pomozte dětem), organized by the Czech foundation Nadace rozvoje občanské společnosti. We provided the foundation with a free of charge account (no. 9595959595/0600) for their fundraising purposes to support vulnerable and disadvantaged children. Since October 2017, our clients can also support this project with free donations made in MONETA branches, directly from their payment cards, or by an ATM deposit. MONETA also provides free cash processing for all funds raised in the streets during the weeklong fundraising event called "Peříčkový týden".

MONETA Grant Programme

MONETA's programme supporting local communities is built on engagement with our employees and our wide retail network. Employees make suggestions as to which organization should be supported and with which organization we should cooperate. They select organizations that are close to their values, thus creating harmony between employees' personal values and the Bank's social responsibility. This supports a high level of involvement and brings visible impacts to projects in the communities that need help.

In 2017, we supported 21 organizations and their 22 projects with 1.05 million CZK. The Grant committee, which meets three times a year and is composed of the Bank´s employees, bases its decision on the impact and sustainability of the proposed projects.

MONETA Fundraising and Philanthropy Overview in 2017

Supported area in 2017	Names of supported organizations	Total donation in CZK	No. of supported projects
Disadvantaged children	• NF Rozum a cit • Romodrom o.p.s. • Klub Dětem, z.s. • Vzájemné soužití o.p.s. • Centrum pro dítě s diabetem, z.s. • Speciální škola Velká Bíteš • Sdružení na pomoc dětem s handicapy, z.ú. • Fakultní nemocnice v Motole	359,118	8
Disadvantaged adults	• Spolek zdravotně postižených občanů a jejich přátel • Společnost „E"/Czech Epilepsy Association, z.s. • ENVIRA, o.p.s • Klub nemocných cystickou fibrózou, z.s. • Borůvka Praha o.p.s. • Sjednocená organizace nevidomých a slabozrakých ČR, pobočka Kladno • Rodinné Integrační Centrum, z.s. • Komunitní centrum Říčany, o. p. s.	386,305	8
Senior citizens	• Domov Sue Ryder, z.ú. • TŘI o.p.s. (Hospic Dobrého Pastýře) • Naděje Brno • Hospic sv. Jana N. Neumanna, o.p.s. • Oblastní charita Červený Kostelec, středisko Hospic Anežky České	304,577	6
Total	**21 organizations**	**1,050,000**	**22**

6.3 GRI INDEX TABLE

The Sustainability and Corporate Social Responsibility section of this Annual Report has been presented in line with the Global Reporting Initiative (GRI) Standards, option Core. All data is calculated for the period of January 1st – December 31st, 2017. This is the first non-financial report compiled for the Group and we expect to continue reporting on its progress on an annual basis in future years.

Presentation of indicators for some material issues has been omitted in this report. Omissions relate to reporting environmental impact of our organization, namely values for energy consumption and greenhouse gas emissions. Omissions have arisen because in the first year of our reporting, availability of these indicators has not been properly aligned with the publishing of this Annual Report.

In order to improve our sustainability performance, we welcome all feedback regarding MONETA sustainability activities and this report. Please contact csr@moneta.cz with any comments and enquiries.

GRI Index

Indicator	Description	Reference: Annual Report 2017
	GENERAL INDICATORS	
	Organizational profile	
102-1	Name of the organization	1.1
102-2	Activities, brands, products, and services	2.3
102-3	Location of headquarters	1.1
102-4	Countries of operations	2.3.1
102-5	Ownership and legal form	1.1
102-6	Markets served (geographic locations, sectors served, types of customers)	2.3.2
102-7	Scale of the organization.	4.1 Organizational Chart 6.2.1 Employees
102-8	Information on employees and other workers	6.2.1 Majority of organization's activities are carried out by MONETA employees.
102-9	Supply chain	6.2.2.2
102-10	Significant changes to the organization's size, structure, ownership, or supply chain	see "Provisions" in Financial section
102-11	Precautionary Principle or approach	6.2.2.1
102-12	External initiatives	6.2.2.1
102-13	A list of the main memberships of industry or other associations, and national or international advocacy organizations	10 Additional Disclosures 6.2.2.1
	Strategy	
102-14	A statement from the most senior decision-maker of the organization	see "Letter from the Chair of the Management Board"
	Ethics and integrity	
102-16	Values, principles, standards, and norms of behaviour	6.1.2, 6.2.2.1
	Governance	
102-18	Governance structure of the organization, including committees of the highest governance body	4.1 Organizational Chart
	Stakeholder engagement	
102-40	List of stakeholder groups	6.1.1
102-42	Identifying and selecting stakeholders	6.1.1
102-43	Approach to stakeholder engagement	6.1.1
102-44	Key topics and concerns raised	6.1.1
	Reporting practice	
102-45	A list of all entities included in the organization's consolidated financial statements or equivalent documents	4.1 Organizational Chart
102-46	Defining report content and topic boundaries	6.1.1
102-47	List of material topics	6.1.1
102-48	Restatements of information	This is the first non-financial report.
102-59	Changes in reporting	This is the first non-financial report.
102-50	Reporting period	1. 1. 2017–31. 12. 2017
102-51	Date of most recent report	-
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	6.3
102-54	Claims of reporting in accordance with the GRI Standards	6.3

GRI Index

Indicator	Description	Reference: Annual Report 2017
	GENERAL INDICATORS	
102-55	GRI content index	6.3
102-56	A description of the organization's policy and current practice with regard to seeking external assurance for the report	See "Auditor's report on Consolidated Financial Statements"
	MATERIAL TOPICS	
103	Management Approach	6.1, Management Approach is further explained in each corresponding section of the report.
	Economic Disclosures	
	Economical Results	
201-2	Financial implications and other risks and opportunities due to climate change	6.2.2.1
	Market Presence	
202-1	Ratios of standard entry level wage by gender compared to local minimum wage	6.2.1.2
	Indirect Economic Impacts	
203-2	Significant indirect economic impacts	6.2.2.3
	Procurement Practices	
204-1	Proportion of spending on local suppliers	6.2.2.2
	Anti-corruption	
205-2	Communication and training about anti-corruption policies and procedures	6.2.2.2, 6.2.2.3, 100% employees attended anti-corruption training sessions. Anti-corruption Policy is communicated to all organization's suppliers.
205-3	Confirmed incidents of corruption and actions taken	There were no confirmed incidents of corruption.
	Anti-competitive behaviour	
206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices	There were no legal actions for anti-competitive behaviour, anti-trust, and monopoly practices.
	Environmental criteria	
	Materials	
301-1	Materials used by weight or volume	Main material used by MONETA was paper. In 2017, total weight of used paper is 79.5 tons (includes office paper and etiquettes).
	Emissions	
305-4	GHG emissions intensity	6.2.4.2
FSSS	GHG emissions resulting from business travel	Emissions from business travel contribute highly to overall carbon footprint of the organization. In 2017, total emissions from petrol, diesel and motor oils equalled to 1,462.2 t CO_2e resulting in 25.7% increase compared to 2016 (1,163.7 t CO_2e).
	Environmental Compliance	
307-1	Non-compliance with environmental laws and regulations	There were no instances of non-compliance with environmental laws and regulations during the reporting period.
	Supplier Environmental Assessment	
308-2	Negative environmental impacts in the supply chain and actions taken	6.2.2.2, MONETA suppliers do not pose significant risk of negative environmental impacts.
	Social criteria	
	Employment	
401-1	New employee hires and employee turnover	6.2.1.1
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	eBenefity – cafeteria, 1 week of paid holiday extra, health care, accident insurance, loyalty reward, sick leave, home office, time off for students, paternity leave, time of to look after a child, bereavement leave on top of legislative requirements, employee products.
401-3	Parental leave	6.2.1.2
	Training and Education	
404-1	Average hours of training per year per employee	6.2.1.3
404-2	Programs for upgrading employee skills and transition assistance programs	6.2.1.3

GRI Index

Indicator	Description	Reference: Annual Report 2017
	GENERAL INDICATORS	
	Diversity and Equal Opportunity	
405-1	Percentage of individuals within the organization's governance bodies in diversity categories: gender; age group and other indicators of diversity where relevant	4.1 Managing Authorities, 6.2.1, Employees
405-2	Ratio of basic salary and remuneration of women to men	6.2.1.2
	Non-discrimination	
406-1	Incidents of discrimination and corrective actions taken	6.2.1.2, There were no incidents of discrimination at MONETA during the reporting period.
	Freedom of Association and Collective Bargaining	
407-1	Operations and suppliers at significant risk for incidents of child labour	Freedom of Association and Collective Bargaining is guaranteed by law. Number of operations at risk: 0
	Child Labour	
408-1	Operations and suppliers at significant risk for incidents of child labour	There is no significant risk of child labour at MONETA. MONETA suppliers are located in developed countries where risk of child labour is minimal.
	Forced or Compulsory Labour	
409-1	Operations with significant actual and potential negative impacts on local communities	MONETA suppliers are located in developed countries where risk of forced or compulsory labour is minimal.
	Local Communities	
413-2	Operations with significant actual and potential negative impacts on local communities	0
FSSS	Access points in low-populated or economically disadvantaged areas by type	2.3.2
FSSS	Initiatives to improve access to financial services for disadvantaged people	6.2.3.2
	Supplier Social Assessment	
414-1	New suppliers that were screened using social criteria	6.2.2.2, 100% signs MONETA Code of Ethics.
414-2	Negative social impacts in the supply chain and actions taken	6.2.2.2, MONETA suppliers do not pose significant risk of negative social impacts.
	Marketing and Labelling	
417-1	Requirements for product and service information and labelling	6.2.3.3
	Customer Privacy	
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	6.2.3.2
	Socioeconomic Compliance	
419-1	Non-compliance with laws and regulations in the social and economic area	There were no significant incidents against law and banking regulation in the Bank during the reporting period.

7. OPINIONS OF THE SUPERVISORY BOARD

The Supervisory Board of the Bank fulfilled all its duties stipulated by law and the Articles of Association throughout its activities conducted in 2017.

Having reviewed the Bank's consolidated and separate annual financial statements for the year ended 31 December 2017, the Supervisory Board reports that the accounts and financial documents were kept in a transparent manner and in accordance with all relevant generally binding regulations and laws applicable to banks and their book-keeping.

The accounts and financial documents show all important aspects of the financial situation of the Bank, and the financial statements worked out on their basis present a true and fair view of the Bank's and the Group's accounting and financial situation.

The Supervisory Board recommends that the General Meeting approve the separate and consolidated annual financial statements and the distribution of profit as proposed by the Management Board of the Bank.

The Supervisory Board reviewed the Bank's consolidated 2017 financial statements that show profit after tax for the year 2017 of CZK 3,922,965,596.85 and the Bank's separate 2017 financial statements that show profit after tax for the year 2017 of CZK 3,659,681,390.63.

The Supervisory Board reviewed the Management Board's proposal for dividend distribution and recommends to the General Meeting to approve the distribution to the shareholders of the profit of the Bank in the total amount of CZK 4,088,000,000.00 (hereafter the "dividend") consisting of:

(i) the profit of the Bank for the year 2017 in the entire amount of CZK 3,659,681,390.63 after tax; and

(ii) a part of the retained earnings of the Bank from previous years in the amount of CZK 428,318,609.37.

The proposed amount of the dividend per share is CZK 8.00 before tax.

The Supervisory Board throughout 2017 maintained its supervision over the exercise of powers by the Management Board, reviewed the accounts and other financial documents of the Bank, ascertained the effectiveness of the management and control system and made regular assessments.

In Prague, on 20 March 2018

On behalf of the Supervisory Board:

M. Luisa Cicognani

Maria Luisa Cicognani
Chair of the Supervisory Board
of MONETA Money Bank, a.s.

BANKING CHAMPION FOR TRADESMEN AND SMEs

We remained focused on developing capabilities to become the market champion in servicing small businesses through its proprietary servicing model. The effort comprises mainly of activities containing changes in physical distribution, development of new products as well as developing new digital distribution channels.

8. MANAGEMENT AFFIDAVIT

To the best of our knowledge, we believe that this annual report gives a fair and true view of the Bank's and Group's financial position, business activities and results from the year 2017, as well as of the outlook for the development of the Bank's and Group's financial situation, business activities and results.

In Prague, on 20 March 2018

9. FINANCIAL SECTION

Auditor's Report and Consolidated Financial Statements as at and for the Year ended 31 December 2017

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Independent Auditor's Report to the Shareholders of MONETA Money Bank, a.s.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of MONETA Money Bank, a.s. and its subsidiaries (together referred as "the Group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Group is set out in Note 1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG Česká republika Audit, s.r.o., a Czech limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

Recorded in the Commercial Register kept by the Municipal Court in Prague, Section C, Insert No. 24185

Identification No. 49619187
VAT No. CZ699001996
ID data box: 8h3gtra

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Key Audit Matters

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

Loss allowances for loans and receivables to customers

Key audit matter	How the audit matter was addressed
We focused on this matter because of the highly subjective and complex judgements made by the Group's management in determining the necessity for, and then estimating the size of, loss allowances against loans. Loss allowances for loans and receivables to customers at CZK 4,062 million as at 31 December 2017 represent estimate of the impairment losses incurred within loans and receivables to customers (further only as "loans") at the balance sheet date. In order to calculate loss allowances, the entire loan portfolio is divided into non-impaired loans and impaired loans. The loan portfolio is further segmented into commercial and retail exposures. The calculation of allowances for the non-impaired loan portfolio is based on statistical models. Allowances for the impaired part of the loan portfolio are split into individual and portfolio allowances. Individual allowances are determined for impaired commercial individually-managed exposures by calculating the discounted future cash flows. Portfolio allowances are determined for remaining portfolios based on the statistical approach. Particularly important element in the impairment process includes the identification whether objective evidence of impairment exists for the respective loan exposure. The Group has set the series of criteria to identify	We performed, among others, the procedures outlined below to address this key audit matter: We critically assessed and challenged the Group's credit policies and evaluated the processes for identifying impairment indicators and the categorisation of receivables according to these policies. We tested the design, implementation and operating effectiveness of system-based and manual controls over identification and timely recognition of impaired loans such as controls relating to calculation of days past due of loans, matching of borrower's repayments to loan instalments and appropriate categorisation of receivables by inquiry in combination with observation, inspection and re-calculation. We tested the design, implementation and operating effectiveness of controls over the impairment calculation models including data inputs for purposes of calculation of risk parameters (probability of default, loss given by default, etc.) and data transfers by inquiry in combination with observation, inspection and re-calculation. We tested the design, implementation and operating effectiveness of controls on performing commercial individually-managed loans over identification of the existence of impairment triggers by inquiry in combination with observation and inspection. In relation to loss allowances for non-impaired loans and impaired loans for which statistical historical models are used, we critically assessed key methods

Key audit matter	How the audit matter was addressed
the objective evidence of impairment. This objective evidence includes observable data about the events such as, among others, the delinquency in contractual payments of principal or interest, prospective cash flow difficulties, etc. Key assumptions and judgements that underlie the statistical modelling of loss allowances include the probability of default (PD) and the loss given default (LGD) calculation. The impaired commercial individually-managed loans require the Group's management to monitor the borrowers' repayment abilities individually and assess the individual allowances of each borrower. The key judgment for individual allowances is determining future cash repayments of these loans taking into account the estimated value and timing of cash flows including estimating the recoverable value of underlying collateral. Refer to further information in the note 5.6.8 (Summary of significant accounting policies), 22 (Loans and receivables to customers) and 43.3 (Credit risk) to the consolidated financial statements.	and challenged the key assumptions applied by the Group's management. We involved our credit risk specialist for assessment and evaluation of the statistical models. We challenged the appropriateness of the key assumptions applied in the models, such as the probability of default and the loss given default calculation using our understanding of the Group, the historical accuracy of its estimates and current and past performance of the loans. We carried out year-on-year comparison of key ratios, including allowance-to-loan ratios at each product and segment. For a sample of impaired commercial individually-managed loans we considered the latest developments in relation to the borrower, existence of the impairment triggers and the basis of measuring the loss allowance. Furthermore, we examined the estimated cash flows from the impaired borrowers, as prepared by the credit risk department, and in particular challenged the key assumptions in relation to both the amount and timing of estimated cash flows. We re-calculated specific allowances calculated by the credit risk department in order to check the accuracy of data captured in the accounting records. We involved our real estate valuation specialist to critically assess methodology used by the Group for internal and external real estate appraisals. The specialist challenged the assumptions used in the appraisals by comparison with our own expectations based on our knowledge of the client and experience. We assessed the adequacy of the Group's disclosures on the loss allowances and the related credit risk management in the notes to the consolidated financial statements.

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Litigation and claims

Key audit matter	How the audit matter was addressed
The recognition and measurement of provisions and the measurement and disclosure of contingent liabilities in respect of litigation and claims require significant judgement by the Group's management. Therefore, we consider this a key audit matter. We paid particular attention to the following: - litigation risks in respect of the 1998 acquisition of a part of Agrobanka's banking business, - administrative proceedings initiated by Czech Trade Inspection Authority ("CTI") against MONETA Auto, s.r.o. Refer to further information in the note 5.9 (Summary of significant accounting policies), 34 (Provisions) and 39 (Contingent liabilities) to the consolidated financial statements.	Our audit procedures included, among others, the assessment of management's judgement regarding the most significant litigation and claims. For such litigation and claims, we considered whether an obligation exists, the appropriateness of provisioning and disclosure based on the facts and circumstances available. In order to assess the facts and circumstances, we obtained and assessed the relevant litigation and claims documents, including lawyer's letters. We also interviewed the Group's internal and external legal counsel in order to update our understanding of the latest development and key inputs, to assess completeness and accuracy of information applied in a calculation of the related provisions. We also critically assessed and challenged the assumptions made and key judgements applied by management. Additionally, we considered whether the Group's disclosures of the application of judgement in estimating provisions and contingent liabilities adequately reflects the uncertainties associated with the identified litigation and claims.

IT systems and controls over financial reporting

Key audit matter	How the audit matter was addressed
We identified IT systems and controls over financial reporting as an area of focus as the Group's financial accounting and reporting systems are dependent on complex systems and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed or operating effectively.	We assessed and tested the design, implementation and operating effectiveness of the controls over the information systems that are critical to financial reporting. We, among others, tested the controls over the access to programs and data and change management procedures including compensating controls where required by inquiry in combination with observation and inspection. We also assessed certain aspects of the security of the IT systems including access management and segregation of duties.

Expected impact of IFRS 9 adoption which is effective from 1 January 2018

Key audit matter	How the audit matter was addressed
We focused on this matter because of the highly subjective and complex judgements made by the Group's management in determining the expected impact of adoption of IFRS 9 Financial instruments, mainly related to, among others, classification and measurement of financial assets and estimating the size of expected loss allowances against financial assets. IFRS 9 replaces IAS 39 as at 1 January 2018. For the purpose of consolidated financial statements as at 31 December 2017, the Group decided to disclose, among other, expected impact of IFRS 9 adoption as at 1 January 2018 in notes to the consolidated financial statements. Classification and measurement of financial assets with similar characteristics was assessed by the Group from the point of view of: - business model under which those assets are held, - SPPI test which assesses if contractual cash flows arising from the asset are solely payments of principal and interest. Loss allowances for loans and receivables represent estimate of the expected impairment losses within loans and receivables (further only as "loans") at the balance sheet date. Loss allowances are subject to highly subjective and complex judgements made by the Group's management. The loans are segmented into commercial and retail portfolio exposures. In order to calculate loss allowances, the entire loan portfolio is divided into three stages. Stage 1 and Stage 2 loans are performing loans. Stage 2 loans are	We performed, among others, the procedures outlined below to address this key audit matter: In relation to classification and measurement, in co-operation with our credit risk specialist, we critically assessed and challenged Group's policies and evaluated the analyses performed by management in order to determine relevant business models and evaluate SPPI test for most significant types of loans. In co-operation with our credit risk specialist, we critically assessed and challenged the Group's credit policies in relation to impairment based on our knowledge, experience and market standards within the banking industry. We evaluated the processes for identifying impairment indicators and the staging of receivables according to these policies. We tested the design, implementation and operating effectiveness of system-based controls over appropriate staging of receivables by inquiry in combination with observation and inspection. On a sample of loans we checked that the loans have been assigned to appropriate stage in accordance with the Group's credit policies. We involved our credit risk specialist for assessment and evaluation of the statistical models. We critically challenged the appropriateness of the key assumptions applied in the models, such as the probability of default and the loss given default calculation using our understanding of the Group's policies, types of loans and development of loan portfolios. We tested the design, implementation and operating effectiveness of controls over the impairment calculation models including

Key audit matter	How the audit matter was addressed
loans where significant increase in credit risk since origination has been observed. Stage 3 loans are non-performing, i.e. impaired loans. Key assumptions and judgments made for the purpose of the calculation of loss allowances include: - definition of default, definition of significant increase in credit risk and estimation of probability of default (PD), - estimation of loss given default (LGD), - estimation of exposure at default (EAD), - estimation of development of selected macroeconomic indicators. Refer to further information in the note 4.1 (a) (IFRS 9 Financial Instruments) to the consolidated financial statements.	data inputs for purposes of calculation of risk parameters (probability of default, loss given by default, etc.) and data transfers among relevant IT systems by inquiry in combination with observation and inspection. On a sample of loans we recalculated expected credit losses using risk parameters determined by the Group and compared them with loss allowances calculated by the Group. We assessed the adequacy of disclosures related to IFRS 9 implementation as disclosed in the notes to the Group's consolidated financial statements.

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the consolidated annual report other than the consolidated financial statements and our auditor's report. The statutory body is responsible for the other information.

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

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

- the other information describing matters that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and

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- the other information has been prepared in accordance with applicable laws and regulations.

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

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Consolidated Financial Statements

The statutory body of MONETA Money Bank, a.s. is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the statutory body determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Supervisory Board and Audit Committee are responsible for the oversight of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or

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the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of MONETA Money Bank, a.s. by the General Meeting of Shareholders on 24 April 2017 and our uninterrupted engagement has lasted for 20 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the Additional report to the Audit Committee of MONETA Money Bank, a.s., which we issued on 20 March 2018 in accordance with Article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Provision of Non-audit Services

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

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

Statutory Auditor Responsible for the Engagement

Vladimír Dvořáček is the statutory auditor responsible for the audit of the consolidated financial statements of MONETA Money Bank, a.s. as at 31 December 2017, based on which this independent auditor's report has been prepared.

Prague
20 March 2018

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

Vladimír Dvořáček
Partner
Registration number 2332

CONSOLIDATED FINANCIAL STATEMENTS OF MONETA MONEY BANK, a.s.

As at and for the Year Ended 31 December 2017

Prepared according to IFRS as adopted by EU

Name of the Bank:	MONETA Money bank, a.s.
Registered office:	Vyskočilova 1422/1a, Praha 4–Michle
Identification no:	25672720
Business:	Bank
Code of the Bank:	0600
Date of preparation:	20 March 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

CZK m	Note	31 December 2017	31 December 2016
Assets			
Cash and balances with the central bank	18	7,127	20,235
Financial assets at fair value through profit or loss	25	48	26
Financial assets available for sale	23	57	13,749
Financial assets held to maturity	24	11,723	0
Hedging derivatives with positive fair values	25	4	0
Change in fair value of items hedged on portfolio basis		(6)	0
Loans and receivables to banks	21	53,380	189
Loans and receivables to customers	22	123,680	111,860
Intangible assets	26	1,301	744
Property and equipment	28	871	649
Goodwill	27	0	104
Investments in associates	36	2	2
Current tax assets	29	308	267
Deferred tax assets	30	386	805
Other assets	31	853	749
TOTAL ASSETS		**199,734**	**149,379**
Liabilities			
Due to banks	32	29,643	2,657
Due to customers	33	141,469	116,252
Financial liabilities at fair value through profit or loss	25	68	7
Hedging derivatives with negative fair values	25	4	0
Provisions	34	364	416
Current tax liabilities		2	29
Deferred tax liabilities	30	267	280
Other liabilities	35	2,154	2,470
Total Liabilities		**173,971**	**122,111**
Equity			
Share capital	37	511	511
Share premium	37	5,028	5,028
Statutory reserve	37	102	102
Available for sale reserve	37	(57)	363
Share based payment reserve		(2)	(2)
Retained earnings		20,181	21,266
Total Equity		**25,763**	**27,268**
TOTAL LIABILITIES AND EQUITY		**199,734**	**149,379**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

CZK m	Note	2017	2016 Restated*
Interest and similar income		7,582	8,494
Interest expense and similar charges		(218)	(189)
Net interest income	**6**	**7,364**	**8,305**
Fee and commission income		2,223	2,267
Fee and commission expense		(290)	(306)
Net fee and commission income	**7**	**1,933**	**1,961**
Dividend income	8	0	26
Net income from financial operations	9	709	598
Other operating income	10	329	168
Total operating income		**10,335**	**11,058**
Personnel expenses	11	(2,456)	(2,263)
Administrative expenses	12	(1,893)	(1,984)
Depreciation and amortisation	13	(414)	(310)
Other operating expenses	14	(184)	(425)
Total operating expenses		**(4,947)**	**(4,982)**
Profit for the year before tax and net impairment of loans and receivables and AFS		**5,388**	**6,076**
Net impairment of loans and receivables	15	(381)	(1,029)
Goodwill Impairment	27	(104)	0
Profit for the year before tax		**4,903**	**5,047**
Taxes on income	16	(980)	(993)
Profit for the year after tax		**3,923**	**4,054**
Items that are or might be reclassified to profit or loss			
Change in fair value of AFS investments recognised in OCI	37.2	(176)	132
Change in fair value of AFS investments recognised in P&L	37.2	(343)	(279)
Deferred tax	37.2	99	28
Other comprehensive income, net of tax		**(420)**	**(119)**
Total comprehensive income		**3,503**	**3,935**
Earnings per share			
Profit for the year after tax attributable to the equity holders		3,923	4,054
Weighted average of ordinary shares (millions of shares)		511	511
Basic / Diluted earnings per share (in CZK)	17	7.68	7.93

*The comparative figures have been regrouped or reclassified, where necessary, on a basis consistent with the current year (see note 5.20)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

CZK m	Share capital	Share premium	Statutory reserve	Available for sale reserve	Share based payment reserve	Retained earnings	Total
Opening balance 1 January 2016	**511**	**5,028**	**167**	**482**	**(2)**	**21,653**	**27,839**
Transactions with owners of the company							
Dividends	0	0	0	0	0	(4,506)	(4,506)
Funds release	0	0	(65)	0	0	65	0
Total comprehensive income							
Profit for the year after tax	0	0	0	0	0	4,054	4,054
Other comprehensive income after tax							
Change in fair value of AFS assets							
Change in fair value of AFS investments recognised in OCI	0	0	0	132	0	0	132
Change in fair value of AFS investments recognised in P&L	0	0	0	(279)	0	0	(279)
Deferred tax	0	0	0	28	0	0	28
Balance 31 December 2016	**511**	**5,028**	**102**	**363**	**(2)**	**21,266**	**27,268**
Opening balance 1 January 2017	**511**	**5,028**	**102**	**363**	**(2)**	**21,266**	**27,268**
Transactions with owners of the company							
Dividends	0	0	0	0	0	(5,008)	(5,008)
Total comprehensive income							
Profit for the year after tax	0	0	0	0	0	3,923	3,923
Other comprehensive income after tax							
Change in fair value of AFS assets							
Change in fair value of AFS investments recognised in OCI	0	0	0	(176)	0	0	(176)
Change in fair value of AFS investments recognised in P&L	0	0	0	(343)	0	0	(343)
Deferred tax	0	0	0	99	0	0	99
Balance 31 December 2017	**511**	**5,028**	**102**	**(57)**	**(2)**	**20,181**	**25,763**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

CZK m	Note	2017	2016*
Cash flows from operating activities			
Profit for the year after tax		**3,923**	**4,054**
Adjustments for:			
Depreciation and amortization	13	414	310
Impairment of tangible and intangible assets	26,28	3	0
Net impairment of loans and receivables	15	381	1,029
Net gain on sale of available for sale financial assets	9	(343)	(279)
Amortisation of coupon of financial assets available for sale	6	(38)	(87)
Amortisation of coupon of financial assets held to maturity	6	(25)	0
Net interest income from hedging derivatives	6	5	0
Net gain/ loss from revaluation of hedging derivatives	9	(5)	0
Net gain/ loss from revaluation of items hedged on porfolio basis	9	6	0
Goodwill Impairment	27	104	0
Creation of provision for restructuring not recognized in depreciation and amortization		99	0
Net loss on sale or impairment of tangible and intangible assets		4	54
Dividend income	8	0	(26)
Tax expense	16	980	993
		5,508	**6,048**
Changes in:			
Financial assets at fair value through profit or loss	25	(22)	(19)
Loans and receivables to customers	15,22	(12,201)	(4,452)
Other assets	31	(104)	(183)
Due to banks	32	26,986	2,368
Due to customers	33	25,217	7,554
Financial liabilities at fair value through profit or loss	25	61	(1)
Other liabilities and provisions	34,35	(470)	(96)
		44,975	**11,219**
Income taxes paid		(541)	(835)
Net cash used in operating activities		**44,434**	**10,384**
Cash flows from investing activities			
Acquisition of financial assets available for sale		0	(3,489)
Proceeds from financial assets available for sale		8,292	3,217
Acquisition of financial assets held to maturity		(6,448)	0
Proceeds from financial assets held to maturity		12	0
Acquisition of property and equipment and Intangible assets	26,28	(1,216)	(852)
Proceeds from the sale of property and equipment and Intangible assets	26,28	0	32
Dividends received		0	24
Net cash used in investing activities		**640**	**(1,068)**
Cash flows from financing activities			
Dividend paid		(5,008)	(4,506)
Net cash used in financing activities		**(5,008)**	**(4,506)**
Net change in cash and cash equivalents		**40,066**	**4,810**
Cash and cash equivalents at the beginning of the period	**19**	**20,424**	**15,614**
Cash and cash equivalents at the end of the period	**19**	**60,490**	**20,424**
Interest received**		7,781	7,803
Interest paid**		(204)	(239)

*The comparative figures have been regrouped or reclassified, where necessary, on a basis consistent with the current year
**Interest received and Interest paid represent interest as per contractual rate and are included within cash flows from operating activities

Foreign exchange losses relating to average balance of cash and cash equivalents in foreign currencies in 2017 are in the amount of CZK 50 million (2016: foreign exchange gain CZK 3 million).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS OF MONETA MONEY BANK, a.s.

As at and for the Year Ended 31 December 2017

Prepared according to IFRS as adopted by EU

CONTENT

1. GENERAL INFORMATION

MONETA Group (further the "Group") consists of the parent company MONETA Money Bank, a.s. (the "Bank"), and its subsidiaries and associates listed in the note 36. As of 31 December 2015 the Bank was the wholly owned subsidiary of GE Capital International Holdings Limited ("GECIHL"). The ultimate parent of GECIHL was General Electric Company ("GE").

Following the strategy announced by GE in April 2015 to sell most of its financial services businesses and focus on its industrial businesses, the sole shareholder of the Bank GECIHL offered all common shares to trading on the Prime Market of Prague Stock Exchange. The Offering was completed and settled on 10 May 2016. For more details about transactions of GE with the Group including changes in its ownership interest in the Bank see the note 41.

As part of the overall separation from GE, the Bank ceased using the GE corporate brand. On 1 May 2016 the Bank was officially renamed from GE Money Bank, a.s., to MONETA Money Bank, a.s. The legal and commercial names of the Bank and its three consolidated subsidiaries were changed on 1 May 2016 as follows:

Old name till 30 April 2016	New name from 1 May 2016
GE Money Bank, a.s.	MONETA Money Bank, a.s.
GE Money Auto, s.r.o.	MONETA Auto, s.r.o.
GE Money Leasing, s.r.o.	MONETA Leasing, s.r.o.
GE Money Leasing Services, s.r.o.	MONETA Leasing Services, s.r.o.

The latest available list of shareholders holding more than 1% of the shares is available in the investor relations section of the Bank's website at https://investors.moneta.cz/shareholder-structure.

The Bank's registered office is at Vyskočilova 1422/1a, Praha 4 – Michle, Czech Republic and its ID number is 256 72 720, ISIN number: CZ0008040318.

The Group operates in the Czech Republic and focuses primarily on secured and unsecured consumer lending and commercial financing. The consumer portfolio consists of secured and unsecured lending. Unsecured lending products include consumer and auto loans, credit cards, personal overdrafts. Secured lending is provided in the form of mortgages and finance leases. Commercial lending products range from working capital, investment loans, finance and operating leases, auto loans, financing of small businesses and entrepreneurs through guarantees, letters of credits and foreign exchange transactions. The Group provides a wide range of deposit and transactional products to retail and commercial customers.

The Group issues debit and credit cards in cooperation with VISA and MasterCard. In addition, the Group intermediates additional payment protection insurance which covers the customer's monthly loan payment in the event of unemployment, accident or sickness. The Group also acts as the intermediary to provide its customers with other insurance and investment products.

The Group's financial statements were authorised for issue by the Management Board on the 20 March 2018. In addition, the financial statements are subject to approval at the General Meeting of shareholders.

All press releases, financial reports and other information are available on the Bank´s website: www.moneta.cz.

2. BASIS OF PREPARATION

2.1 BASIS OF PRESENTATION

The financial statements contained herein are consolidated financial statements of the Group prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

International Financial Reporting Standards comprise accounting standards issued or adopted by the International Accounting Standards Board ("IASB") as well as interpretations issued or adopted by the IFRS Interpretations Committee ("IFRIC").

2.2 GOING CONCERN

The consolidated financial statements are prepared on a going concern basis, as the Management Board are satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, the Management Board have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

The Group's financial statements are presented in Czech Koruna (CZK) which is the Group's functional currency. All amounts have been rounded to the nearest million, except where otherwise indicated.

2.4 MEASUREMENT

The consolidated financial statements have been prepared on a historical cost basis, except for available for sale investments and derivative financial instruments which have been measured at fair value. The carrying values of recognised assets that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged, and this adjustment is reported on a separate line of the statement of financial position because of application of portfolio fair value hedges.

3. USE OF ESTIMATES AND JUDGEMENTS

The preparation of the Group's financial statements in conformity with IFRS requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the 2017 Consolidated Financial Statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements and estimates in applying accounting policies that have the most significant effect on the amounts recognised in the Group's financial statements is included in the following notes:

- Deferred tax assets – note 30
- Impairment of financial assets – notes 15 and 43
- Provisions – note 34
- Fair value – note 44
- Goodwill impairment assessment– note 5.12 and 27
- Classification of leases – note 5.10

4. NEW STANDARDS AND INTERPRETATIONS

4.1 STANDARDS AND AMENDMENTS ISSUED BY THE IASB AND ENDORSED BY THE EU BUT EFFECTIVE AFTER 31 DECEMBER 2017

a) IFRS 9 Financial Instruments

IFRS 9 "Financial Instruments" issued on 24 July 2014 replaces IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 issued in 2014 is mandatorily effective for periods beginning on or after 1 January 2018 and it was endorsed by the EU in November 2016.

Classification and measurement

IFRS 9 divides all financial assets into two classifications – those measured at amortised cost and those measured at fair value. Where assets are measured at fair value, gains and losses are either recognised entirely in profit or loss (fair value through profit or loss, FVTPL), or recognised in other comprehensive income (fair value through other comprehensive income, FVTOCI). Equity instruments are measured at FVTPL, unless irrevocable election at initial recognition to classify such instrument as at FVTOCI, with all subsequent changes in fair value being recognised in the Other comprehensive income (OCI) is made by the Group.

The classification of a financial asset is made at the time it is initially recognised, namely when the entity becomes a party to the contractual provisions of the instrument and the classification and measurement will depend on the company's business model and financial asset's contractual cash flow characteristics.

All financial instruments are initially measured at fair value plus respectively minus transaction costs, in case of a financial asset respectively financial liability not at fair value through profit or loss.

Impairment

The impairment model in IFRS 9 is based on the premise of providing for expected losses, while IAS 39 is based on an incurred loss model. The IFRS 9 impairment model applies to financial assets measured at amortised cost; financial assets mandatorily measured at FVTOCI; loan commitments when there is a present obligation to extend credit, financial guarantee contracts and lease receivables.

Under the IFRS 9 model, credit losses are required to be measured through a loss allowance at an amount equal to:
- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A loss allowance for full lifetime expected credit losses (ECL) is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition. The assessment of whether there has been a significant increase in credit risk is based on an increase in the probability of a default occurring since initial recognition or if a default event has occurred for the financial instrument.

The assessment of credit risk, and the estimation of ECL, are required to be unbiased and probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the time value of money must also be incorporated into the calculation.

Financial assets measured at amortised cost are generally divided into 3 stages:
- Stage 1: losses are determined on the basis of 12-month ECL and interest revenue is recognised using effective interest rate method applied on the financial asset's gross carrying amount
- Stage 2: losses are determined on the basis of lifetime ECL and interest revenue is recognised using effective interest rate method applied on the financial asset's gross carrying amount
- Stage 3: losses are determined on the basis of lifetime ECL and interest revenue is recognised using effective interest rate method applied on the financial asset's net carrying amount

Hedge Accounting

IFRS 9 contains fewer restrictions regarding hedging instruments and hedge accounting is more principles-based than IAS 39, providing better links to a company's risk management activities. More types of financial instruments will be accepted as hedging instruments. A hedged item can be a recognised asset or liability, an unrecognised firm commitment, a highly probable forecast transaction or a net investment in a foreign operation and must be reliably measurable.

However, IFRS 9 incorporates a policy choice that allows the existing hedge accounting requirements under IAS 39 to continue in place or the hedge accounting requirements under IFRS 9, pending the completion of the IASB's project on macro hedge accounting.

The new hedge accounting disclosures required by the related amendments to IFRS 7 Financial Instruments: Disclosures, however, are required for the annual period beginning January 1, 2018.

Transition

The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening statement of financial position at the date of initial application i.e. 1 January 2018, with no requirement to restate comparative periods. Hedge accounting is generally applied prospectively from that date.

The Group has analysed the contractual cash flow characteristics of financial assets, with the focus on the identification of features, which may influence results of solely payments of principal and interest test ("SPPI test"). Failing the SPPI test would in turn require the measurement of the instrument at fair value through profit or loss.

The Group has defined its business models as follows:
- Held to collect (HTC) business model for financial assets acquired with the intention to be held until its maturity and to collect contractual cash flows. Sales, which are insignificant or infrequent, related to management of increased credit risk of the asset, or close to maturity of the financial assets are considered to be consistent with HTC business model.
- Held to collect and sell (HTCS) business model for financial assets acquired with the intention to be held to collect contractual cash flows and to be sold. More frequent sales within this portfolio are expected, mainly for reason of managing the Group's liquidity needs. At transition date, the Group did not hold any financial assets within HTCS business model.
- Other business model for financial assets neither classified as HTC nor HTCS.

The Group prepared detailed analysis of its business model applied for managing financial assets and SPPI tests for loans and receivables arising from its products or other receivables. The analysis proved that financial assets currently classified as loans and receivables are meeting the SPPI test and their business model shall be regarded as held to collect. They will still be measured at amortised cost under IFRS 9.

Non-derivative financial instruments recognised in line with IAS 39 classification as, Financial assets held to maturity or Financial assets available for sale will be recognised in the single line of the statement of financial position "Investment securities". In the Notes and for the purposes of subsequent measurement they will be split into three categories:
- held to collect (HTC) measured after initial recognition at amortised cost; or
- held to collect and sell (HTCS) measured subsequently at fair value through other comprehensive income (FVTOCI); or
- other financial assets measured after initial recognition at fair value through profit or loss (FVTPL).

Derivative financial instruments not designated as hedging instrument will be recognised in single statement of financial position line "Derivative financial instruments".

Equity securities classified as Financial assets available for sale (AFS) cannot pass SPPI test and they are not held for trading purposes. Major part of current equity securities portfolio classified as AFS will be measured at FVTPL after IFRS 9 transition. For the residual minor part, the Group elected irrevocable option provided by IFRS 9 to classify it as at the date of transition as FVTOCI.

All debt securities classified as AFS as at the date of transition meeting SPPI test and are held within the HTC business model, therefore, will be measured at amortised cost after transition date.

Total Available for sale reserve recognised in the equity in the amount of CZK 57 million will be derecognised as at the date of transition. First part of this reserve relating to revaluation of debt instruments until their reclassification from AFS to HTM portfolio in August 2017 will be booked against the carrying value of these debt instruments classified as HTC and measured at amortised cost under IFRS 9. Second part relating to equity securities classified as FVTPL under IFRS 9 will be transferred to retained earnings. Residual minor part resulting from equity instruments for which the Group elected irrevocable option to measure them at FVTOCI will be recorded in statement of financial position line "Other reserves". Further, deferred tax related to AFS reserve will be derecognised.

Estimated impact after deferred tax is increase of the equity in amount of CZK 64 million from release of AFS reserve against carrying value of HTC, increase of the equity in amount of CZK 2 million from reclassification of equity securities from AFS to FVTPL and decrease of the equity in the amount of CZK 5 million resulting from measurement of financial guarantee contracts. Therefore, total impact of new IFRS 9 classification and measurements requirements is estimated to be an increase of the equity in amount of CZK 61 million at transition date, 1 January 2018.

The Group also focused on the impact of rules stipulated by the standard with respect to purchased or originated credit-impaired ("POCI") financial assets mainly on effective interest rate calculation that represent new topic as compared to IAS 39 for originated financial assets. According to the analyses provided, the Group does not recognise any POCI financial assets in its portfolio. The Group's general intention is not to purchase any credit impaired financial assets. In the case of forborne receivables, newly recognised receivables are not originated with deep discount.

The Group also performed gap analysis relating to impairment methodology changes triggered by IFRS 9. Main changes in the impairment model are the following:
- adjustment of the current process of estimation future cash flows of individually impaired receivables to incorporate multiple probability-weighted estimate,
- definition of the staging criteria in order to split the performing receivables between Stage 1 and Stage 2 (significantly deteriorated credit quality),
- development of the lifetime expected loss estimate for Stage 2 receivables through risk parameters,
- incorporation of the forward looking adjustment into expected losses.

The Group shall consider financial asset to be in default if:
- its full repayment is uncertain, although its partial settlement is highly likely; or
- principal, interest or fees are being paid with problems and the borrower is more than 90 days past due; or
- financial asset was forborne in the past 6 months due to the deterioration in the borrower's financial situation; or
- commercial individually managed receivable with the borrower's internal rating above specified level.

The Group identifies significant increase in credit risk if a cumulative residual PD as at the reporting date significantly increased compared to the cumulative residual PD as at the date of origination, and PD at the reporting date is not immaterial.

Table below shows split of carrying amount of loans and receivables to customers into stages as at 1 January, 2018:

Stage/Portfolio	IFRS Gross carrying amount 31 Dec 2017	IAS 39 Allowance	IFRS 9 Allowance book-up	IFRS 9 Net carrying amount 1 Jan 2018
Total Stage 1	**117,146**	**(546)**	**(342)**	**116,258**
Authorized overdrafts and credit cards	3,708	(40)	(94)	3,574
Consumer loans	33,750	(268)	(243)	33,239
Mortgages	19,146	(3)	(8)	19,135
Auto and equipment loans - Retail	2,645	(18)	(17)	2,610
Commercial loans	46,417	(158)	36	46,295
Auto and equipment financial leases - Commercial	3,356	(8)	1	3,349
Auto and equipment loans - Commercial	8,105	(32)	(17)	8,056
Other loans - Commercial	2	(2)	0	0
Other loans - Retail	17	(17)	0	0
Total Stage 2	**5,320**	**(135)**	**(246)**	**4,939**
Authorized overdrafts and credit cards	215	(22)	(69)	124
Consumer loans	691	(68)	(124)	499
Mortgages	990	(1)	(9)	980
Auto and equipment loans - Retail	78	(5)	(6)	67
Commercial loans	1,002	(23)	(19)	960
Auto and equipment financial leases - Commercial	1,607	(5)	2	1,604
Auto and equipment loans - Commercial	736	(10)	(21)	705
Other loans - Commercial	0	0	0	0
Other loans - Retail	1	(1)	0	0
Total Stage 3	**5,276**	**(3,381)**	**(88)**	**1,807**
Authorized overdrafts and credit cards	305	(221)	10	94
Consumer loans	2,372	(1,508)	(41)	823
Mortgages	359	(153)	(6)	200
Auto and equipment loans - Retail	117	(85)	(3)	29
Commercial loans	987	(497)	(62)	428
Auto and equipment financial leases - Commercial	218	(111)	20	127
Auto and equipment loans - Commercial	352	(240)	(6)	106
Other loans - Commercial	79	(79)	0	0
Other loans - Retail	487	(487)	0	0
Total	**127,742**	**(4,062)**	**(676)**	**123,004**

Under IFRS 9 the Group incorporates forward looking information as inputs into estimation of parameters used for calculation of expected loss. Such inputs include macroeconomic variables which are correlated to development of expected losses or to the variable which is correlated to expected losses of the Group portfolio. Each macroeconomic variable has forecast which is then used as forward looking information. Macroeconomic variables include especially unemployment rates and gross domestic product.

Using an ECL model, the impairment charge is estimated to lead to one time increase in the total level of allowances in the amount of CZK 680 million and provisions in amount of CZK 19 million as of 1 January 2018 with corresponding charge into the equity. Therefore, total impact of new IFRS 9 impairment requirements is estimated to be a decrease of the equity in amount of CZK 699 million.

Net impact of the first time adoption of IFRS 9 Financial instruments is estimated by the Group to be a one time decrease of the equity in amount of CZK 638 million (consists of CZK 699 million decrease resulting from impairment charge from ECL and increase of CZK 61 million resulting from other adjustments) at transition date 1 January 2018.

In terms of capital adequacy requirements, the Group has decided not to apply the transitional arrangements specified in Article 473a of Regulation (EU) No 575/2013 for mitigating the impact of the introduction of IFRS 9 and analogous ECLs, and therefore its own funds, capital and leverage ratios will already reflect the full impact of IFRS 9 and analogous ECLs.

Following table shows transition of statement of financial position:

Financial Statement line	IAS 39	IFRS 9	IFRS 9	IFRS 9
	Balance 31 Dec 2017	Impairment	Other adjustments	Balance 1 Jan 2018
Cash and balances with the central bank	7,127	0	0	7,127
Financial assets at fair value through profit or loss	48	0	(48)	0
Derivative financial instruments	0	0	48	48
Financial assets available for sale	57	0	(57)	0
Financial assets – held to maturity	11,723	0	(11,723)	0
Hedging derivatives with positive fair values	4	0	0	4
Change in fair value of items hedged on portfolio basis	(6)	0	0	(6)
Loans and receivables to banks	53,380	0	0	53,380
Loans and receivables to customers	123,680	(676)	0	123,004
Investment securities	0	(4)	11,850	11,846
Intangible assets	1,301	0	0	1,301
Property and equipment	871	0	0	871
Goodwill	0	0	0	0
Investments in associates	2	0	0	2
Current tax assets	308	0	0	308
Deferred tax assets	386	0	(14)	372
Other assets	853	0	10	863
Total Assets	**199,734**	**(680)**	**66**	**199,120**
Derivative financial instruments	0	0	68	68
Due to banks	29,643	0	0	29,643
Due to customers	141,469	0	0	141,469
Financial liabilities at fair value through profit or loss	68	0	(68)	0
Hedging derivatives with negative fair values	4	0	0	4
Provision	364	19	0	383
Current tax liabilities	2	0	0	2
Deferred tax liabilities	267	0	0	267
Other liabilities	2,154	0	5	2,159
Total Liabilities	**173,971**	**19**	**5**	**173,995**
Share capital	511	0	0	511
Share premium	5,028	0	0	5,028
Legal and statutory reserve	102	0	0	102
Available for sale reserve	(57)	0	57	0
Share based payment reserve	(2)	0	0	(2)
Retained earnings*	20,181	(699)	4	19,486
Total Equity	**25,763**	**(699)**	**61**	**25,125**
Total Liabilities & Equity	**199,734**	**(680)**	**66**	**199,120**

*One-off allowances book-up resulting from expected loss may represent temporary difference and may lead into recognition of deferred tax asset with respective reduction of negative effect on retained earnings. However, the Group believes that there is portion of legal uncertainty of tax deductibility of such book-up, therefore deferred tax asset will not be recognized on IFRS 9 opening balance sheet.

b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 is effective for accounting periods starting on and after 1 January 2018 and it was endorsed by the EU in October 2016. IFRS 15 Revenue from Contracts with Customers applies to all contracts with customers except for: leases within the scope of IAS 17 Leases; financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures; insurance contracts within the scope of IFRS 4 Insurance Contracts; and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

The standard provides a single, principles based five-step model to be applied to all contracts with customers:
- identify the contract(s) with a customer,
- identify the performance obligations in the contract,
- determine the transaction price,
- allocate the transaction price to the performance obligations in the contract,
- recognise revenue when (or as) the entity satisfies a performance obligation.

The standard should be applied retrospectively with certain practical expedients available.

The Group has assessed expected impact that IFRS 15 will have on the financial statements in relevant areas, especially related to principal versus agent considerations or recognition of fees and commissions. The assessment has not indicated any significant impact on the Group´s financial statements.

c) IFRS 16 Leases

IFRS 16 was endorsed by the EU in November 2017 and shall be effective for accounting periods starting on and after 1 January 2019, with a full or modified retrospective approach.

The contract is identified as a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 will bring major changes in the accounting of lessees. Right of use of the asset and corresponding liability shall be recognised in the lessee's statement of financial position with only two exceptions:
- when the lease term does not exceed 12 months and contains no purchase option,
- when the underlying asset has a low value when new.

Right of use shall be depreciated for a shorter period of economic useful life of the underlying asset and the lease term. Interest expense arising from lease liability shall be recognised separately from the depreciation charge in the statement of profit and loss.

A lessor shall classify each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

The Group, as a lessee, leases mainly head office premises and branches that would be recognised in Property and equipment under IFRS 16.

The Group is currently assessing the impact of IFRS 16 on lines "Property, plant and equipment" in its Statement of financial position and the line "Depreciation and amortization" in the Statement of profit or loss and other comprehensive income.

d) Other amendments to standards with minor or without impact on the Group

- Amendments to IFRS 4 Insurance Contracts
- Annual Improvements to IFRS Standards 2014–2016 Cycle

4.2 STANDARDS AND AMENDMENTS ISSUED BY THE IASB EFFECTIVE AFTER 31 DECEMBER 2017 BUT NOT ENDORSED BY THE EU

Certain new accounting standards and interpretations have been published by the IASB that are not mandatory for 31 December 2017 reporting periods and have not been adopted by the European Union. The Group intends to adopt these standards, if applicable, when they become effective as endorsed by the EU. The Group's assessment of the impact of these new standards and interpretations is set out below.

a) Amendments to IFRS 2 Share-based Payments Transactions

In June 2016 IASB issued "Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions".

IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payment transactions. These amendments state that vesting conditions (service and non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction.

These amendments further clarify a situation where the net settlement arrangement is designed to meet an entity's obligation, under tax laws or regulations, to withhold a certain amount in order to meet the employee's tax obligation associated with the share-based payment. These share-based payment transactions with net settlement features should be classified as equity-settled in its entirety, provided it would have been classified as equity-settled without net settlement feature.

Amendments also introduce accounting treatment for situations when cash-settled share based payment transaction changes to equity-settled transaction. In case of this change the original liability recognised for cash-settled share-based payment transaction is derecognised and the equity-settled share-based payment reserve is recognised at the modification date fair value to the extent to which goods or services have been received or rendered up to this date. The difference between the carrying amount of the liability as at the modification date and the amount recognised in the equity at the same date should be recognised in profit or loss immediately.

These amendments are effective from 1 January 2018 subject to endorsement by the EU, which is expected in 1Q 2018. These amendments will not have material influence on the Group´s financial statements.

b) Amendments to IAS 28: Investments in Associates and Joint Ventures

In October 2017, IASB issued "Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures".

Amendments were introduced to clarify that an entity applies IFRS 9 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 but to which the equity method is not applied. Amendments also delete paragraph 41 because the Board felt that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests.

These amendments are effective from 1 January 2019 subject to endorsement by the EU. These amendments will not have material influence on the Group´s financial statements.

c) Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation

In October 2017, IASB issued "Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation".

The amendments modify the existing requirements of IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the feature of the prepayment amount is not relevant, i.e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

These amendments are effective from 1 January 2019 subject to endorsement by the EU what is expected in the first quarter of 2018. The Group has assessed possible impact of these amendments to measurement of financial assets in the Group´s portfolio. The assessment has not identified prepayment features with negative compensation in the Group´s portfolio, and therefore these amendments are expected to have no influence on the Group´s financial statements.

d) Other amendments to standards with minor or without impact on the Group

- IFRS 17 Insurance Contracts
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 40 Investment property

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 FOREIGN CURRENCY

The consolidated financial statements are presented in Czech Koruna (CZK) which is the Group's functional currency. Transactions in foreign currencies are translated into the functional currency of the Group at the exchange rates at the date of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss in "Net income from financial operations".

5.2 BASIS OF CONSOLIDATION

5.2.1 Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The consideration transferred in the acquisition is measured at the fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see note 5.12.). Goodwill is measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest and the fair value of any previously held equity interest in the acquiree, if any, over the net of the fair values of the identifiable assets and liabilities assumed. Any gain on a bargain purchase is recognised in profit or loss immediately. Acquisition-related costs are recognised as an expense in the profit or loss in the period in which they are incurred.

Any contingent consideration payable is measured at fair value at the acquisition date.

5.2.2 Non Controlling Interests

Non controlling interests are measured at their proportionate share of the acquiree's identifiable net assets.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

5.2.3 Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

5.2.4 Associates

Associates are all entities over which the Group has significant influence but no control or joint control. This is generally the case where the Group holds between 20–50% of the voting rights.

The consolidated financial statements of the Group also include the attributable share of the results and other comprehensive income of associates determined using the equity-method and based on either financial statements for the annual period ended 31 December or on pro-rated amounts adjusted for any material transactions or events occurred between the date of financial statements available and 31 December.

5.2.5 Loss of Control

When the Group loses control over a subsidiary it derecognizes the assets and liabilities of the subsidiary and any related non controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

5.2.6 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

5.3 INTEREST

Interest income or expense from all interest-bearing financial instruments including derivatives is recognised using the effective interest rate and reported in the profit or loss in the line items "Interest and similar income" and "Interest expense and similar charges" respectively as part of revenue and expenses from continuing operations.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability. The effective interest rate is a rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to their carrying amount. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument and includes transaction costs and fees paid or received that are an integral part of the effective interest rate but excludes future credit losses.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Interest income and expense presented in the profit or loss include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis,
- Interest on available for sale investment securities calculated on an effective interest basis.
- Interest on interest rate derivatives designated as hedging derivatives using contractual interest rate of the corresponding derivative

If the financial receivable is considered impaired, the interest income representing the time value of money between the impairment event and the estimated recovery date continues to be recognised using the effective interest rate method – unwinding. The Group calculates the unwinding for the period using individual deal by deal approach and individual effective interest rates.

5.4 FEES AND COMMISSIONS

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised when the related services are performed. Fees and commissions income are earned mainly from providing payment services, intermediary and investment services.

Fee income on impaired financial assets is recognised on receipt of cash or performance of the service obligation whichever is later.

5.5 DIVIDENDS

Dividend income is recognised when the right to receive the payment is established. Dividend income is reported in the profit or loss in the line item "Dividend income".

5.6 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.6.1 Recognition

The Group initially recognises financial assets measured at amortised cost on the date on which they are originated. All other financial instruments are recognised on the trade date which is the date the Group becomes a party to the contractual provisions of the instrument.

All financial instruments are initially recognised at their fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

5.6.2 Classification

5.6.2.1 Financial Assets

The Group classifies its non-derivative financial assets into one of the following categories:

- loans and receivables,
- held to maturity,
- available for sale financial assets,
- financial assets at fair value through profit or loss:
- held for trading, or
- designated at fair value through profit or loss.

Management determines the classification based upon management's intent for acquiring a particular asset and the cash flow characteristics of that asset.

Currently the Group does not hold any non-derivative assets that are classified as designated at fair value through profit or loss.

In 3Q 2017 management approved new investment strategy of the Group. According to this strategy the Group established held to maturity portfolio for securities intended to be held until maturity that is used since 1 August 2017. Consequently, all bonds comprised in the available for sale portfolio as at 1 August 2017 were reclassified into the held to maturity portfolio and they are measured at amortised costs rather than at fair values. Total carrying value of the reclassified portfolio was CZK 5,287 million. For more details see note 23, 24.

a) Loans and receivables

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

- financial assets designated as held for trading that the Group intends to sell immediately or in the near term and those assets designated as at fair value through profit or loss;
- those financial assets that the Group upon initial recognition designates as available for sale; or
- those financial assets for which the Group cannot recover the majority of its initial investment for a reason other than deterioration of credit quality. These assets will be classified as available for sale.

Loans and receivables are subsequently measured at the amortised cost using the effective interest rate method.

Financial assets in this category are reported in the line item "Loans and receivables to banks" or "Loans and receivables to customers".

b) Available for sale financial assets

Available for sale ("AFS") financial assets are non-derivative investments that are designated as AFS or are not classified as another category of financial assets. In this category are those financial assets 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 include equity and debt securities. However, majority of debt securities have been reclassified into held to maturity portfolio as at 1 August 2017 due to the change in the Group´s investment strategy. For more details see note 23, 24.

Interest income is recognised in the profit or loss using the effective interest method. Dividend income is recognised in the profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on AFS debt securities investments are recognised in profit or loss.

Fair value changes other than impairment losses are recognised in other comprehensive income and reported in the "Available for sale reserve". When the AFS asset is disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. Disposal gains/losses are recorded in "Net income from financial operations".

Details on how the fair value of financial instruments is determined are disclosed in note 5.8.

c) Held to maturity financial assets

Held to maturity ("HTM") financial assets are non-derivative debt instruments with fixed or determinable payments and fixed maturity that the Group intends and is able to hold to maturity. Investments in equity shares cannot be classified as held to maturity due to its indefinite maturity. HTM financial assets are measured initially at fair values including directly attributable transaction costs.

HTM financial assets are measured at amortised costs after the initial recognition. Interest income is recognised in the profit or loss using the effective interest method. Foreign exchange gains or losses on HTM debt securities investments are recognised in profit or loss.

5.6.2.2 Financial Liabilities

The Group classifies its non-derivative financial liabilities, other than financial guarantees and loan commitments, at amortised cost. Non-derivative financial liabilities are contractual arrangements resulting in the Group having an obligation to either deliver cash or another financial asset to the holder.

5.6.3 Reclassification

Generally, the Group does not reclassify any financial asset or liabilities after initial recognition with the exception of changes in investment strategy in August 2017 described in previous chapter.

5.6.4 Derecognition

The Group derecognises a financial asset when the contractual rights to receive cash flows from the financial assets expire or the rights to receive the contractual cash flows and substantially all the risks and rewards of ownership have been transferred.

On derecognition the difference between the carrying amount of the asset and the sum of the consideration received and any cumulative gain or loss recognised in other comprehensive income is recognised in profit or loss.

A financial liability is derecognised when the obligation under the liability as specified in the contract is discharged, cancelled or expired.

5.6.5 Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position, when and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS.

5.6.6 Amortised Cost Measurement

The amortised cost of a financial asset or financial liability is the amount at which the asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

5.6.7 Derivatives and hedge accounting

Derivatives are initially recognised, and are subsequently remeasured, at fair value. Fair values of derivatives are obtained by using valuation techniques. Since 3Q 2017 the Group designates at the inception certain derivatives as hedging according to IAS 39 and other derivatives are held for trading according to IAS 39 despite being held for risk management purposes rather than speculative.

a) Derivatives classified as held for trading

A derivative that is not designated and effective as a hedging instrument is reported in the category financial assets at fair value through profit or loss. These derivatives include currency derivatives (swaps and forwards) and are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivatives which are not designated as hedging instruments are presented in the statement of financial position under the line item "Financial assets at fair value through profit or loss" and "Financial liabilities at fair value through profit or loss". Changes in the fair value of derivatives and any interest income/expense related to these derivatives are recorded in "Net income from financial operations".

b) Derivatives designated as hedging instruments

The Group designates at the initial recognition interest rate swaps derivatives as hedging instruments to hedge its exposure to the change of the fair value of a defined part of portfolio of loans to customers or loan commitments related to interest rate risk, that could affect profit or loss. On the initial recognition of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedge relationship at the inception and ongoing bases. The Group applies for all hedge relationships portfolio fair value hedge as defined in paragraphs 81A and 89A of IAS 39 ("macro hedge").

Hedge accounting is applied, if and only if, all of the following conditions are met:

- The hedge is in line with the approved Group Hedging Strategy;
- The hedging relationship is formally documented at the inception;
- The hedge effectiveness can be objectively and reliably measured
- The hedge is expected to be highly effective at inception and throughout its life;

The hedge is considered to be effective when change in the fair value of the hedged item to change in the fair value of the hedging instrument is within a range of 80–125%.

Change in clean fair value excluding accrued interest of a derivative, which is designated as a fair value hedge is daily booked to the profit or loss and presented in the line

"Net income from financial operations" to match there with change in fair value of hedged portfolio. Accrued interest from hedging derivatives is recognised in the profit or loss in the line "Interest and similar income" to match there with interest income from hedged portfolio.

In the statement of financial position, derivatives with positive fair values (total fair value including accrued interest) are presented in the line item "Hedging derivatives with positive fair values", derivatives with negative fair values (total fair value including accrued interest) are disclosed in the line "Hedging derivatives with negative fair values".

If the hedging instrument expires, is sold, terminated or exercised or the hedge no longer meets the criteria for hedge accounting the hedge relationship is discontinued. In this case, fair value adjustment to the carrying amount of hedged item is amortised to profit or loss under the line "Interest and similar income".

5.6.8 Impairment of financial assets

Financial assets carried at amortised cost

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

Objective evidence that a financial asset or group of assets is impaired includes observable data about the following events:

- delinquency in contractual payments of principal or interest,
- cash flow difficulties,
- breach of loan covenants,
- deterioration of the borrower's competitive position,
- deterioration in the value of collateral,
- external downgrade below an acceptable level,
- initiation of bankruptcy proceedings,
- granting a concession to a borrower for economic or legal reasons relating to the borrower's financial difficulty that would not otherwise be considered.

In terms of the individually assessed financial assets (which are primarily represented by individually managed commercial loans (see the individually managed exposures defined in the section 43.3.1.), the Group first assesses whether objective evidence of impairment exists individually for these financial assets. If the Group determines that no objective impairment exists for an individually assessed financial asset, the Group includes the financial asset in a group of financial assets with similar credit risk characteristics and collectively measures them for impairment. Financial 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 there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment (see note 43.3.1), financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. The methodology (see note 43.3) and assumptions (see note 15) used for estimating future cash flows are reviewed regularly to reduce difference between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

When the Group does not expect material recovery cash flow from the loan it is deemed uncollectible. This loan is derecognised and the loan loss allowance for impairment is utilized.

Available for sale financial assets

Available for sale financial assets are assessed at each balance sheet date for objective evidence of impairment. Where such evidence exists an impairment loss is recognised. In addition to the factors set out above, a prolonged (i.e. 12 consecutive months) or significant (i.e. 30%) decline in the fair value of an investment in an available for sale equity instrument below its cost is considered in determining whether an impairment loss has been incurred.

If an impairment loss has been incurred, the cumulative loss that has been recognised in other comprehensive income is removed from equity and recognised in the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the profit or loss.

Impairment losses on equity instruments that were recognised in the profit or loss are not reversed through profit or loss in a subsequent period.

5.7 REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

The Group enters into contracts to sell and buy back financial instruments at a specific future date ("repo") or to buy and sell back financial instruments at a specific future date ("reverse repo").

In repo transactions the securities provided by the Group continue to be recognised and reported in the statement of financial position as the Group retains substantially all the risks and rewards of ownership together with all coupons and other income payments received during the period of repo transaction. The corresponding cash received is recognised in the statement of financial position and a corresponding obligation to return it (including accrued interest) is recorded as a liability.

Securities purchased as a reverse repo transaction are not recognised in the statement of financial position. The consideration paid (including accrued interest) is recorded in the statement of financial position as "Loans and receivables to banks" or "Loans and receivables to customers".

Securities obtained in reverse repo transactions are not recognised in the statement of financial position. The Group is allowed to provide securities received in reverse repo transactions as collateral or sell them, even in the absence of default by their owner.

The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

5.8 FAIR VALUE MEASUREMENT

Fair value is the price the Group would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Group´s market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 – Significant inputs to the valuation model are unobservable.

The Group maintains policies and procedures to value instruments. In addition, the Group has risk management teams that review valuation, including independent price validation for certain instruments (e.g. treasury bills). With regard to Level 3 valuations, the Group performs a variety of procedures to assess the reasonableness of the valuations. Such reviews, which may be performed quarterly, monthly or weekly, include an evaluation of instruments whose fair value change exceeds predefined thresholds (and/or does not change) and consider the current interest rate, currency and credit environment, as well as other published data, such as rating agency market reports and current appraisals.

Fair values of financial assets and liabilities that are not presented in the Group's balance sheet at fair values are shown in the note 44.

5.9 PROVISIONS

A provision is recognised by the Group when:

- it 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
- the Group can reliably estimate the amount of the obligation.

Provisions are reported on the statement of financial position and include provisions for credit risk (loan commitments) and provisions for litigation and other obligations. Expenses or income related to provisions are reported based on substance of the expense. Provisions are disclosed in note 34.

5.10 LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. All other leases are classified as operating leases. Classification is made at the inception of the lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form.

(i) Group as a Lessee

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Any lease incentives received are recognised as an integral part of the total lease expense over the term of the lease. Operating lease payments made by the Group are recorded in "Administrative expenses" in the profit or loss.

As a lessee, operating leased assets are not recognised in the statement of financial position of the Group.

Assets subject to a finance lease are recognised in the Group's statement of financial position initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The asset is recorded in "Property and Equipment" and the corresponding liability to the lessor is included in "Other liabilities". Impairment losses are recognised to the extent that the carrying values are not fully recoverable.

(ii) Group as a Lessor

The amount due from the lessee under a finance lease is recognised in the Group's statement of financial position as a receivable at an amount equal to the lessor's net investment in the lease and presented in "Loans and receivables to customers". The underlying asset is not recognised in the balance sheet.

The finance income from finance lease is recognised in "Interest and similar income" based on a pattern reflecting a constant periodic rate of return on the net investment, i.e. using the effective interest method.

Payments received by the Group as a lessor under operating leases are recognised in profit or loss on a straight line basis over the term of the lease in "Other operating income". Any lease incentives paid are recognised as an integral part of the total lease income over the term of the lease.

As a lessor, operating leased assets are recognised in the statement of financial position of the Group in "Property and Equipment" and corresponding depreciation is recorded in the statement of profit or loss line "Amortization and depreciation".

5.11 PROPERTY AND EQUIPMENT

Items of property and equipment are measured at cost less accumulated depreciation less impairment losses over their estimated useful lives.

Cost includes the purchase price of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item.

Property and equipment is depreciated on a straight-line basis over their estimated useful lives as follows:

Technical Improvements related to branches	5–15 years
Furniture	4–10 years
Equipment	5 years
Cars	5 years
Computers and servers	3–5 years
ATM	8 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease terms or their remaining useful lives.

Assets leased by the Group to third parties based under operating lease contracts are depreciated over the estimated useful lives in the same way as other Property and equipment.

Assets' residual values and useful lives are monitored and adjusted if appropriate at each financial statement date. Property and equipment are subject to quarterly impairment reviews (see note 5.14). If the carrying amount of the asset exceeds its estimated recoverable amount, the asset is adjusted accordingly. Its estimated recoverable amount is the higher of fair value including costs to sell and its value in use.

Gains and losses on disposals are determined by deducting the carrying value from the consideration received. Any gain/loss on sale is recognised in the profit or loss.

5.12 IMPAIRMENT OF GOODWILL

The Group tests goodwill for impairment annually or whenever there is an indication of possible impairment during the year.

The impairment test involves determination of the recoverable amount for cash-generating unit (CGU), see note 27. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

The recoverable amount is the higher of its fair value less costs of disposal and its value in use. The Group determines the recoverable amount of CGU as a value in use which is estimated using income approach based on the present value of estimated future cash flows discounted at an appropriate risk-adjusted rate. The Group uses internal forecasts to estimate future cash flows and include an estimate of long-term future growth rates based on the most recent views of the long-term outlook for each business. Actual results may differ from those assumed in the forecasts.

For the purposes of impairment testing, goodwill acquired in a business combination shall, from the acquisition date, be allocated to each of the acquirer's CGU that is expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of CGU exceeds its recoverable amount. In other words, the recoverable amount of CGU is compared with the sum of the carrying amount of the CGU for the purposes of consolidation and the relevant goodwill.

The impairment loss shall
- first reduce the carrying amount of any goodwill allocated to CGU
- and then to other assets of CGU pro rata on the basis of the carrying amount of each asset in CGU.

The impairment test consists of two steps: in step one, the carrying value of the cash generating unit is compared with its recoverable amount; in step two, which is applied when the carrying value of the cash generating unit is more than its recoverable amount, the amount of goodwill impairment, if any, is derived by deducting the recoverable amount of the cash generating unit from the carrying value of the cash generating unit including the amount of goodwill.

5.13 INTANGIBLE ASSETS

Software
Software acquired by the Group is measured at cost less accumulated amortization and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software to generate future economic benefits and the costs to complete the development can be reliably measured.

Internally developed software is stated at capitalized cost less accumulated amortization and impairment.

Purchased software and internally developed software is on average amortised over its useful life of 9 years. During its useful life the development is done on the software. This development prolongs the useful life of the software, which can be extended in exceptional cases up to 22 years since the initial recognition.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

5.14 IMPAIRMENT OF NON-FINANCIAL ASSETS

At the end of each reporting date the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists then the assets recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's fair value less costs of disposal and its value in use. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognised in the profit or loss in the "Other operating expenses" (see note 14). An impairment loss may be reversed to the extent it does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

5.15 EMPLOYEE BENEFITS

Employee benefits include short term bonus payments, flexible benefits (Cafeteria), bonuses for loyalty, retention bonuses and bonuses tied to equity and stock option plan. In 2017, remuneration policy relevant for the Management Board members that is subject to the terms and conditions described in the Executive Variable Incentive Plan ("EVIP") was introduced under which bonuses are partly linked to the share price and dividend paid in the longer term.

Executive Variable Incentive Plan ("EVIP") for the Management Board members and other material risk takers
EVIP was introduced in 2017 and it replaced similar incentive program for the Key Executive Managers. The amount of the incentive compensation that a participant receives under this incentive programme is based on the basis of the participant´s performance; including achievement of goals and objectives set by the Supervisory Board and the Chief Executive Officer (although the Chief Executive Officer is not involved in decision regarding the setting of his own goals and objectives). A portion of this compensation is received in cash (partially the year after the performance year and partially it is deferred to 3 annual instalments in the following years) and the remainder is linked to the total shareholders return ("TSR") and deferred also to 3 annual instalments. This part of variable deferred

bonus represents share based payment and is disclosed in line with IFRS 2 Share-based payments, specifically as cash settled share-based payment. For more detail about this program see section 4.11 of the Annual report.

Bonus payments are accrued over time and represent the best estimate of the amount that will be paid.

Sales, collection and customer service incentives
Sales incentives represent a performance benefit to retail employees at branches and commercial bankers. The size of the sales incentives for retail sales depends on fulfilment of performance targets, which are evaluated and paid quarterly. Employees providing telesales are evaluated and paid on monthly basis. In Commercial Banking, performance is evaluated quarterly and the payment is partially made in the subsequent quarter and in the first quarter after the end of the year.

Collection incentives represent a performance benefit for employees participating on collection of debts. Performance of collection from persons is evaluated and paid on monthly basis, in case of collection from companies on quarterly basis.

The Group also provides Origination and Customer Service incentive program where the performance is evaluated and paid on monthly basis.

The Group recognises a liability as of the reporting date representing the sum of the sales incentives in the fourth quarter and the amounts deferred from the previous reporting periods.

Award for Loyalty
The Award for Loyalty is a programme that rewards employees for loyalty. Employees are eligible for an award every five years of employment with the Group. A liability is recognised for the benefit reflecting the probability of each eligible employee attaining each anniversary. The Group records a provision for a loyalty based on an actuarial model that is in line with IAS 19 and it is recognised in the statement of financial position in the line item "Provisions".

Flexible benefits (Cafeteria)
Each employee of the Group, based on his/her job seniority, is granted each year with a certain number of points, which may be redeemed for free time activities, contribution to pension insurance, free day or meal vouchers. Costs of granted points are recognised into profit or loss line "Personnel expenses" on the straight-line basis over the accounting period.

Retention Programmes connected to IPO
There were three types of retention programmes for employees and members of the senior management.

The most critical members of the senior management and management teams (including members of the Management Board) participated in the first part of the retention programme under which they received a retention award equal to a percentage of their annual base salary at the time of pay-out. For 31 employees, the retention award was paid out in cash upon the First Day of Official Trading with a second instalment being paid six months thereafter and, in one case, 30 per cent of the award was paid out in cash upon the First Day of Official Trading with a further 20 per cent instalment being paid six months thereafter and a final 50 per cent instalment being paid 18 months thereafter.

The second part of the retention programme targeted fixed retention rewards for up to 10 per cent of the most critical employee population. The criteria for selection were unique expertise, outstanding performance or exceptional know-how.

The expense resulting from both the first and second part of the retention programme were , or will be born by Selling Shareholder Group (GECIHL) and as such netted within the profit or loss line "Personnel expenses".

The third part was virtual share programme (the "Virtual Share Programme"). Under the Virtual Share Programme, each of the Group's employees actively employed on the date of Listing received a number of virtual shares. The number of virtual shares was based on the relevant employee's level of job seniority. The expense of this initial allocation is borne by the Selling Shareholder Group (GECIHL). Subsequent allocation is born by the Group. Each virtual share under the Virtual Share Programme tracks the share price of the Bank and will be paid out in cash on the second anniversary of the First Day of Official Trading, provided that the relevant employee is still employed by the Group on such date. In the event of an employee's voluntarily termination on or prior to such vesting and settlement date, the virtual shares are forfeited. The Virtual Share Programme is classified as cash-settled share-based payment under the scope of IFRS 2 (see note 38).

5.16 CASH AND CASH BALANCES WITH THE CENTRAL BANK

Cash and balances with the central bank include current accounts and time deposits with the Czech National Bank (CNB), cash in ATMs and in branches. Cash and balances are reported in the statement of financial position in "Cash and balances with the central bank". The Group's mandatory minimum reserve held by the CNB is also included within "Cash and balances with the central bank".

5.17 INCOME TAX AND DEFERRED TAX

Income tax expense comprises current and deferred tax. It is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current Tax
Current tax represents the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Group intends to settle on a net basis and the legal right to offset exists.

Deferred Tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probably that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Significant temporary and timing differences arise mainly from different accounting and tax value adjustments to receivables, provisions and from the revaluation of financial assets.

5.18 SEGMENT REPORTING

The Group´s operating businesses are organized based on the nature of markets and customers.

Operating segments are reported in accordance with the internal reports prepared on a regular basis and presented to the members of The Management Board.

The Group has identified the following segments:

- Commercial clients – includes individually and portfolio managed commercial loans, finance leases. Clients are mainly entrepreneurs and business corporations.
- Retail clients – segment covers most of the Group's consumer products (consumer loans, mortgages, auto financing including finance leases etc.). Products in the Group's consumer portfolio have similar characteristics. They consist mainly of term loans offered through a network of individual branches, call centers, online channels and external partners. The products are primarily targeted at consumers and households.
- Treasury/Other – includes mainly investment banking and equity investments and other areas that are not included in the above segments.

The Management Board of the Bank (the chief operating decision maker) does not use the above described segmental view on all items of the Consolidated Statement of Profit and Loss. For this reason, Operating expenses, Taxes and consequently Profit for the year before tax and Profit for the year after tax is not reported for segments but only on the Total level.

Information about the reported segments is described in note 42.

5.19 FINANCIAL GUARANTEES AND LOAN COMMITMENTS

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

The provided guarantees are shown in note 39.

5.20 CHANGES IN PRESENTATION OF EXTERNAL COLLECTION COSTS

At the beginning of the year 2017 the Group started to take into account external collection costs in determining impairment loss of loans and receivables and these costs are disclosed in the line "Net impairment of loans and receivables" when they are incurred. Estimate of these costs also reduces present value of recovery cash flows expected from related impaired receivables. Previously, these costs were presented in the line "Other operating expenses" and "Administrative expenses". This change has been applied retrospectively and the impact on the statement of profit or loss and the other comprehensive income for 2016 is disclosed in the following table:

CZK m	2016 original	Change due to reclass of external coll. costs	2016 reclassified
Administrative expenses	(2,022)	38	(1,984)
Other operating expenses	(489)	64	(425)
Total operating expenses	**(5,084)**	**102**	**(4,982)**
Net impairment of loans and receivables	(927)	(102)	(1,029)
Profit for the year before tax	**5,047**	**0**	**5,047**
Taxes on income	(993)	0	(993)
Profit for the year after tax	**4,054**	**0**	**4,054**

6. NET INTEREST INCOME

CZK m	2017	2016
Interest income from financial assets measured at amortised cost	7,524	8,407
Loans to customers*	7,419	8,396
out of which interest income from impaired loans	249	343
out of which penalty interest	149	139
Loans to banks	93	1
out of which arising from repurchase and reverse repurchase agreements**	91	0
Cash and deposit with the central bank and other banks	12	10
Interest income from hedging derivatives	(5)	0
Interest income from available for sale financial assets	38	87
Held to maturity investments	25	0
Interest income and similar income	**7,582**	**8,494**
Interest expense from financial liabilities measured at amortised cost	(218)	(189)
Due to banks	(16)	0
Due to customers	(202)	(189)
out of which arising from repurchase agreements	(6)	0
Interest expense and similar expense	**(218)**	**(189)**
Net interest income	**7,364**	**8,305**

*Out of which Interest Income from repurchase agreements with a negative interest rate at CZK 5 million in 2017 (2016: CZK 0).
**Out of which Interest Income from repurchase agreements with a negative interest rate at CZK 41 million in 2017 (2016: CZK 0).

7. NET FEE AND COMMISSION INCOME

CZK m	2017	2016
Lending servicing fees	217	253
Deposit servicing fees	483	587
Investment funds*	109	59
Insurance**	396	361
Penalty fees (incl. early termination fees)	398	426
Transactional and other fees	620	581
Fee and commission income	**2,223**	**2,267**
Fee and commission expense	**(290)**	**(306)**
Net fee and commission income	**1,933**	**1,961**

*Increase in investment funds fee income is caused by 12% increase in balance of assets under management and higher commissions in comparison with 2016.
**The line "Insurance" includes especially commissions on payment protection insurance, car insurance (casco and third party liability insurance), travel insurance, accident insurance, life insurance and pension funds.

8. DIVIDEND INCOME

CZK m	2017	2016
Dividends from equity instruments	0	26
Dividend income	**0**	**26**

9. NET INCOME FROM FINANCIAL OPERATIONS

CZK m	2017	2016
Net gain on available for sale financial assets	343	279
Net gain/(loss) from hedging instruments	5	0
Net gain/(loss) from hedged instruments	(6)	0
Net income from financial assets and liabilities at FVTPL	(135)	17
Expense on currency derivative instruments	(266)	(36)
Income from currency derivative instruments	131	53
Exchange rate differences	502	302
Net income from financial operations	**709**	**598**

10. OTHER OPERATING INCOME

CZK m	2017	2016
Income from leases*	40	37
Rent income	10	6
out of that accretion of unamortized rent incentive	10	0
Other collection income**	213	80
Other incomes	66	45
Total other operating income	**329**	**168**

*Income from leases includes income from operating lease contracts provided by MONETA Leasing s.r.o. Assets leased under operating leases are shown in the category "Assets leased under operating lease" (see note 28).

**The line "Other collection income" includes recoveries arising from written-off receivables exceeding the write-off recognised in the line "Net impairment of loans and receivables" of CZK 54 million in 2017 (2016: CZK 11 million), the residual amount represents legal costs paid by clients being collected by solicitor offices.

11. PERSONNEL EXPENSES

	2017	2016
The average number of employees during the period*	3,304	3,114
out of which: Management Board	5	4
out of which: Supervisory Board**	7	5
out of which: other Key Executive Managers***	2	8

CZK m	2017	2016
Salaries and bonuses******	**(1,765)**	**(1,650)**
Salaries and bonuses actuals	(1,547)	(1,467)
Salaries and bonuses accruals	(218)	(183)
Social security and health insurance	(551)	(526)
Restructuring costs	(52)	0
Other employee related expenses	(88)	(87)
Total personnel expenses	**(2,456)**	**(2,263)**

*The average number of employees during the period is an average of the figures reported to Czech Statistical Authority (CSA) on a monthly basis in accordance with Article 15 of Czech Act No. 518/2004. The figures reported to CSA equal to quotient of the following nominator and the following denominator. The nominator is defined as all hours worked by all employees, their related leaves/holidays and their related sick days. The denominator represents a standard working hours per an employee and a month.

**Only 6 members out of 7 members received compensation as the members of the Supervisory Board.

***The Group reconsidered definition of key management personnel in 2017,therefore, only two employees are reported in this category.

****Includes the bonuses for the first and second part of the retention programmes mentioned in the Bank´s prospectus in connection with the Offering and Virtual Share Programme as described in the note 38 which were compensated in 2016 by GE Capital International Holding Limited as a former shareholder in the amount of CZK 121 million (as described in the note 41).

12. ADMINISTRATIVE EXPENSES

CZK m	2017	2016
IT and software expense	(408)	(337)
Regulatory charges*	(96)	(68)
Rent expense	(369)	(330)
Rent-related services	(136)	(129)
Advisory services	(68)	(145)
Auditor´s fees	(14)	(13)
out of that: audit	(7)	(10)
out of that: other services	(7)	(3)
Marketing	(261)	(358)
Travel cost	(37)	(35)
Collection expense**	0	54
Other expenses***	(504)	(623)
out of that: services provided by previous majority shareholder	(43)	(221)
Total administrative expenses	**(1,893)**	**(1,984)**

*The line "Regulatory charges" includes annual contribution to the Deposit Insurance Fund in the amount of CZK 44 million (2016: CZK 56 million) and to the Resolution and Recovery Fund in the amount of CZK 52 million (2016: CZK 12 million).
**In December 2016 the Bank reached an agreement with solicitors through realized debt sale of aged written-off loan portfolio and released related provisions for bailiffs in the amount of CZK 52 million. Release of provision is shown in the line "Provisions for collection services" in the breakdown of other provisions presented in the note 34 and profit or loss line "Administrative expenses". Furthermore, according to change in presentation regarding external collection costs (see the note 5.20), the amount of CZK 38 million for external collection costs was reclassified in 2016 into the line „Net impairment of loans and receivables".
***The line "Other" comprises expenses on other services provided by 3rd parties not disclosed separately, e.g. subscription fees, support of ATMs, transport of cash, postage,training, cleaning services, car expense, etc.

Non-audit services provided by statutory auditor amounts to CZK 7 million in 2017.

In 2016 the Group incurred CZK 289 million of administrative expenses relating to IPO and separation from GE comprising from costs on rebranding (CZK 191 million), on services related to the Initial Public Offering ("IPO", CZK 63 million) and on expenses related to IT separation from GE (CZK 35 million). In 2017 there were no similar expenses arising.

13. DEPRECIATION AND AMORTISATION

CZK m	2017	2016
Depreciation of property and equipment	(208)	(178)
Amortisation of intangible assets	(206)	(132)
Total depreciation and amortisation	**(414)**	**(310)**

Impairment losses are shown in the note 14.

14. OTHER OPERATING EXPENSES

CZK m	2017	2016
Trademark GE	0	(49)
Trademark GE – withholding tax	0	(5)
Damages	(11)	(17)
Unrecoverable VAT	(244)	(285)
Other collection costs*	84	10
Other expenses	(13)	(79)
out of that: impairment of assets	(4)	(63)
Total other operating expenses*	**(184)**	**(425)**

*According to change in the Group´s accounting policy (taking into account external collection costs for calculation of impairment loss) , the amount of CZK 64 million for external collection costs was reclassified in 2016 from "Other operating expenses" to "Net impairment of loans and receivables" (see note 5.20). Thereafter, other collection costs comprise release of liability to Solicitor office when recognition criteria for liability are not met due to remote probability of payment.

15. NET IMPAIRMENT OF LOANS AND RECEIVABLES

CZK m	2017	2016
Additions and release of loan loss allowances*	(618)	(1,136)
Additions and release of provisions to unused commitments	9	2
Use of loan loss allowances	2,593	6,540
Income from previously written-off receivables	473	205
Write offs of uncollectable receivables**	(2,701)	(6,540)
Change in allowances to operating receivables	0	2
Collection expense	(137)	(102)
Net impairment of loans and receivables* **	**(381)**	**(1,029)**

*The decrease of Additions and release of loan loss allowances from CZK (1,136) million in 2016 to CZK (618) million in 2017 was caused by a continuous improvement of macroeconomic environment, which was reflected in an improvement of the loan portfolio performance, and significant sales of NPLs.
**Higher amount recognized in 2016 compared to 2017 is driven by execution of write offs of legacy non-performing loans ("NPLs") executed in 2016 fully covered by loan loss allowances.
***The decrease in the Net impairment of loans and receivables from CZK (1,029) million in 2016 to CZK (381) million in 2017 is due to persisting good macroeconomic environment, significant sales of NPLs and additions to loan loss allowances in 2016 linked to the legacy NPL portfolio.

At the beginning of the year 2017 the Group started to reflect external collection costs in determining impairment loss of loans and receivables and these costs are disclosed in the line "Net impairment of loans and receivables" when they are incurred (previously presented in the line "Other operating expenses" and "Administrative expenses"). Estimate of these costs also reduces present value of recovery cash flows expected from related impaired receivables. This change has been applied retrospectively and the impact is disclosed in the table above as "Collection expense". For more details see the note 5.20.

At each financial statement date financial assets not measured at fair value through profit or loss are assessed for impairment. The Group determines whether as a result from event or events occurred alone or in a combination an impairment loss should be recognised and for what amount.

For individually managed loans and receivables a judgment is required to determine if there is an objective evidence of impairment. The identification of the evidence of impairment is based on the analysis of the financial status, payment history, collateral value, industry conditions and other relevant factors. For impaired loans the estimate is done by determining future amount and timing of expected recovery cash flows. These estimates are made by taking into account a range of factors, including prospects of the business model, the collateral fair value, expected proceeds from a bankruptcy or liquidation and other relevant factors.

Portfolio managed loans and receivables are subject to estimation uncertainty as the identification of the impairment on the individual contract level is not practical due to the large number of such exposures. The loss is measured using statistical models with inputs based on historically observed data by the Group such as historical credit losses and default rates. Judgment is required to determine whether the current macroeconomic situation is in line with the historical loss experience. For further detail see the Risk management section (see note 43).

If loss given default (LGD) (in the either individual assessment or statistical models) changes by +/-10% in relative terms, then the loan loss allowances would change by +/- CZK 246 million as at 31 December 2017 and by +/- CZK 302 million as at 31 December 2016.

16. TAXES ON INCOME

Tax expense from the Group's profit before tax can be analysed as follows:

CZK m	2017	2016
Current income tax for the year	(500)	(711)
Income tax related to prior years	26	(55)
Change in deferred tax recognised in profit or loss	(506)	(227)
Taxes on income	**(980)**	**(993)**

The chart below shows the reconciliation of actual tax charge and the tax charge based on applying standard corporate income tax rate according to Czech Republic income tax law:

CZK m	2017	2016
Theoretical income tax accounted for into expenses, calculated with the rate of 19%	(932)	(959)
Income tax related to the prior years	0	(35)
Impact of the tax non-deductible expenses	(28)	(29)
Impact of the tax non-taxable income	0	30
Loss on goodwill impairment, which is tax non-deductible expense*	(20)	0
Taxes on income	**(980)**	**(993)**
Effective income tax rate	20%	20%

*For further detail related to goodwill impairment see the note 27.

17. EARNINGS PER SHARE

Earnings per share amounts are calculated by dividing the net profit for the year after tax attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

CZK m	2017	2016
Profit for the year after tax attributable to the equity holders	3,923	4,054
Weighted average of ordinary shares (millions of shares)	511	511
Basic earnings per share (CZK)	**7.68**	**7.93**

In April 2016, existing shares were split due to the IPO in ratio 1: 1,000,000 (see note 37).

As the Group has not issued any potentially dilutive instruments, the basic earnings per share equals to diluted earnings per share.

18. CASH AND BALANCES WITH THE CENTRAL BANK

CZK m	31 Dec 2017	31 Dec 2016
Cash and cash in transit	4,673	3,843
Balances with the central bank other than mandatory minimum reserves*	1	14,100
Mandatory minimum reserve requirement with the central bank	2,453	2,292
Total cash and balances with central bank	**7,127**	**20,235**

*Decrease of balances with the central bank in 2017 is driven by deployment of excess cash in reverse repo transactions. See the note 21.

The Group includes a mandatory minimum reserve with the Czech National Bank into "Cash and balances with the central bank". The Group may draw funds from the mandatory minimum reserve at any point in time provided that the average balance over the relevant period meets the minimum levels required according to the regulations of the Czech National Bank.

19. CASH AND CASH EQUIVALENTS

For the purposes of consolidated statement of cash flows, cash and cash equivalents comprise the following balances with maturities from the acquisition of less than 3 months:

CZK m	31 Dec 2017	31 Dec 2016
Cash and deposits with the central bank	7,127	20,235
Loans and receivables to banks	53,363	189
Total cash and cash equivalents	**60,490**	**20,424**

20. TRANSFER OF FINANCIAL ASSETS – REPURCHASE TRANSACTIONS

CZK m	Carrying amount of transferred assets	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities
31 Dec 2017				
Repurchase agreements with clients	0	9,445	0	9,445
Repurchase agreements with banks	0	23,155	0	23,155
Financial assets held to maturity	3,371	0	3,206	0
Financial assets received in reverse repos	29,201	0	29,201	0
Total repurchase agreements	**32,572**	**32,600**	**32,407**	**32,600**

CZK m	Carrying amount of transferred assets	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities
31 Dec 2016				
Repurchase agreements with banks	0	1,479	0	1,479
Financial assets available for sale	1,863	0	1,863	0
Total repurchase agreements	**1,863**	**1,479**	**1,863**	**1,479**

Associated liabilities from repurchase agreements represent the obligation to repay the borrowing and are shown in line "Due to banks" (note 32) and "Due to customers" (note 33) . Financial assets used as collateral consist of treasury bonds from held to maturity portfolio (note 24) and treasury bills obtained in reverse repo agreements recognised in the off balance sheet.

21. LOANS AND RECEIVABLES TO BANKS

Loans and receivables to banks include:

CZK m	31 Dec 2017	31 Dec 2016
Current accounts at banks	170	154
Term deposits in banks payable within 3 months	0	35
Receivables arising from reverse repo agreements*	53,107	0
Cash collaterals granted**	86	0
Other***	17	0
Included in cash equivalents	53,363	189
Total loans and receivables to banks	**53,380**	**189**

*In 2017, the Group started to provide reverse repo operations with the Czech National Bank, received collateral in the amount of CZK 52,033 million represented by treasury bills that are not recognised in the statement of financial position.
**Comprises collateral granted for repo operations and derivative transactions.
***Represents an unsolicited dividend for the year 2016 transferred to Komerční banka, a.s. that is administrating the payment.

The Group has not created any allowances on loans and receivables to banks as no impairment has been identified.

22. LOANS AND RECEIVABLES TO CUSTOMERS

a) Loans and receivables to customers by sector

CZK m	31 Dec 2017	31 Dec 2016
Financial organisations	525	566
Non-financial organisations	49,536	46,675
Government sector	44	65
Non-profit organisations	204	76
Entrepreneurs	12,166	11,130
Resident individuals	64,600	59,181
Non-residents entrepreneurs	1	0
Non-residents individuals	666	342
Gross loans and receivables to customers	**127,742**	**118,035**
Loss allowances for loans and advances to customers*	(4,062)	(6,175)
Net loans and receivables to customers	**123,680**	**111,860**
Gross loans and receivables to customers without impairment	122,468	110,547
Loss allowances for loans and advances to customers without impairment	(683)	(865)
Net loans and receivables to customers without impairment	**121,785**	**109,682**

*Significant decrease in the line "Loss allowances for loans and advances to customers" in 2017 is driven by persisting good macroeconomic environment and the execution of write offs of legacy NPLs that have been fully covered by loan loss allowances and NPLs sales.

b) Loans and receivables to customers by product (net of loss allowances)

CZK m	31 Dec 2017	31 Dec 2016
Consumer authorised overdrafts and credit cards	3,945	4,551
Consumer loans	34,969	32,281
Mortgages	20,338	15,571
Commercial loans	47,728	42,639
Auto & equipment financial lease	5,057	6,633
Commercial	5,057	6,633
Retail	0	0
Auto & equipment loans	11,643	10,146
Commercial	8,911	7,958
Retail	2,732	2,188
Other loans	0	39
Commercial	0	21
Retail	0	18
Net loans and receivables to customers	**123,680**	**111,860**

c) Loss allowances for loans and receivables to customers

CZK m	2017			2016		
	Individual allowances	Portfolio allowances	Total allowances	Individual allowances	Portfolio allowances	Total allowances
1 Jan	**406**	**5,769**	**6,175**	**1,027**	**10,751**	**11,778**
Additions and release of allowances	126	492	618	108	1,028	1,136
Effect of written off receivables	(133)	(2,460)	(2,593)	(718)	(5,822)	(6,540)
Interest income from impaired loans (unwinding)	(3)	(135)	(138)	(11)	(188)	(199)
Net movement of allowances	**(10)**	**(2,103)**	**(2,113)**	**(621)**	**(4,982)**	**(5,603)**
31 Dec	**396**	**3,666**	**4,062**	**406**	**5,769**	**6,175**

d) Loss allowances for loans and receivables to customers by sectors

CZK m	Financial organisations	Non-financial organisations	Non-profit organisations	Entrepreneurs	Resident individuals	Non-residents individuals	Total
1 Jan 2017	**6**	**948**	**2**	**507**	**4,693**	**19**	**6,175**
Net change of allowances	(2)	226	1	16	249	(10)	480
Effect of written off receivables	(3)	(273)	(1)	(264)	(2,052)	0	(2,593)
31 Dec 2017	**1**	**901**	**2**	**259**	**2,890**	**9**	**4,062**

CZK m	Financial organisations	Non-financial organisations	Non-profit organisations	Entrepreneurs	Resident individuals	Non-residents individuals	Total
1 Jan 2016	**4**	**1,689**	**6**	**1,061**	**8,993**	**25**	**11,778**
Net change of allowances	3	175	0	25	731	3	937
Effect of written off receivables	(1)	(916)	(4)	(579)	(5,031)	(9)	(6,540)
31 Dec 2016	**6**	**948**	**2**	**507**	**4,693**	**19**	**6,175**

23. FINANCIAL ASSETS AVAILABLE FOR SALE

CZK m	31 Dec 2017	31 Dec 2016
Treasury bonds	0	13,444
Corporate bonds	0	256
Equity investments	57	49
Total available for sale financial assets	**57**	**13,749**
By listing:		
listed	0	13,444
unlisted	57	305

Available for sale financial assets as at 31 December 2016 comprised equity investments, Czech government bonds, treasury bills and bonds with fixed or variable coupon issued mainly by financial institutions.

On 1 August 2017 all bonds comprised in the available for sale portfolio (Czech government bonds) with total carrying value of CZK 5,287 million were reclassified into the held to maturity portfolio in compliance with change in the Group´s investment strategy under which these investments are intended to be held until the maturity. Related Available for sale reserve from revaluation of reclassified bonds remains recognised in the equity because fair value of these bonds as at the date of reclassification is considered to be their carrying value on the date of reclassification.

Equity investments include investments in SWIFT and VISA Inc.

In 2017 and 2016 no impairment of available for sale assets has been recognised.

There are no financial assets available for sale transferred as collateral under repurchase transactions as at 31 December 2017 (31 December 2016: CZK 1,863 million). Repurchase transactions are disclosed in the note 20.

24. FINANCIAL ASSETS HELD TO MATURITY

CZK m	31 Dec 2017	31 Dec 2016
Treasury bonds	11,723	0
Total Held to maturity financial assets	**11,723**	**0**
By listing:		
listed	11,723	0

Held to maturity financial assets comprise Czech government bonds. This portfolio is used since 1 August 2017 when the Group introduced new investment strategy and all bonds were transferred from available for sale portfolio into held to maturity portfolio. The Group has intention and ability to hold them until maturity. For more details about reclassification see note 23.

As at 31 December 2017 held to maturity financial assets with carrying amount CZK 3,371 million are transferred as collateral under repurchase transactions (31 December 2016: CZK 0 million).

25. FINANCIAL DERIVATIVES

Financial derivatives include Over the Counter ("OTC") derivatives.

The Group enters into foreign exchange derivatives (currency swaps, currency forwards) to economically hedge its foreign currency risk but these derivatives are not designated at the initial recognition as hedging derivatives according to IAS 39, they are classified as held for trading for accounting purposes and presented in the line "Financial assets at fair value through profit or loss", resp. "Financial liabilities at fair value through profit or loss", Hence, the portfolio of financial assets at fair value through profit or loss includes positive fair value of foreign exchange derivatives and the portfolio of financial liabilities at fair value through profit or loss only includes negative fair value of foreign exchange derivatives.

Since 2017, the Group designates at the initial recognition interest rate swaps derivatives as hedging instruments according to IAS 39 to hedge its exposure to the change of the fair value of a defined part of portfolio of loans to customers or loan commitments related to interest rate risk (see note 5.6.7).

In the statement of financial position, derivatives with positive fair values (total fair value including accrued interest) are presented in the line item "Hedging derivatives with positive fair values", derivatives with negative fair values (total fair value including accrued interest) are disclosed in the line "Hedging derivatives with negative fair values".

Financial derivatives classified as held for trading

CZK m	Nominal value Assets	Nominal value Liabilities	Fair value Assets	Fair value Liabilities
31 Dec 2017				
CURRENCY DERIVATIVES				
Currency swaps	2,472	2,498	1	25
Currency forwards	3,972	3,968	47	43
Total derivatives for trading	**6,444**	**6,466**	**48**	**68**

CZK m	Nominal value Assets	Nominal value Liabilities	Fair value Assets	Fair value Liabilities
31 Dec 2016				
CURRENCY DERIVATIVES				
Currency swaps	2,240	2,221	20	1
Currency forwards	619	618	6	6
Total derivatives for trading	**2,859**	**2,839**	**26**	**7**

Financial derivatives designated at the initial recognition as hedging derivatives

CZK m	Nominal value Assets	Nominal value Liabilities	Fair value Assets	Fair value Liabilities
31 Dec 2017				
INTEREST RATE DERIVATIVES				
Interest rate swaps	5,980	5,980	4	4
Total hedging derivatives	**5,980**	**5,980**	**4**	**4**

The Group did not have any Interest rate swaps as of 31 December 2016.

26. INTANGIBLE ASSETS

CZK m	Software purchased	Software – internally developed	Intangibles not in use	Total
Carrying amount as at 31 Dec 2015	**68**	**334**	**27**	**429**
Additions to assets*	76	181	468	725
Transfers of assets	0	0	(257)	(257)
Amortisation for period	(26)	(106)	0	(132)
Impairment of assets	(1)	(20)	0	(21)
Carrying amount as at 31 Dec 2016	**117**	**389**	**238**	**744**
Additions to assets*	178	502	764	1,444
Transfers of assets	0	0	(679)	(679)
Amortisation for period	(69)	(137)	0	(206)
Impairment of assets	0	(2)	0	(2)
Carrying amount as at 31 Dec 2017	**226**	**752**	**323**	**1,301**

*Increase in the line "Additions to assets" in 2017 is caused primarily by higher investments into the IT systems connected especially with digitalisation strategy of the Group.

CZK m	Software purchased	Software – internally developed	Intangibles not in use	Total
Cost as at 31 Dec 2015	654	3,661	27	4,342
Accumulated Amortisation 2015	(586)	(3,327)	0	(3,913)
Carrying amount as at 31 Dec 2015	**68**	**334**	**27**	**429**
Cost as at 31 Dec 2016	738	3,796	238	4,772
Accumulated Amortisation 2016	(621)	(3,407)	0	(4,028)
Carrying amount as at 31 Dec 2016	**117**	**389**	**238**	**744**
Cost as at 31 Dec 2017	1,069	3,707	323	5,099
Accumulated Amortisation 2017	(843)	(2,955)	0	(3,798)
Carrying amount as at 31 Dec 2017	**226**	**752**	**323**	**1,301**

Annual costs related to research and development (that did not meet capitalization criteria) amounted to CZK 49.3 million in 2017 (2016: CZK 33 million).

27. GOODWILL AND NEWLY ACQUIRED ENTITIES

Reconciliation of Goodwill on the following entities:

CZK m	2017	2016
MONETA Leasing, s.r.o. & MONETA Leasing Services, s.r.o.		
Goodwill as of 1 Jan	**104**	**104**
Additions arising from business combinations	0	0
Less Impairment	(104)	0
Goodwill as of 31 Dec	**0**	**104**

Goodwill as at 31 December 2016 was related to the acquisition of MONETA Leasing, s.r.o. (on 1 May 2016 renamed from GE Money Leasing, s.r.o.) and MONETA Leasing Services, s.r.o. (on 1 May 2016 renamed from GE Money Leasing Services, s.r.o.). Both entities represent a single cash generating unit (CGU) for goodwill impairment testing. These were included into the consolidated financial statements of the Group using the acquisition method.

Goodwill impairment assessment has been made with the following assumptions: value in use has been determined using cash flow predictions based on financial budgets covering a three-year period, with a terminal growth rate of 1% (2016: 3%) applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 10% (2016: 10%) and resulting net present value of future cash flows was lower than carrying value of CGU including goodwill. Hence, whole balance of goodwill in the amount of CZK 104 million was impaired in 4Q 2017. Other assets of CGU should be impaired pro rata on the basis of the carrying amount of each asset in CGU but the carrying amount of each asset should not be reduced below its individual fair value. Fair value of assets of CGU was significantly higher (by CZK 132 million as at the date of testing) than their book value, hence no further impairment has been recognised. Nevertheless, the Group will continue in monitoring these assets for potential impairment.

28. PROPERTY AND EQUIPMENT

CZK m	Capital improvements of leased assets	Equipment and machinery	Fixtures and other tangibles	Assets leased under operating lease	Property and equipment not in use	Total
Carrying amount as at 31 Dec 2015	**189**	**226**	**18**	**0**	**52**	**485**
Additions to assets	19	156	4	176	384	739
Disposals/transfers of assets	0	0	0	0	(355)	(355)
Depreciation for period	(57)	(85)	(5)	(31)	0	(178)
Impairment of assets	(32)	(5)	(3)	0	(2)	(42)
Carrying amount as at 31 Dec 2016	**119**	**292**	**14**	**145**	**79**	**649**
Additions to assets	58	224	30	30	452	794
Disposals/transfers of assets	(1)	(4)	(1)	(15)	(342)	(363)
Depreciation for period	(57)	(110)	(7)	(34)	0	(208)
Impairment of assets	(1)	0	0	0	0	(1)
Carrying amount as at 31 Dec 2017	**118**	**402**	**36**	**126**	**189**	**871**

CZK m	Capital improvements of leased assets	Equipment and machinery	Fixtures and other tangibles	Assets leased under operating lease	Property and equipment not in use	Total
Cost as at 31 Dec 2015	877	1,534	74	0	52	2,537
Acumulated Depreciation 2015	(688)	(1,308)	(56)	0	0	(2,052)
Carrying amount as at 31 Dec 2015	**189**	**226**	**18**	**0**	**52**	**485**
Cost as at 31 Dec 2016	892	1,490	68	176	79	2,705
Acumulated Depreciation 2016	(773)	(1,198)	(54)	(31)	0	(2,056)
Carrying amount as at 31 Dec 2016	**119**	**292**	**14**	**145**	**79**	**649**
Cost as at 31 Dec 2017	756	1,616	93	191	189	2,845
Acumulated Depreciation 2017	(638)	(1,214)	(57)	(65)	0	(1,974)
Carrying amount as at 31 Dec 2017	**118**	**402**	**36**	**126**	**189**	**871**

Net book value of assets leased under finance lease is CZK 2.6 million as at 31 December 2017 (2016: CZK 9.1 million). Assets leased under operating lease contracts are not comprised in line "Property and equipment" in accordance with requirements of IAS 17 Leases (see note 40).

28.1 PROPERTY AND EQUIPMENT HELD FOR SALE

In March 2015, management decided to abandon and sell the headquarters building of MONETA Leasing in Brno. The building was classified as a non-current asset held for sale and measured at lower than its carrying amount and fair value less costs to sell at the end of 2015. The sale was completed in first quarter of 2016. Net income from the sale in the amount of CZK 7 million was recognised in Other operating income within the Commercial segment in 2016.

29. CURRENT TAX ASSETS

CZK m	31 Dec 2017	31 Dec 2016
Income tax receivable	308	267
Total current tax asset	**308**	**267**

Income tax receivable in amount of CZK 308 million consists of 2017 current income tax payable in amount of CZK 500 million and tax receivable arising from 2017 tax advances in amount of CZK 808 million. Corporate income tax advances will be offset with current income tax payable in 2017 tax return and the difference will be refunded by tax authority in 2018.

30. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax is determined based on all temporary and timing differences between the tax residual values of assets and liabilities and their residual book values in the Group's financial statements. Deferred tax is determined using tax rate enacted by balance sheet date. The applicable rate is 19%.

The recognition of deferred tax assets relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

Deferred tax assets and liabilities consist of following differences:

CZK m	31 Dec 2017	31 Dec 2016
Deferred tax liabilities	**267**	**280**
Loans and lease loss allowances	260	183
Difference between residual book value and tax residual value of long-lived assets	3	4
Other temporary variances	4	93
Deferred tax assets	**386**	**805**
Loans allowances	320	747
Difference between remaining book value and tax residual value of long-lived assets	(58)	(9)
Revaluation of available for sale financial assets	14	(85)
Other temporary variances	109	152
Net deferred tax asset/liability	**118**	**525**

The following table shows the movement of the net deferred tax asset:

CZK m	2017	2016
Net deferred tax assets at the beginning of period	**525**	**724**
Change of the net deferred tax – total profit and loss impact	**(506)**	**(227)**
Loss allowances for loans and receivables to customers	(504)	(219)
Difference between remaining book value and tax residual value of long-lived assets	(48)	(28)
Change of the net deferred tax – other temporary variances	46	20
Change of the net deferred tax – equity impact	**99**	**28**
Revaluation of available for sale financial assets	99	28
Net deferred tax receivable at the end of period	**118**	**525**

31. OTHER ASSETS

CZK m	31 Dec 2017	31 Dec 2016
Accounts receivables*	86	191
Advances and guarantees for rent related services	277	194
Receivables to finance authorities	125	19
Other receivables net of allowances	56	65
out of that allowances	(84)	(98)
Prepayments	96	84
Other accruals	213	196
out of that accruals to former shareholder**	42	21
Total other assets	853	749

*Includes receivable to former shareholder (GE Capital International Holding Limited) arising from reimbursement of retention bonuses of CZK 7 million (2016: CZK 52 million) as described in the note 5.15.
**Includes accruals to former shareholder (GE Capital International Holding Limited) arising from Virtual Share Programme as described in the note 38.

32. DUE TO BANKS

The Group has following liabilities to other banks:

CZK m	31 Dec 2017	31 Dec 2016
Deposits on demand	445	233
Term deposits	970	945
Liabilities arising from repurchase agreements*	23,155	1,479
Cash collaterals received	29	0
Other due to banks**	5,044	0
Total due to banks	**29,643**	**2,657**
Type of rate:		
Fixed interest rate	29,170	2,424
Floating interest rate	473	233

*Liabilities arising from repurchase agreements represent the obligation to repay the borrowing. Financial assets transferred under these agreements as collateral are disclosed in note 20.
**Other due to banks comprises:
- Loan provided by Komerční banka, a.s. to MONETA Leasing s.r.o. in April 2017 in the amount of CZK 1,750 million. Simultaneously, MONETA Money Bank, a.s. provided guaranteed the repayment of this loan.
- Loan provided by ING Bank N.V. to MONETA Leasing s.r.o. in September 2017 in the amount of CZK 1,250 million. To secure this loan, MONETA Leasing s.r.o., pledged its loan receivables (in the value of 125% of financed amount).
- Loan provided by European Investment Bank in September 2017 in the residual amount as at 31 December 2017 of CZK 2,044 million to MONETA Money Bank, a.s. that will be used for financing of SME loans.

33. DUE TO CUSTOMERS

Breakdown of due to customers by sector:

CZK m	31 Dec 2017	31 Dec 2016
Financial organisations	7,445	3,210
Non-financial organisations	23,804	22,237
Insurance organisations	7,148	587
Government sector	4,506	3,966
Non-profit organisations	2,564	2,314
Entrepreneurs	11,642	10,550
Resident individuals	82,195	72,367
Non-residents	2,165	1,021
Total due to customers	**141,469**	**116,252**
Rate type:		
Fixed interest rate	15,905	4,205
Floating interest rate	125,064	111,363
Non-interest bearing	500	684
Total due to customers	**141,469**	**116,252**

Breakdown of due to customers according to the type is as follows:

CZK m	31 Dec 2017	31 Dec 2016
Deposits on demand	125,064	111,363
Savings accounts with notice period	211	249
Term deposits	6,249	3,956
Liabilities arising from repurchase agreements*	9,445	0
Other liabilities towards customers	500	684
Total due to customers	**141,469**	**116,252**

*Liabilities arising from repurchase agreements represent the obligation to repay the borrowing. Financial assets transferred under these agreements as collateral are disclosed in note 20.

34. PROVISIONS

CZK m	2017	2016
Provisions for undrawn loan commitments		
1 Jan	**47**	**49**
Additions to provisions	98	3
Use of provisions	0	0
Release of unused provisions	(107)	(5)
31 Dec	**38**	**47**
Provisions for legal claims		
1 Jan	**269**	**299**
Additions to provisions	1	3
Use of provisions*	(158)	(24)
Release of unused provisions	0	(9)
31 Dec	**112**	**269**
Other provisions		
1 Jan	**100**	**195**
Additions to provisions**	127	12
Use of provisions	(2)	(8)
Release of unused provisions	(11)	(99)
31 Dec	**214**	**100**
Total provisions	**364**	**416**

*The payment of the liquidation balance to Agrobanka shareholders was commenced in March 2017 and simultaneously provision recorded by the Bank for Agrobanka was used in the amount of CZK 143 million that equals the amount paid. (see note 39.2).
**Creation of provision for restructuring in the amount of CZK 102 million in 2017 (2016: CZK 0 million) discussed under the following table.

Provisions for undrawn loan commitments are created for irrevocable loan commitments (refer to note 39).

The provision created for Agrobanka Praha, a.s. v likvidaci settlement is included in the line "Provisions for legal claims". The balance as at 31 December 2017 of CZK 72 million (2016: CZK 220 million) should be used to complete the settlement.

The Group created other provisions for legal obligation of the Group associated with the retirement of the premises leased for operation, for the long-term employee benefit that entitles employees to receive award after specific year of service, for legal costs associated with claims of solicitors related to collection of the bad debts, and for onerous contracts resulting from rental contracts.

Other provisions CZK m	31 Dec 2017	31 Dec 2016
Provisions for assets retirement obligation	49	40
Provisions for restructuring*	102	0
Provisions for employee bonuses and awards	35	31
Provisions for collection services**	17	25
Other provisions	11	4
Total other provisions	**214**	**100**

*Provision for restructuring created in 2017 relates to restructuring of the Bank and related severance payment (CZK 9 million), restructuring of the branch network of the Bank (CZK 60 million) and restructuring of MONETA Leasing, s.r.o. and related severance payment (CZK 33 million).

**In December 2016 the Bank realized the debt sale of an aged written-off loan portfolio and released related provisions for legal costs associated with claims of solicitors in amount of CZK 52 million. Release of provision is shown in the line "Provisions for collection services" and profit or loss line "Administrative expenses".

35. OTHER LIABILITIES

CZK m	31 Dec 2017	31 Dec 2016
Trade payables	577	451
out of which payables to solicitors	118	204
Payables to employees	129	116
Payables for social and health insurance	65	61
Payables to the state	26	22
Accruals for uninvoiced services/goods	406	679
Accruals for employees bonuses*	266	285
Clearing account of payment settlement	569	733
Deferred income and accrued expenses	44	67
out of that rental services and cards services	20	37
Other liabilities**	72	56
Total other liabilities	**2,154**	**2,470**

*Accruals for employees bonuses as at 31 December 2017 includes bonuses to members of the Management Board under the EVIP policy at amount CZK 72 million (2016: CZK 0 million) described in the note 38, liability from Virtual share programme at amount of CZK 49 million (2016: CZK 20 million) described in the note 38 and other management, retention or sales bonuses.

**Other liabilities as at 31 December 2017 includes an unsolicited dividend for the year 2016 in the amount of CZK 17 million.

36. CONSOLIDATION GROUP

The Group's companies included in consolidation as at 31 December 2017, together with the ownership were as follows:

31 Dec 2017 CZK m					
Name	**Registered office**	**Business activity**	**Equity as at 31 Dec 2017**	**Bank's share in equity**	**Method of consolidation**
Inkasní Expresní Servis s.r.o.	Vyskočilova 1422/1a, 140 28 Prague 4	Debt recovery services	46	100%	Full
MONETA Auto, s.r.o.	Vyskočilova 1422/1a, 140 00 Prague 4	Auto financing (Loans and Leases)	1,900	100%	Full
MONETA Leasing Services, s.r.o.	Holandská 1006/10, Štýřice, 639 00 Brno	Lease and rental of movables	19	100%	Full
MONETA Leasing, s.r.o.	Holandská 1006/10, Štýřice, 639 00 Brno	Financing of loans and leasing	1,520	100%	Full
CBCB – Czech Banking Credit Bureau, a.s.***	Na Vítězné pláni 1719/4 140 00 Prague 4	Banking Credit Register	2	20%	Equity

31 Dec 2016

CZK m

Name	Registered office	Business activity	Equity as at 31 Dec 2016	Bank's share in equity	Method of consolidation
Inkasní Expresní Servis s.r.o.	Vyskočilova 1422/1a, 140 28 Prague 4	Debt recovery services	41	100%	Full
MONETA Auto, s.r.o.*	Vyskočilova 1422/1a, 140 00 Prague 4	Auto financing (Loans and Leases)	1,242	100%	Full
MONETA Leasing Services, s.r.o.	Holandská 1006/10, Štýřice, 639 00 Brno	Lease and rental of movables	11	100%	Full
MONETA Leasing, s.r.o.**	Holandská 1006/10, Štýřice, 639 00 Brno	Financing of loans and leases	2,688	100%	Full
CBCB – Czech Banking Credit Bureau, a.s.***	Na Vítězné pláni 1719/4 140 00 Prague 4	Banking Credit Register	2	20%	Equity

*The Bank as the sole member action in lieu of the General Meeting of MONETA Auto, s.r.o., adopted the following decisions in changes in the equity of MONETA Auto, s.r.o.:
- on 23 June 2016 to distribute retained earnings of CZK 2,964 million to the sole member
- on 11 August 2016 to decrease the share capital by CZK 3,227 million and return this amount to the sole member
- on 23 September 2016 to return in full the contribution to other capital funds of CZK 700 million to sole member

**The General Meeting of MONETA Leasing, s.r.o, approved on 23 June 2016 the distribution of retained earnings of CZK 600 million to the members of the company based on their share in equity.

***The Group holds its share in order to obtain information related to credit quality of current and protentional customers.

The companies in the Group were renamed as at 1 May 2016 as follows:
- GE Money Auto, s.r.o. was renamed to MONETA Auto, s.r.o.
- GE Money Leasing Services, s.r.o. was renamed to MONETA Leasing Services, s.r.o.
- GE Money Leasing, s.r.o. was renamed to MONETA Leasing, s.r.o.

37. EQUITY

37.1 SHARE CAPITAL AND SHARE PREMIUM OF THE GROUP

In order to establish the Bank, GE Capital International Holdings Corporation subscribed 500 shares of original capital with a nominal value of CZK 1 million per share and paid CZK 2,000 million for such shares.. No authorized shares are incorporated under the Czech law.

In 1998 the Bank issued 10 (ten) ordinary shares with a nominal value of CZK 1 million each and in 2015 an additional 1 (one) ordinary share with the same nominal value. The increase in registered capital was recorded in the Commercial Register on 25 March 2003 and on 23 November 2015, respectively.

All of the Bank's shares are freely transferable. The common shares carry a right to participate in the General Meeting of the Bank through voting rights (one vote per share) and the right to share in profits. As at 23 November 2015 the registered capital of the Bank was CZK 511 million which has been paid up and is presented as Share capital in the statement of financial position. On 11 April 2016, 511 ordinary registered book-entry shares in the Bank with a par value of CZK 1,000,000 each were split into 511,000,000 fully paid ordinary registered book-entry shares with a par value of CZK 1.00 each.

Since then, the Bank has not issued any ordinary shares. The Group did not acquire any own shares.

The latest available list of shareholders holding more than 1% of the shares is available in the investor relations section of the Bank's website at: https://investors.moneta.cz/shareholder-structure.

Overview of related parties holding shares of the Bank as at 31 December 2017:

Shareholder	Number of shares	Ownership in %
Tomáš Spurný, Chairman of the Management Board	74,426	0.015%

No other related person or other related party with a relationship to the Bank held any shares of the Bank as at 31 December 2017 or 31 December 2016.

37.2 STATUTORY RESERVE AND AVAILABLE FOR SALE RESERVE OF THE GROUP

Statutory reserve

Legal and statutory reserve at CZK 167 million as at 31 December 2015 decreased to CZK 102 million as at 31 December 2016 based on the resolution of the General meeting of MONETA Auto, s.r.o., held on 22 June 2016 when the sole member of MONETA Auto, s.r.o. changed the content of Articles of Association and removed the Article 13 "Reserve funds" and approved the transfer of Reserve funds of CZK 65 million from Legal and statutory reserve into the Retained earnings.

Legal and statutory reserve at CZK 102 million as at 31 December 2017 (2016: CZK 102 million) represents Legal and statutory reserve of MONETA Money Bank, a.s..

Available for sale reserve

CZK m	Bonds	Shares	Deferred Tax	Total
1 Jan 2017	**447**	**1**	**(85)**	**363**
(Gain) and losses in the period recognised in the income statement*	(343)	0	0	(343)
Gain and (losses) in the period recognises in AFS reserve**	(184)	8	99	(77)
31 Dec 2017	**(80)**	**9**	**14**	**(57)**

CZK m	Bonds	Shares	Deferred Tax	Total
1 Jan 2016	**477**	**118**	**(113)**	**482**
(Gain) and losses in the period recognised in the income statement*	0	(279)	0	(279)
Gain and (losses) in the period recognises in AFS reserve**	(30)	162	28	160
31 Dec 2016	**447**	**1**	**(85)**	**363**

*Represents net gain from sale of available for sale financial assets recognised in the profit or loss line "Net income from financial operations.
**Comprises revaluation of available for sale financial assets to fair values including revaluation of debt instruments until reclassification to held to maturity (see note 5.6.2.1).

38. BONUSES TIED TO THE EQUITY

Virtual Share Programme

The following table shows inputs used by determination of fair value of virtual shares under the Virtual Share Programme (as described in the accounting policy note 5.15):

in CZK	2017	2016
Weighted average fair value	**82.40**	**82.80**
Information how fair value was determined		
Valuation model	Black-Scholes	Black-Scholes
Share price	82.40	82.80
Expected volatility	12.75%	21.43%
Risk-free interest rate	0.58%	0.45%
Weighted average remaining life of options outstanding (in years)	0.33	1.33

The following table reconciles the number of virtual shares outstanding:

	Units in thousands	Weighted average share price in CZK
Outstanding at 1 Jan 2016	**0**	**0**
Granted	694	68.00
Exercised	3	77.87
Forfeited	60	76.82
Outstanding at 31 Dec 2016	**631**	**82.80**
Exercisable at 31 Dec 2016	**0**	**0**
Granted	0	0
Exercised	11	80.47
Forfeited	74	79.59
Outstanding at 31 Dec 2017	**546**	**82.40**
Exercisable at 31 Dec 2017	**0**	**0**

The table below reconciles outstanding liability resulting from cash-settled share-based payment under the Virtual Share Programme recognised within the line "Other liabilities":

CZK m	
Outstanding liability to employees at 1 Jan 2016	**0**
Total expense recognised in 2016	2
of which Personnel expenses recognised in 2016	20
of which Personnel expenses compensation from GECIHL	(18)
Outstanding liability to employees at 31 Dec 2016	**20**
Total expense recognised in 2017	2
of which Personnel expenses recognised in 2017	29
of which Personnel expenses compensation from GECIHL	(27)
Outstanding liability to employees at 31 Dec 2017	**49**

Outstanding receivable from GECIHL for Virtual Share Programme as of 31 December 2017 is CZK 45 million (31 December 2016: CZK 18 million). For further details about Virtual Shares Programme see note 5.15.

Executive Variable Incentive Plan ("EVIP")

In 2017, the Supervisory Board adopted remuneration policy relevant for the Management Board members for performance (fiscal) year 2017 and onward that is subject to the terms and conditions described in the Executive Variable Incentive Plan ("EVIP") policy. For more details about EVIP (esp. total benefits awarded and paid in 2017) see section 4.11 of the Annual report.

The total balance of accrual for EVIP disclosed in "Other liabilities" as at 31 December 2017 is CZK 72 million, thereof the amount of CZK 38 million relates to cash settled share based payment remuneration that will be paid in the following years in three cash instalments as defined in EVIP conditions regardless potential leave of the Management Board. This variable part is tied to the total shareholders return ("TSR"), hence the amount paid will vary according to changes in market price of the Bank´s shares and profit distributions of the Bank (dividend paid). For accruals as at 31 Dec 2017, TSR 1.093 was applied to variable part of EVIP bonuses and it was calculated as follows:

$$1.0 + \frac{(\text{MMB Share Price End} - \text{MMB Share Price Begin}) + \text{Dividend per Share}}{\text{MMB Share Price Begin}} = \text{MMB TSR}$$

MMB Share Price End (average market price of MMB shares during December 2017)	79.5
MMB Share Price Begin (average market price of MMB shares during January 2017)	81.68
Dividend per Share	9.8

For variable part actually paid in 2018 TSR 1.14 will be applied based on MMB Share Price End calculated from average market price of MMB shares during January 2018.

39. CONTINGENT LIABILITIES

39.1 LOAN COMMITMENTS AND ISSUED GUARANTEES

CZK m	31 Dec 2017	31 Dec 2016
Irrevocable loan commitment	20,109	15,843
Issued guarantees	853	1,029
Credit limits on issued guarantees*	807	483
Issued letter of credit	1	2
Total loan commitments and issued guarantees	**21,770**	**17,357**

*This line represents committed limits on guarantees that can be withdrawn by customers.

39.2 SIGNIFICANT LEGAL DISPUTES

The pending significant legal disputes include (i) the court action by ARC equity services a.s. (formerly Arca Services a.s., "ARC Services") against the Bank in connection with the 1998 acquisition of a part of banking business of Agrobanka Praha, a.s., currently Agrobanka Praha, a.s. v likvidaci ("Agrobanka"; the "Acquisition") and (ii) the administrative proceedings initiated by the Czech Trade Inspection Authority ("CTI") against MONETA Auto, s.r.o. ("MONETA Auto").

39.2.1 Litigation risks in respect of the 1998 acquisition of a part of banking business of Agrobanka

In connection with the court action by ARC Services, the Bank notes that it is subject to the risks set out below in connection with the Acquisition and the ongoing liquidation of Agrobanka which could have a material adverse effect on the reputation, business, results of operations and financial condition of the Bank and the value of its shares.

Following the completion of the Acquisition in 1998, certain Agrobanka shareholders and members of its supervisory board filed claims against the Bank and Agrobanka in the Czech courts, alleging that the Acquisition was not legal, valid and enforceable. If this had been found to have been the case at the time, the consequences could have been the unwinding of the Acquisition and the return by the Bank to Agrobanka of all assets and / or liabilities deemed to belong to Agrobanka or, alternatively, a payment by the Bank of their financial equivalent to Agrobanka. In 2010, the Bank and certain other entities affiliated with GE (the sole shareholder of the Bank at that time) reached a general settlement with Agrobanka and shareholders holding in aggregate more than 60 per cent of the shares in Agrobanka as a result of which: (i) the claims set out above against the Bank were withdrawn and terminated; and (ii) Agrobanka and its shareholders bound by the settlement waived any claims against the Bank in connection with the Acquisition (the "2010 Settlement"). In September 2014, the general meeting of Agrobanka approved the liquidation balance of Agrobanka in line with the 2010 Settlement by more than 96% majority of present Agrobanka shareholders.

Legal Challenges by Arca Group

In October 2016, ARC Services, a minority shareholder of Agrobanka not bound by the 2010 Settlement and to our best knowledge a member of Arca Group, filed action with the District Court for Prague 4 against the Bank, Agrobanka and Mr. Jiří Klumpar (the forced administrator of Agrobanka in 1998) challenging the legality, validity and enforceability of the Acquisition. The Bank understands that ARC Services acquired shares in Agrobanka only in the course of 2016, i.e., two years after the approval of the liquidation balance of Agrobanka by its shareholders.

As a result of an initial response by the Bank, the High Court in Prague decided that the subject matter jurisdiction to hear the case belongs to the Municipal Court in Prague and the case was moved to, and will be heard by, the Municipal Court in Prague. The Bank believes (as the Bank and Agrobanka also declared in their joint submission to the Municipal Court in Prague of October 2017) that the Acquisition is legal, valid and enforceable, ARC Services, as well as any Agrobanka shareholders, directors and members of the supervisory board, does not have standing to take legal action to claim otherwise, and the court action of ARC Services is baseless. Likewise, the Czech National Bank declared in its statement dated 11 August 2017 and published on its official webpage that it considers the Acquisition valid.

The Bank will vigorously contest the court action of ARC Services and any other claim made against it, any of its subsidiaries or any of its or their respective assets. In this respect, the Bank notes that the Municipal Court in Prague (as the trial court) and the High Court in Prague (as the appellate court) have already dismissed similar court action filed by another Agrobanka's shareholder.

In the remote event that the court action filed by ARC Services is upheld by court there would be considerable uncertainty as to what remedial action a court could decide to take and what effect such decision would have on the Bank. The Bank believes that an unwinding of the Acquisition and return to Agrobanka of all assets and / or liabilities deemed to belong to Agrobanka would be difficult to implement in practice given that almost 20 years have elapsed since the completion of the Acquisition and substantially all assets and liabilities that were originally acquired by the Bank from Agrobanka no longer exist.

In such remote event a court may, therefore, award a payment by the Bank of a financial equivalent of such assets and / or liabilities to Agrobanka instead. It is uncertain how a court would determine the appropriate amount of such financial equivalent and there is a high likelihood of additional litigations to establish such amount.

In September 2016, ARC Services filed a criminal complaint, in which it asserted, inter alia, that the signatories to the 2010 Settlement and related transactions within Agrobanka's liquidation, including Agrobanka's liquidator and corporate bodies and representatives of two GE entities and the Bank, may allegedly have committed, by entering into the 2010 Settlement, certain criminal offences under Czech law, namely bribery and breaching of fiduciary duties when administering third party's assets. The Bank rejected and denied all such allegations as the 2010 Settlement and the process of Agrobanka's liquidation are in full compliance with law. Although Czech law recognizes, in addition to the criminal liability of individuals, the criminal liability of legal entities, the Bank rules out that this applies to it in this case.

Potential risk of Agrobanka insolvency

Agrobanka has historically been at risk of insolvency. In such, albeit unlikely, case, Agrobanka bankruptcy trustee could treat the Acquisition as not being legal, valid and enforceable and attempt to treat any assets of the Bank that it deems to belong to Agrobanka as part of the bankruptcy estate, seek to assume control over such assets and challenge the Acquisition. Alternatively, a bankruptcy trustee could make a claim against the Bank to pay a financial equivalent of such assets.

Given that almost 20 years have elapsed since the completion of the Acquisition, the Bank believes that it would be difficult for a bankruptcy trustee to determine which assets of the Bank could be treated as part of Agrobanka's bankruptcy estate and assume control over any assets of the Bank, and the Bank would vigorously contest any attempts by a bankruptcy trustee to treat any assets of the Bank as part of Agrobanka's bankruptcy estate.

The risk of Agrobanka's insolvency has been significantly lessened by the 2010 Settlement and an agreement between the Bank and Agrobanka on the funding by the Bank of a portion of Agrobanka's ongoing liquidation costs. However, in an unlikely event of Agrobanka's insolvency, there is a residual risk that Agrobanka's bankruptcy trustee would violate the 2010 Settlement and attempt to challenge the Acquisition and assume control over any assets deemed to belong to Agrobanka, or make a claim against the Bank to pay a financial equivalent of the assets deemed to belong to Agrobanka. Nevertheless, the Bank believes that any bankruptcy trustee of Agrobanka would be bound by the 2010 Settlement and hence prohibited from challenging the legality, validity and enforceability of the Acquisition.

Agrobanka's insolvency may potentially arise from: (i) unforeseen tax liabilities of Agrobanka being determined by Czech tax authorities; and (ii) challenge to the liquidation balance of Agrobanka. To that end we note that the liquidation balance of Agrobanka was approved by the general meeting of Agrobanka in September 2014 by more than 96% majority of present Agrobanka shareholders and, as far as the Bank is aware, Agrobanka is not insolvent as of the date hereof.

Other potential risks

Furthermore, there is a risk that also other Agrobanka shareholders not bound by the 2010 Settlement may attempt to challenge the Acquisition and, even though the 2010 Settlement documents provide that neither Agrobanka nor shareholders bound by the 2010 Settlement may challenge the legality, validity and enforceability of the Acquisition, there is also no guarantee that the 2010 Settlement parties will not do so in breach of the terms and conditions of the 2010 Settlement. No such claims have been notified to the Bank until date of this report.

Finally, negative developments in relation to Agrobanka, may generate negative publicity which may, in turn, have a material adverse effect on the reputation, business, results of operations, financial condition and / or prospects of the Bank and the value of its shares. The Bank follows thoroughly any such negative publicity and carefully react to any attempts to harm its business, good reputation and prospects.

Current status of Agrobanka liquidation

Agrobanka is in the final phase of its liquidation, its shares were cancelled in 2016 and the process of the payment of the liquidation balance to Agrobanka shareholders was commenced in March 2017. Simultaneously, provision recorded by the Bank for Agrobanka was released in the amount of CZK 143 million that equals the amount to be paid. To date, a vast majority of Agrobanka shareholders have received their respective payments.

In this connection, we note that, under the applicable corporate law, it is possible to revive even an entity which was fully liquidated and ceased to legally exist in case any unknown assets are discovered. The Bank believes that the risks associated with renewal of the liquidation of Agrobanka after its deregistration will lessen over time.

39.2.2 Administrative proceedings initiated by CTI against MONETA Auto

In August 2015, the CTI issued a decision imposing a fine of CZK 5 million on MONETA Auto for alleged breach of Czech consumer credit law by MONETA Auto. According to the CTI, consumer credit agreements entered into from 2011 to 2014 between MONETA Auto and its consumer clients and related credit documents did not include correct information regarding the annual percentage rate of the loan ("APR") and the total amount repayable by the consumer to MONETA Auto in connection with the loan agreement.

MONETA Auto lodged an appeal against this decision with the General Director of the CTI. In July 2016, the General Director of the CTI decreased the amount of fine to CZK 4 million and affirmed the opinion of the CTI. MONETA Auto believes that the relevant consumer credit agreements concluded by MONETA Auto from 2011 to 2014 are in compliance with Czech consumer credit law and filed a court action against the decision of the General Director of the CTI in August 2016. In August 2017, the court dismissed the action of MONETA Auto and, consequently, MONETA Auto filed an appeal against this court decision with the Czech Supreme Administrative Court. The proceedings before the Czech Supreme Administrative court are ongoing.

Consumers which are parties to the relevant consumer credit agreements concluded by MONETA Auto from 2011 to 2014 may attempt to bring legal proceedings in light of the CTI decision alleging that (i) they are not liable to pay to MONETA Auto the interest rate and other fees agreed in the relevant consumer credit agreements and (ii) they are liable to pay only a discount rate published by the CNB and that MONETA Auto may be required to return to customers an amount of already paid interest and fees insofar as those interest and fees exceeded the CNB's discount rate.

The CTI initiated several additional administrative proceedings and reviews of MONETA Auto's compliance with Czech consumer credit law. As a result, the CTI imposed on MONETA Auto, (i) in October 2015, a fine of CZK 100,000, decreased by the General Director of the CTI to CZK 80,000, (ii) in April 2017, a fine of CZK 900,000, and (iii) in August 2017, a fine of CZK 800,000 for an alleged breach of Czech consumer credit law. MONETA Auto believes that it complied with all legal requirements and has challenged the above decisions of the CTI in administrative proceedings and, where relevant, before courts. None of the above matters has been finally resolved.

Consumers which were parties to the relevant consumer credit agreements may attempt to bring legal proceedings in light of the CTI decisions alleging that (i) the relevant consumer agreements are not valid and enforceable and (ii) that they are not liable to pay to MONETA Auto the interest rate and other fees agreed in the relevant consumer credit agreements and they are liable to only return the principal amount of the loan (or only a discount rate published by the CNB) and MONETA Auto may be required to return to customers an amount of already paid interest and fees.

39.2.3 Legal Challenges of General Meeting Resolutions by Arca Group

On 16 January 2018, Arca Capital Bohemia, a.s., a minority shareholder of the Bank and to our best knowledge a member of Arca Group, filed with the Municipal Court in Prague action against the Bank challenging the validity of the resolutions adopted by the General Meeting of the Bank held on 26 October 2017 concerning approval of the internal regulation on remuneration of the Supervisory Board and Audit Committee members and respective template service contracts. The Bank believes that the concerned General Meeting resolutions are valid and were adopted in compliance with applicable law, the Articles of Association of the Bank and good morals, and that the court action is baseless.

40. LEASING

Operating lease – the Group as a Lessee

The Group leases mainly office or branch property and vehicles. Property leases are both for indefinite and definite period (usually 5 years). Vehicles are leased at maximum for 5 years.

Following table summarizes non-cancellable operating lease commitments not disclosed in the financial statements:

Non-cancellable operating lease commitments

CZK m	31 Dec 2017	31 Dec 2016
No later than one year	252	318
Later than one year but not later than five years	659	503
Later than five years	542	9
Total minimum lease payments	**1,453**	**830**

Expense resulting from non-cancellable operating leases recognised in profit or loss:

CZK m	2017	2016
Lease payments expensed within the period	334	346
Less received sub-lease payments	0	(1)
Total administrative expenses for period	**334**	**345**

Sub-lease payments in 2016 represent rent charge to companies affiliated to General Electric Company.

Finance lease – the Group as a Lessee
The Bank leases various banking equipment such as bill counters with a lease term of 5 years. Such leases are classified as finance leases on inception. The lessor is the legal owner of the leased asset during the lease term according to Czech law, and after the end of the lease term legal ownership is transferred to the Bank.

Minimum Lease Payments – Finance lease

CZK m	31 Dec 2017	31 Dec 2016
No later than one year	1	7
Later than one year but not later than five years	3	1
Total minimum lease payments	**4**	**8**
Total outstanding liability	**4**	**8**

Finance lease – the Group as a Lessor
Minimum Lease Payments – Finance lease

CZK m	31 Dec 2017	31 Dec 2016
No later than one year	2,325	2,817
Later than one year but not later than five years	2,932	4,234
Later than five years	27	45
Total minimum lease payments	**5,284**	**7,096**
Less unearned income	(104)	(370)
Present value of lease receivable	**5,180**	**6,726**
Less allowances	(124)	(93)
Carrying value of lease receivable	**5,056**	**6,633**

The carrying value of lease receivable is presented under Loans and receivables to customers in the consolidated statement of financial position.

The Group mainly leases machinery, vehicles and equipment to SMEs or entrepreneurs with typical lease term between 3 and 6 years.

Operating lease – The Group as a Lessor
Operating leases are provided by the Group to commercial customers. The carrying value of leased assets is shown in note 28.

Minimum Lease Payments – Operating lease

CZK m	31 Dec 2017	31 Dec 2016
No later than one year	50	50
Later than one year but not later than five years	77	103
Later than five years	0	0
Total minimum lease payments	**127**	**153**

41. TRANSACTIONS WITH RELATED PARTIES

The Group's related parties include the parent, associates, key management personnel, and close family members of key management personnel.

Following the strategy announced by GE in April 2015 to sell most of its financial services businesses and focus on its industrial businesses, the sole shareholder of the Bank GECIHL offered 51% of the common shares of the Bank (the "Offering") to institutional investors via the admission of all common shares to trading on the Prime Market of Prague Stock Exchange (the "Listing"). The Offering was completed and settled on 10 May 2016. Conditional trading in the shares commenced on 6 May 2016 and official trading in shares commenced on 10 May 2016. In addition, the Offering incorporated an overallotment option to the benefit of underwriters exercisable within 30 days starting on the first day of conditional trading in the shares of up to 7.65% of the shares to cover overallotments or short positions incurred in connection with the Offering, if any. The underwriters exercised the overallotment option with respect to 6.5% of the common shares of the Bank.

On 29 September 2016, GE announced that it had sold 125.0 million shares in the Bank equal to approximately 24.5% of the Bank's share capital. Following the completion of this equity offering, GE had a remaining ownership interest of approximately 18%.

In November 2016, GE announced that it had sold remaining 92.2 million shares in the Bank equal to approximately 18% of the Bank's share capital.

Transactions provided by the Group to the related parties represent bank services (esp. loans and interest bearing deposits), expenses from transactions with related parties comprise remunerations to members of Supervisory Board, Management Board and other Key Executive Managers. The transactions provided to the Group by the former shareholder were mainly related to the use of trademark, collection and administrative services. The former ultimate parent irrevocably and unconditionally guaranteed the due and punctual payments due to the landlord under the terms and conditions of lease agreement of the Bank's headquarter buildings. The unconditional guarantee was terminated in January 2017.

Transactions with related parties are carried out in the normal course of business operations and conducted under normal market conditions. The balances at year end are unsecured. The Group did not create any provisions for doubtful receivables to related parties as at 31 December 2017 and as at 31 December 2016.

The following transactions were undertaken between related parties in 2017:

CZK m	Key members of the management*	Former majority shareholder	Other related parties	Total
Loans and receivables to customers	17	0	0	17
Due to customers	24	0	0	24
Operating expenses	(115)	0	0	(115)

The following transactions were undertaken between related parties in 2016:

CZK m	Key members of the management*	Former majority shareholder**	Other related parties**	Total
Loans and receivables to customers	2	0	0	2
Due to customers	13	0	0	13
Operating expenses	(165)	55	(225)	(335)
Other operating income	0	0	8	8

*Includes members of Supervisory Board, Management Board and other Key Executive Managers.
**Due to the announcement made by GE in September 2016 to sell shares and reduce the share on capital below 20% only the overview of expenses or income is included in the overview for 2016. Receivables and liabilities as of 31 Dec 2016 are not included because GE was not related party as of 31 December 2016.

The line "Operating expenses" from key members of the management includes wages, compensation and benefits that were paid or accrued during the year to members of the Management Board, Supervisory Board and other Key Executive Managers.

41.1 REMUNERATION TO MEMBERS OF SUPERVISORY BOARD, MANAGEMENT BOARD AND OTHER KEY EXECUTIVE MANAGERS

The following remuneration were paid or accrued to the key members of the management during the year:

CZK m	2017	2016
Short-term employee benefits, there of:	**87**	**98**
Members of the Management Board and other Key Executive Managers	76	91
Members of the Supervisory Board	11	7
Other long-term employee benefits, there of:	**43**	**75**
Members of the Management Board and other Key Executive Managers	43	75
Pay-outs from stock option plans	**5**	**8**
Members of the Management Board and other Key Executive Managers	5	8
Total remuneration	**135**	**181**

This table shows wages, compensation, benefits and payments relating to retention programmes that were paid or accrued during the year to members of the Management Board, Supervisory Board and other Key Executive Managers. It also includes long-term benefits paid during the year that were granted in previous years.

42. SEGMENT REPORTING

The segment reporting is prepared in accordance with IFRS 8 Operating segments.

Operating segments are reported in a manner consistent with reporting to the Management Board and other Key Executive Managers, which are responsible for allocating resources and assessing performance of operating segments.

The Group´s operating segments are following: Commercial, Retail, Other/Treasury.

Commercial segment consists of deposits, investment loans, revolving products, financing of real estate, finance leases and other services related to transactions with small and medium entrepreneurs, corporate clients, financial institutions, public sector institutions. Services are provided through the branch network , online channels or external sales channels.

Retail segment focuses on deposits, loans, revolving products, credit cards, mortgages, finance leases and other transactions with retail customers. Retail customers are comprised of private individuals, the Group´s employees and employees of Group´s partners. This segment provides services to citizens through branch network, online channels and external sales channels.

Other/Treasury segment provides primarily the treasury function. The focus of this segment is on foreign exchange transactions, interest rate swaps, investment in debt securities, equity investments, other non-interest bearing assets and other operations that cannot be associated with above mentioned segments.

The Group has no client or economic group for which the proceeds of realized transactions exceeded 10% of the income of the Group. Segment reported revenues, below, represent only revenues realized with external customers.

Cross-funding among operating segments is not material, because most of the liabilities are represented by customers' current accounts which bear no interest or only 0.1% p.a.

The Group's income is generated within the territory of the Czech Republic and there are no intersegment revenues.

CZK m	Commercial	Retail	Other/Treasury	Total
2017				
Interest and similar income	2,077	5,337	168	7,582
Interest expense and similar charges	(40)	(157)	(21)	(218)
Net fee and commission income	516	1,393	24	1,933
Dividend income	0	0	0	0
Net income from financial operations	0	0	709	709
Other operating income	107	222	0	329
Total operating income	**2,660**	**6,795**	**880**	**10,335**
Net impairment of loans and receivables	(128)	(253)	0	(381)
Risk adjusted operating income	**2,532**	**6,542**	**880**	**9,954**
Total operating expenses				**(4,947)**
Goodwill Impairment				**(104)**
Profit for the year before tax				**4,903**
Taxes on income				(980)
Profit for the year after tax				**3,923**
Total assets of the segment	**66,010**	**66,233**	**67,491**	**199,734**
Net value of loans and receivables to customers	**61,696**	**61,984**	**0**	**123,680**
Total liabilities of the segment	**51,654**	**84,571**	**37,746**	**173,971**

CZK m	Commercial	Retail	Other/Treasury	Total
2016				
Interest and similar income	2,236	6,160	98	8,494
Interest expense and similar charges	(45)	(144)	0	(189)
Net fee and commission income	537	1,416	8	1,961
Dividend income	0	0	26	26
Net income from financial operations	0	0	598	598
Other operating income	60	108	0	168
Total operating income	**2,788**	**7,540**	**730**	**11,058**
Net impairment of loans and receivables	(196)	(833)	0	(1,029)
Risk adjusted operating income	**2,592**	**6,707**	**730**	**10,029**
Total operating expenses	**0**	**0**	**0**	**(4,982)**
Goodwill Impairment				**0**
Profit for the year before tax				**5,047**
Taxes on income				(993)
Profit for the year after tax				4,054
Total assets of the segment	**61,179**	**58,032**	**30,168**	**149,379**
Net value of loans and receivables to customers	**57,251**	**54,609**	**0**	**111,860**
Total liabilities of the segment	**45,604**	**75,021**	**1,486**	**122,111**

43. RISK MANAGEMENT

The Group aims to achieve competitive returns at an acceptable risk level as part of its business activities. Risk management covers the control of risks associated with all business activities in the environment in which the Group operates and ensures that the risks taken are in compliance with regulatory limits, as well as falling within its risk appetite.

When managing risks, the Group relies on three pillars:
- people (the qualifications and experience of its employees),
- risk governance (including well defined information flows, processes and responsibilities), and
- risk data (including the use of sophisticated analytical instruments and technologies).

This combination has supported the Group's success and the stability of its economic results.

The Group's risk management processes are underpinned by advanced analytics, based on an enterprise-wide data warehouse and centralised underwriting process. This allows the Group to price on a risk basis, according to its in-house scoring and rating models.

The level of risk is measured in terms of its impact on the value of assets and/or capital and the profitability of the Group. To determine this, the Group evaluates potential effects of changes in political, economic, market and operational conditions and changes to clients' creditworthiness on its business.

The Bank provides centralised risk management for the Group wherever possible and practical. It does this primarily through outsourcing or by providing methodology guidance to other Group members.

43.1 RISK MANAGEMENT ORGANISATIONAL STRUCTURE

The Bank's key committees for risk management of the Group, as established by the Bank's Management Board are:
- the Enterprise Risk Management Committee (ERMC) for the risk management framework, internal control system and internal capital adequacy assessment process;
- the Credit Committee (CRCO) for credit risk management;
- the Asset & Liability Committee (ALCO) for asset and liability management, market risk and liquidity risk management;
- the Capital Committee (CAPCO) for capital management (the Bank's Management Board decided in December 2017 to cancel CAPCO and its agenda split between ALCO and ERMC); and
- the Compliance & Anti-Fraud Committee for compliance, operational managing of internal controls and anti-fraud management.

The members of these committees include the members of the Bank's Management Board and other senior managers of the Bank. The committees are responsible for, inter alia:
- Approval of the relevant risk management framework including the basic methods, limits, scenario assumptions and any other parameters used in the risk management process;
- Monitoring the development of relevant risks, including the observance of limits, approval of

remedial measures in the case of exceeded limits or unfavourable development trends; and
- Monitoring the adequacy, reliability and efficiency of internal regulations, processes and limits for risk management in the area of their responsibility.

Other Bank's committees that are established by the Bank's Chief Risk Officer (CRO) and who manage individual risks include the following:
- The Credit Monitoring and Management Committee (CMMC) monitors and manages the credit risk of the Bank's commercial credit portfolio not in work-out process. Members of the committee are employees of the Risk Division and the Commercial Banking Division. The CMMC reports to the CRCO.
- The Problem Loan Committee (PLC) monitors and manages the credit risk of the Bank's commercial credit portfolio in the work-out process for commercial individually managed loans and its members are employees of the Risk Division and the Legal Division. The PLC reports to the CRCO.
- The New Product Introduction Council (NPIC) coordinates development and implementation of new or material changes of current products. Its members are employees of relevant Bank's divisions. The NPIC reports to the ERMC.
- The Model Risk Oversight Committee (MROC) monitors the model risk. Its members are employees of the Risk Division and the Finance Division. The MROC reports to the ERMC.

The Bank's Risk Division is responsible for risk management on an individual and a consolidated basis. The Risk Division is headed by the CRO, who is also a member of the Bank's Management Board. The Risk Division primarily:
- Monitors, measures and reports credit, market, model, operational and liquidity risks and proposes remedial measures in the case of limits being exceeded or unfavourable trends;
- Sets terms and conditions for granting loans and lines of credits including their subsequent approval;
- Assesses the adequacy of collateral given by borrowers to the Bank as security for extending loans and lines of credit;
- Manages the loan portfolio;
- Executes controls in the area of credit deals;
- Ensures methodology support and control functions in the area of information security;
- Administers the data infrastructure and analytical systems supporting risk management;
- Ensures the model risk management;
- Maintains and develops models for credit, risk management, collections, provisioning, management of operational risks and capital allocation;
- Monitors indicators of fraudulent operations in the credit portfolio and is involved in the prevention of credit frauds; and
- Collects amounts due from borrowers.

The particular departments of the Risk Division are responsible mainly for the following:
- The Commercial Portfolio Management & Underwriting department: commercial credit risk (products' conditions, underwriting, monitoring, reporting, quality assurance and controls);
- The Consumer Risk department: consumer credit risk (products' conditions, underwriting, monitoring, reporting, quality assurance and controls);
- The Collateral Management department: collateral management (methodology, valuation);
- The Risk Infrastructure department: risk IT infrastructure (information systems, applications and data structures for credit risk management purposes);
- The Planning, Reserving & Models department: credit and provisioning model development;
- The Collections & Recovery department: collections (including commercial early work-out process);
- The Enterprise Risk Management (ERM) department: market, liquidity, model governance and operational risk methodology, measuring, monitoring and reporting, credit risk measurement, regulatory and internal capital requirement methodology and calculation; and
- The IT Security department: information security management.

The Group's business activities involve the provision of: deposit accounts, loans and lines of credit to retail customers; and providing funding to entrepreneurs, as well as SME businesses in the Czech Republic (see note 1). The Group takes steps to avoid risks that are not associated with its main lines of business and to minimise all other risks. The principal objectives in the management of risks and tolerance of individual types of risks are defined in the Risk Appetite Statement document approved by the Bank's Management Board.

43.2 CAPITAL MANAGEMENT

The framework used for capital management involves monitoring and complying with the capital adequacy limit in accordance with the Basel III rules codified in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended. Furthermore, from local perspective, the regulatory framework is given by Banking Act No. 21/1992 Coll., as amended, and CNB Decree No. 163/2014 Coll., as amended.

On a consolidated basis, the Bank manages its capital in order to meet the regulatory capital adequacy requirements prescribed in Basel III and allow the Group to continue its operations on a going concern basis while maximising the return to shareholders through the optimisation of the debt and equity balance.

The minimum regulatory capital requirement (Pillar I) is equal to 8% of risk weighted assets. In 2017, the Bank was obliged to maintain a mandatory capital conservation buffer of 2.5% and countercyclical capital buffer of 0.5% that were applied for the whole Czech market. Therefore, the overall Pillar I capital requirement on an individual and a consolidated basis was 11%.

Under Pillar II (or also the Internal Capital Adequacy Assessment Process, hereinafter "ICAAP"), pursuant to the assessment of the Bank's report on the internal capital adequacy assessment process submitted in 2014, the Czech National Bank informed the Bank (in November 2014) that it expects that the Bank will meet the capital requirement, on a consolidated basis, by achieving Tier 1 Capital Ratio 14% from 2014. The Bank accepted the regulator's expectation and decided to maintain as a target a capital adequacy ratio at 15.5%.

Pursuant to the assessment of the Bank's report on the internal capital adequacy assessment process submitted in 2017, the Czech National Bank informed the Bank (in November 2017) about a new additional Pillar II capital requirement of 3% applicable from 1 January 2018 (i.e., the final required capital adequacy ratio remains 14%).

In accordance with applicable regulations, the Bank manages capital on a consolidated basis both above the level of the regulatory capital requirement (Pillar I) and the internal capital requirement (Pillar II or also the Internal Capital Adequacy Assessment Process).

- In order to calculate the regulatory capital requirement for credit risk, both on an individual and a consolidated basis, the Bank uses the standardised approach. To calculate the capital requirement for operational risk, the Bank uses the alternative standardised approach on an individual basis. However, the Czech National Bank has prescribed that the capital requirement for operational risk on an individual basis shall not fall below 75% of the capital requirement for operational risk per the standardized approach. The standardized approached is used to calculate the capital requirement for operational risk on a consolidated basis for the rest of the consolidated Group.
- In order to calculate the internal capital requirement, the Bank applied methods similar to advanced approaches according to regulatory Pillar I both on an individual and a consolidated basis.

The Group's capital on a consolidated basis primarily consists of share capital, share premium and unallocated profit from prior years that is the highest quality Common Equity Tier 1 capital.

From 31 December 2016 the Group included available for sale reserve into the Group's capital. The Bank paid a dividend in the amount of CZK 19.7 billion in 2015. On 13 April 2016 the Bank paid a pre-listing dividend of CZK 4,506 million (including withholding tax) to GE Capital International Holdings Limited. The size of the dividend paid in 2016 equalled the net income of the Group for 2015; hence the dividend changed neither the regulatory capital nor the CET1 Capital Ratio of the Group. The dividend of CZK 5,008 million (including withholding tax) paid in 2017 exceeded the net income of the Group for 2016.

The Bank met all regulatory requirements regarding capital adequacy on an individual and a consolidated basis in 2015, 2016 and 2017 even after the payment of the dividends in 2015, 2016 and 2017.

Regulatory capital and its components:

CZK m	31 Dec 2017	31 Dec 2016
Common Equity Tier 1 capital CET1		
Subscribed share capital	511	511
Share premium	5,028	5,028
Statutory reserve and Retained earnings excl. profit for the year	16,360	17,314
Available for sale reserve	(57)	363
Items deductible from Tier 1 capital	(1,189)	(796)
Regulatory Capital	**20,653**	**22,420**
Total Risk Exposure (Total Risk Weighted Assets)	**118,547**	**109,301**
Regulatory capital adequacy requirement	14.0%	14.0%
Capital requirement	16,597	15,302
Capital adequacy ratio	17.4%	20.5%

43.2.1 Internal Capital Requirement on a One-year Horizon

The internal capital requirement represents the stock of capital which is needed to cover unexpected losses in the following 12 months at the chosen confidence level.

To determine the internal capital requirement on an individual and a consolidated basis, the Bank currently uses the internal ECAP model. This model covers all regular risks that are material for the Group and for which the Group has decided to hold capital to cover:

- Credit risk including concentration risk;
- Interest rate risk in the banking book;
- Operational risk; and
- Business risk: the risk that the Group does not achieve the planned profit level due to the volatility in business volumes.

The ECAP model is calibrated and relevant risks are quantified on at least 99.95% confidence interval corresponding to a AA credit rating.

Other risks not covered by the ECAP model that are material to the Group in the following planning period are identified through workshops with members of the Bank's Management Board and selected senior managers organised every year. The list of key identified risks, relevant stress scenarios and the ICAAP report resulting from this process are discussed and approved by the ERMC. Identified risks are subject to monitoring via quarterly reviews presented at the ERMC with possibility to add new risks operatively.

Capital sources to cover the internal capital requirement are the same as the capital sources to cover the regulatory capital requirement.

43.2.2 Three-Year Capital Outlook and stress testing

In addition to the assessment of the internal capital requirement, the Bank annually prepares a three-year capital outlook on an individual and a consolidated basis, which includes the anticipated development according to the base case scenario of the economic environment and at least one downside scenario. The capital outlook includes the outlook of the regulatory capital requirement, outlook of the internal capital requirement, outlook of capital sources and outlook of economic results. The main stress scenario assumes the worsening of the most significant risk factors that may occur once in a 25-year period, the other stress scenarios cover the most significant identified strategic and other risks. This outlook is reported to the Czech National Bank on a yearly basis as a part of the ICAAP report.

In 2017, the capital outlook together with stress testing results confirmed that the Bank and the Group are capable to keep Capital Adequacy Ratio safely above 15.5% even under the circumstances of unexpected adverse macroeconomic developments.

43.2.3 Recovery Plan

Given the regulatory requirements, the Bank also prepares a recovery plan. The recovery plan includes three stress scenarios provided by regulation (idiosyncratic event, system-wide event and a combination of the two) with a proposal of relevant measures to ensure it is possible to respond to the developing situation in a timely and proper manner as and when needed.

43.3 CREDIT RISK

Credit risk is the risk of loss for a party resulting from the failure of a counterparty to meet its obligations arising from the terms and conditions of the contract under which the party became the creditor of this counterparty. The Group is exposed to credit risk in particular in the case of credits granted, non-approved debits, guarantees provided, letters of credit issued, and interbank deals.

43.3.1 Credit Risk Management

Credit risk management is organised along the following approval processes:

Individually managed exposures represent exposures to entrepreneurs and SMEs where loans and lines of credit are approved based on an individual assessment of the borrower's creditworthiness in connection with the loan size.

Portfolio managed exposures include exposures to natural persons, natural persons acting as entrepreneurs, and SMEs where loans and lines of credit are approved using an automated credit scoring process. Mortgages have a specific position as mortgages form a part of the retail exposures (usually portfolio managed) but a number of the processes and methods used fall within the category of individually managed exposures.

The exposures to counterparties on the financial market include the exposures to financial institutions and governments. These exposures primarily arise as a part of liquidity management and market risks management. Transactions on financial markets are performed only by the Bank; other companies in the Group have only receivables to banks in respect of current account balances. The credit risk of these exposures is managed through limits to countries and counterparties approved based on external ratings.

Individually managed exposures

a) Internal Rating

The Group uses an internal statistical rating model, which uses the most recent available qualitative and quantitative information to estimate the probability that a commercial borrower will default in the following 12 months. The rating calculation is based on an assessment of ratios of two types. The ratios of first type (financial) are derived from financial statements and reflect the financial strength of a borrower. The ratios of second type (non-financial) are used to assess the borrower based on qualitative information, which reflects non-financial attributes of the borrower's business. The financial ratios are more significant. The rating model assigns an "obligor rating" (OR) grade from zero to twenty-one to borrowers that are not in default. Borrowers in default are given the internal rating grade twenty-two (OR22 or ORD). The 23 ORs and their associated probabilities of default are:

a) OR0 to 5: 0% to 0.07%
b) OR6 to 10: 0.08% to 0.39%
c) OR11 to 15: 0.59% to 3.03%
d) OR16 to 21: 4.55% to 35.00%
e) ORD: 100%

The predictive power of the rating model is reviewed periodically and significant changes in the model, if any, are approved by the ERMC.

b) Approval Process

The approval process is based on an individual evaluation of a borrower. The approval process of the products of the Bank and MONETA Auto is executed at the Bank with approval required from CRCO or two authorised persons – one in the sales department and one in the Risk Division. Approval authorities are set on an individual basis and are determined by combining the level of exposure, the borrower's internal rating, maturity, product and collateral.

The approval process of the products of MONETA Leasing is executed at MONETA Leasing's level on the basis of the delegation of approval authorities up to a certain level; exposures above that level follow the approval process of the Bank.

As part of the approval process, the Group assesses the financial situation of the prospective borrower, the persons economically related to the borrower and the collateral being offered using internal and external data sources, including credit registers.

The Bank has implemented its own IT solution supporting the process of SME credit approval and administration facilitating the preparation of credit applications, the linking of them with data warehouses, document storage and the subsequent production of contract documentation. The system enables access to financial analysis tools including internal ratings.

c) Monitoring

All SME clients are monitored both individually and on a portfolio basis. Individual monitoring and any potential remedial measures concerning the Bank's clients are dealt with by the CMMC, which also decides on categorisation changes (see note 43.3.2). MONETA Leasing's clients are monitored individually and potential remedial measures are discussed within MONETA Leasing on a monthly basis at meetings attended by the heads of risk management, financial management and collection and statutory executives of the MONETA Leasing.

Certain contractual conditions of MONETA Auto's borrowers with individually managed exposures are monitored at least weekly via standardized reports.

Reports on the quality of the commercial portfolio across the Group are discussed by the CRCO each month. And, if necessary, or if required by the CRCO or CRO, the CRCO will also review individual loan exposures.

Individually managed exposures above a certain threshold are also subject to at least a yearly credit review, which follows the approval process similar to new exposures.

d) Recovery of Debtors' Receivables

In order to achieve maximum recovery, the Collections & Recovery department of the Risk Division manages the Bank's loans where recoverability of the exposure is not reasonably assured. The department engages affected borrowers with a view to recovering the Bank's exposure. This may involve taking legal action against the borrower, restructuring the loans, taking relevant legal steps to realise collateral, debt sale or representing the Bank in insolvency proceedings.

MONETA Leasing and MONETA Auto use the assistance of external agencies in collecting their receivables from debtors.

Portfolio managed exposures

a) Scoring Instruments

When approving portfolio managed exposure, internal scoring models are used. These statistical models classify individual borrowers into categories of homogeneous exposures using socio-demographic and behavioural data. The development of these scoring models and monitoring of their predictive power is carried out by the Planning, Reserving & Models department of the Risk Division. The calculated score for the commercial portfolio managed exposures is, similarly to individually managed exposures, mapped to the OR scale. The calculated score for retail portfolio managed exposures is grouped into five "credit rating" (CR) grades with associated probabilities of default in the following 12 months as outlined below:

a) CR1: 1.3% and lower
b) CR2: 1.3% to 3.2%
c) CR3: 3.2% to 7.7%
d) CR4: 7.7% to 15.8%
e) CR5: 15.8% and greater.

For reporting of the overall portfolio quality, the commercial OR grades are mapped to the above mentioned five CR grades. In order to ensure methodological and factual accuracy, models are monitored on a regular basis.

b) Approval Process

The approval process is based on the use of internally-developed scoring models and access to external data sources (in particular credit registers). Approval strategies are set by the Risk Division for the products of the Bank and MONETA Auto.

Risk Division underwriters may approve individual exposures that do not pass the automatic approval process. For auto financing products, the automated approval process is almost always supplemented with individual assessment.

Mortgages are approved based on an individual assessment of the prospective borrower supported by an input from internally-developed scoring models with approval required from an authorized underwriter from the Risk Division.

MONETA Leasing's portfolio managed exposures are approved only based on individual assessments supported by an input from internally-developed scoring models.

c) Monitoring

The Risk Division regularly monitors segments of the portfolio managed exposures, which are reported to the CRCO.

d) Collection

The Collections & Recovery department of the Risk Division is in charge of the recovery process for the Bank's loans. The Bank has a comprehensive collection process which includes an automated collection system. The Bank optimizes its overall recovery capacity and performance by using external capacities (collection agencies) as well as debt sales of non-performing receivables.

MONETA Auto and MONETA Leasing use the assistance of external agencies in collecting their receivables to debtors.

Counterparties in the Financial Market

a) External Rating

The main tool for measuring the credit risk of countries and counterparties (financial institutions and governments) with respect to transactions in financial markets is the rating set by international rating agencies: Standard & Poor's, Moody's, and Fitch. The Bank sets individual limits for individual countries and counterparties, for which it requires a minimum short-term rating of A-1 / P-1 / F1 (exceptions must be properly approved).

b) Approval Process

The approval of limits is based on an individual assessment with approval required from the CRO or an authorised approver from the Risk Division. The approval levels are determined individually and are based primarily on the combination of the limit, external rating, maturity and product. In selected cases, the prior approval of the CRCO is required.

c) Monitoring

All counterparties and countries with a determined limit are monitored individually. The subject of the monitoring is primarily the external rating. Remedial measures (in particular a decrease/cancellation of the limit, categorisation of receivables) are approved by an authorised approver from the Risk Division.

The Bank monitors compliance with limits. Any breach of limits is escalated to the Treasurer and CRO. In addition, intentional material limit breaches are escalated also to the CFO and breaches over CZK 100 million to the ALCO members.

43.3.2 Categorisation of Receivables

The Bank has assigned receivables to individual categories in compliance with CNB Decree No. 163/2014 Coll. The categorisation is used for regulatory reporting, impairment testing and calculation of loan loss allowances. The categorisation is as follows:

Receivables without Borrower Default

The receivables without borrower default are classified as performing and without impairment. The Bank assigns receivables without borrower default to the following sub-categories:

a) Standard Receivables

A receivable is regarded as "standard" if there is no reason to doubt that it will be repaid in full. The Bank includes in this category receivables where the principal, interest and fees are being duly paid, with none of them being more than 30 days past due. None of the receivables from the borrower have been forborne in the last two years due to the deterioration in the borrower's financial situation. In the case of individually managed commercial receivables the current value of the borrower's internal rating is better than OR18 and receivables are not in work-out process.

b) Watch Receivables

A receivable is regarded as "watch" if, given the borrower's financial and economic situation, it is likely to be repaid in full. The Bank includes in this category receivables where the principal or interest and fees are being paid with some problems, but none of them are more than 90 days past due. None of the receivables from the borrower have been forborne in the last six months due to the deterioration in the borrower's financial situation. In addition, this category includes individually managed commercial receivables with the borrower's internal rating from OR18 to OR21 (including).

Receivables with Borrower Default

Receivables where the borrower has defaulted are classified as non-performing and impaired and assigned to one of three sub-categories:

a) Sub-standard Receivables

A receivable is regarded as "sub-standard" if, given the borrower's financial and economic situation, its full repayment is uncertain, although its partial settlement is highly likely. The Bank includes in this category receivables where the principal, interest or fees are being paid with problems, but with none of them more than 180 days past due. In addition, sub-standard receivables include receivables that were forborne in the past 6 months due to the deterioration in the borrower's financial situation, and a commercial individually managed receivable with the borrower's internal rating of OR22.

b) Doubtful Receivables

A receivable is regarded as "doubtful" if, given the borrower's financial and economic situation, its full repayment is highly unlikely, although its partial settlement is possible and likely. The Bank includes in this category receivables where the principal, interest or fees are being paid with problems, but with none of them being more than 360 days past due. A receivable is also considered doubtful if a competent court has issued a decision on settling the borrower's bankruptcy via a discharge from debts or reorganisation.

c) Loss Receivables

A receivable is regarded as "loss" if, given the borrower's financial and economic situation, its full repayment is impossible. The expectation is that such receivable will not be repaid or will only be repaid in part in a very small amount. The Bank involves in this category receivables where principal, interest or fees are more than 360 days past due. A receivable from a borrower who is subject to bankruptcy or settlement proceedings is also considered to be a loss receivable.

Receivables within other entities of the Group are categorised according to the similar principles, except of internal rating criteria, which are not used for receivables of MONETA Leasing.

The Bank automatically assesses the following criteria for this categorisation on a daily basis:

- The fulfilment of debt service (not assessed in non-approved debits on current accounts up to CZK 2,000 and receivables of MONETA Leasing up to CZK 5,000);
- Borrower's internal rating (in respect of individually managed commercial receivables);
- Completed/not completed forbearance of the debt; and
- Announcement of the bankruptcy or allowed discharge from debt or reorganisation or settlement to the borrower's assets.

43.3.3 Collateral Assessment

The Bank determines the nature and extent of a collateral that is required either by individually assessing a prospective borrower's creditworthiness or as an integral part of the given credit product. The Bank considers the following types of collateral acceptable for mitigating the credit risk on a loan or line of credit:

- Cash;
- Securities;
- Account receivables;
- Bank guarantees;
- Guarantee of a reliable third party;
- Insurance;
- Real estate properties; and
- Movable assets (machinery, equipment, breeding stock).

To determine the realisable value of a collateral, the Bank uses external expert appraisals or internal assessments made by the Collateral Management department of the Risk Division, which is a department operating independently of the Bank's sales departments. The ultimate realisable value of the collateral is then set by applying collateral acceptance ratios reflecting the Bank's ability to realise the collateral in case of default. Maximum values of collateral acceptance ratios are approved by the CRCO.

In determining the realisable value, MONETA Leasing uses a discount on the cost derived from model depreciation curves (describing the relation between fair value as a percentage of purchase price and time) for individual asset classes. Curves are reassessed yearly and approved by the CRCO.

43.3.4 Allowances Calculation

Allowances are determined in accordance with IFRS.

To calculate allowances, the portfolio is divided into non-impaired receivables and impaired receivables, which are further segmented into commercial and retail exposures by product.

The calculation of allowances for the non-impaired portfolio is based on statistical models. These models are used for calculation of probability of default (PD), loss given default (LGD) and the cure rate (CR). The PD, LGD and CR are calculated directly from statistical models. For some receivables discounted anticipated cash flows from collection (effective interest rate is used as the discount rate) are used to derive the LGD.

Allowances for the impaired part of the portfolio are split into individual and portfolio allowances. Individual allowances are determined for impaired commercial individually managed exposures by calculating the discounted future cash flows. Portfolio allowances based on the LGD statistical approach are determined for remaining portfolios. For these, the LGD is adjusted to correspond to remaining anticipated cash flows. Since 2017, the expected discounted external collection costs are also included in the LGD.

A provision is recognised for irrevocable loan commitments using CCF (credit conversion factor) coefficients that determine which part of the loan commitment is brought onto the balance sheet until the receivable impairment moment.

Back testing is performed no less than annually; it assesses the adequacy of the volume of recognised allowances given the actual losses in the portfolio.

43.3.5 Credit Concentration Risk

As part of managing credit risk, the Bank regularly monitors and actively manages the credit concentration risk of the Group through the limits to countries, counterparties, collateral providers, and economic sectors. Regional concentration is not relevant as most income is generated within the territory of the Czech Republic (see note 42).

The main collateral providers (via guarantees) are Českomoravská záruční a rozvojová banka, a.s. and European Investment Fund.

a) The exposures to top 10 groups of customers

CZK m	31 Dec 2017	31 Dec 2016
Top 10 exposures*	6,454	5,250

*Exposure includes gross loans and receivables, unused commitments including credit lines, and guarantees.

b) The structure of the Group's commercial credit portfolio by economic sectors

Sector	CZK m*	%
31 Dec 2017		
1 Agriculture	20,237	32%
2 Mining	56	0%
3 Food industry	1,787	3%
4 Textile industry	409	1%
5 Wood processing industry	520	1%
6 Chemical industry	1,228	2%
7 Metal processing industry	2,350	4%
8 Electric and optical equipment	142	0%
9 Manufacturing of equipment, including transportation	2,093	3%
10 Construction industry and construction modifications	3,057	5%
11 Wholesale	5,334	8%
12 Retail sale	3,358	5%
13 Transport and telecommunication	5,115	8%
14 Finance	639	1%
15 Services	13,838	22%
16 Public sector	58	0%
17 Health industry	1,122	2%
18 Power sector	1,436	3%
Total	**62,779**	**100%**

Sector	CZK m*	%
31 Dec 2016	**CZK m***	**%**
1 Agriculture	18,974	32%
2 Mining	56	0%
3 Food industry	1,672	3%
4 Textile industry	266	0%
5 Wood processing industry	556	1%
6 Chemical industry	1,256	2%
7 Metal processing industry	2,248	4%
8 Electric and optical equipment	166	0%
9 Manufacturing of equipment, including transportation	1,669	3%
10 Construction industry and construction modifications	2,860	5%
11 Wholesale	4,756	8%
12 Retail sale	3,302	6%
13 Transport and telecommunication	6,178	11%
14 Finance	527	1%
15 Services	11,190	19%
16 Public sector	60	0%
17 Health industry	1,241	2%
18 Power sector	1,616	3%
Total	**58,593**	**100%**

*The amounts represent the relevant gross loans and receivables to customers. Exposures of Other loans are excluded.

c) Maximum credit risk exposure

CZK m	Statement of financial position	Off-balance sheet	Total credit risk exposure	Available collateral*
31 Dec 2017				
Cash and balances with the central bank	**7,127**	**0**	**7,127**	**0**
Financial assets at fair value through profit or loss	**48**	**0**	**48**	**28**
Financial assets available for sale	**57**	**0**	**57**	**0**
Treasury and corporate bonds	0	0	0	0
Equity investments	57	0	57	0
Financial assets held to maturity	**11,723**	**0**	**11,723**	**0**
Treasury and corporate bonds	11,723	0	11,723	0
Hedging derivatives with positive fair values	**4**	**0**	**4**	**0**
Interest rate swaps	4	0	4	0
Change in fair value of items hedged on portfolio basis	**(6)**	**0**	**(6)**	**0**
Loans and receivables to banks	**53,380**	**0**	**53,380**	**52,033**
Current accounts at banks	170	0	170	0
Term deposits at banks payable within 3 months	0	0	0	0
Receivables arising from reverse repo agreements	53,107	0	53,107	52,033
Cash collaterals provided	86	0	86	0
Other	17	0	17	0
Loans and receivables to customers	**123,680**	**20,109**	**143,789**	**52,942**
Consumer authorized overdrafts and credit cards	3,945	5,039	8,984	0
Consumer loans	34,969	910	35,879	0
Mortgages	20,338	3,775	24,113	20,207
Commercial loans	47,728	10,333	58,061	24,230
Auto & Equipment Financial Lease	5,057	0	5,057	4,378
Commercial	5,057	0	5,057	4,378
Retail	0	0	0	0
Auto & Equipment Loans	11,643	52	11,695	4,127
Commercial	8,911	52	8,963	4,127
Retail	2,732	0	2,732	0
Other loans	0	0	0	0
Commercial	0	0	0	0
Retail	0	0	0	0
Issued guarantees and credit limits on guarantees	**0**	**1,660**	**1,660**	**160**
Issued letter of credit	**0**	**1**	**1**	**1**
Other assets	**3,721**	**0**	**3,721**	**0**

CZK m	Statement of financial position	Off-balance sheet	Total credit risk exposure	Available collateral*
31 Dec 2016				
Cash and balances with the central bank	**20,235**	**0**	**20,235**	**0**
Financial assets at fair value through profit or loss	**26**	**0**	**26**	**0**
Financial assets available for sale	**13,749**	**0**	**13,749**	**0**
Treasury and corporate bonds	13,700	0	13,700	0
Equity investments	49	0	49	0
Financial assets held to maturity	**0**	**0**	**0**	**0**
Treasury and corporate bonds	0	0	0	0
Hedging derivatives with positive fair values	**0**	**0**	**0**	**0**
Interest rate swaps	0	0	0	0
Change in fair value of items hedged on portfolio basis	**0**	**0**	**0**	**0**
Loans and receivables to banks	**189**	**0**	**189**	**0**
Current accounts at banks	154	0	154	0
Term deposits at banks payable within 3 months	35	0	35	0
Receivables arising from reverse repo agreements	0	0	0	0
Cash collaterals provided	0	0	0	0
Other	0	0	0	0
Loans and receivables to customers	**111,860**	**15,843**	**127,703**	**47,403**
Consumer authorized overdrafts and credit cards	4,551	5,489	10,040	0
Consumer loans	32,281	460	32,741	0
Mortgages	15,571	1,056	16,627	15,513
Commercial loans	42,639	8,754	51,393	21,988
Auto & Equipment Financial Lease	6,633	44	6,677	5,719
Commercial	6,633	44	6,677	5,719
Retail	0	0	0	0
Auto & Equipment Loans	10,146	40	10,186	4,183
Commercial	7,958	40	7,998	4,183
Retail	2,188	0	2,188	0
Other loans	39	0	39	0
Commercial	22	0	22	0
Retail	17	0	17	0
Issued guarantees and credit limits on guarantees	**0**	**1,512**	**1,512**	**133**
Issued letter of credit	**0**	**2**	**2**	**2**
Other assets	**3,320**	**0**	**3,320**	**0**

*Available collateral represents realisable value of collateral relevant for each exposure. The realisable value of collateral for Loans and receivables is capped up to the gross loans and receivables exposures on loan-by-loan basis for the purpose of the presentation in these breakdowns. The realisable value of collateral for guarantees and letter of credits is capped up to the exposure presented in the column "Off-balance sheet".

43.3.6 Credit Portfolio and its Quality

a) Loans and receivables to banks and customers according the categorisation

Loans and receivables to banks and customers according the categorisation can be summarised as follows:

CZK m	31 Dec 2017			31 Dec 2016		
	Receivables to banks	Loans and receivables to customers	Total	Receivables to banks	Loans and receivables to customers	Total
Non-impaired before due date	53,380	118,699	172,079	189	106,525	106,714
Non-impaired past due date	0	3,769	3,769	0	4,022	4,022
Total non-impaired	53,380	122,468	175,848	189	110,547	110,736
Total impaired	0	5,274	5,274	0	7,488	7,488
Gross loans and receivables	**53,380**	**127,742**	**181,122**	**189**	**118,035**	**118,224**
Allowances	0	(4,062)	(4,062)	0	(6,175)	(6,175)
Net loans and receivables	**53,380**	**123,680**	**177,060**	**189**	**111,860**	**112,049**
Individual allowances	0	(396)	(396)	0	(406)	(406)
Portfolio allowances	0	(3,666)	(3,666)	0	(5,769)	(5,769)
Total allowances	**0**	**(4,062)**	**(4,062)**	**0**	**(6,175)**	**(6,175)**

b) Gross loans and receivables to customers that are not impaired according to the probability of default

The quality of the credit portfolio in respect of gross loans and receivables that are not impaired can be analysed according to the probability of default* as follows:

CZK m		Retail						Commercial				
Credit quality	Probability of default	Authorized overdrafts & credit cards	Consumer loans	Mortgages	Auto and equipment financial leases	Auto and equipment loans	Other loans	Commercial loans	Auto and equipment financial leases	Auto and equipment loans	Other loans	Total
31 Dec 2017												
	1 (PD<=1.3%)	2,836	20,020	19,622	0	1,541	0	38,355	2,788	6,512	0	91,674
	2 (1.3%<PD<=3.2%)	651	10,528	193	0	1,032	0	6,675	1,368	1,650	0	22,097
	3 (3.2%<PD<=7.7%)	190	1,484	142	0	39	0	1,729	597	430	0	4,611
	4 (7.7%<PD<=15.8%)	94	1,031	63	0	39	0	601	205	163	0	2,196
	5 (PD>15.8%)	152	1,378	116	0	60	0	59	5	63	2	1,835
	unrated	0	0	0	0	13	18	0	0	24	0	55
Total loans and receivables		**3,923**	**34,441**	**20,136**	**0**	**2,724**	**18**	**47,419**	**4,963**	**8,842**	**2**	**122,468**
31 Dec 2016												
	1 (PD<=1.3%)	2,696	10,828	14,477	0	1,207	0	33,497	3,292	5,339	22	71,358
	2 (1.3%<PD<=3.2%)	862	13,740	304	0	842	0	6,901	1,873	1,747	0	26,269
	3 (3.2%<PD<=7.7%)	485	4,659	205	0	34	0	1,157	920	553	0	8,013
	4 (7,7%<PD<=15.8%)	243	1,336	128	0	35	0	857	412	215	0	3,226
	5 (PD>15.8%)	236	1,028	175	0	65	0	0	57	68	2	1,631
	unrated	3	6	16	0	2	22	0	0	1	0	50
Total loans and receivables		**4,525**	**31,597**	**15,305**	**0**	**2,185**	**22**	**42,412**	**6,554**	**7,923**	**24**	**110,547**

* Probability of default is defined as a probability that a customer will default (mostly by being more than 90 days past due with repayments) in the following 12 months.

c) Gross loans and receivables to customers that are not impaired according to due dates

As of 31 December 2017 and 31 December 2016, the Group reported the following gross loans and receivables to customers with their due dates that are not individually impaired:

CZK m	Retail						Commercial				
	Authorized overdrafts and credit cards	Consumer loans	Mortgages	Auto and equipment financial leases	Auto and equipment loans	Other loans	Commercial loans	Auto and equipment financial leases	Auto and equipment loans	Other loans	Total
31 Dec 2017											
Not past due	3,766	32,749	19,813	0	2,610	0	47,067	4,348	8,346	0	118,699
1–30 days past due	129	1,424	281	0	88	1	306	390	384	0	3,003
31–60 days past due	19	184	30	0	17	1	30	128	76	0	485
61+ days past due	9	84	12	0	9	16	16	97	36	2	281
Total	**3,923**	**34,441**	**20,136**	**0**	**2,724**	**18**	**47,419**	**4,963**	**8,842**	**2**	**122,468**

CZK m	Retail						Commercial				
	Authorized overdrafts and credit cards	Consumer loans	Mortgages	Auto and equipment financial leases	Auto and equipment loans	Other loans	Commercial loans	Auto and equipment financial leases	Auto and equipment loans	Other loans	Total
31 Dec 2016											
Not past due	4,302	29,843	14,995	0	2,077	0	42,077	5,782	7,427	22	106,525
1–30 days past due	178	1,453	239	0	73	2	270	501	360	0	3,076
31–60 days past due	29	208	48	0	19	1	44	158	99	0	606
61+ days past due	16	93	23	0	16	19	21	113	37	2	340
Total	**4,525**	**31,597**	**15,305**	**0**	**2,185**	**22**	**42,412**	**6,554**	**7,923**	**24**	**110,547**

d) Loans and receivables to customers that are individually impaired

As of 31 December 2017 and 31 December 2016 the Group reported the following amounts of loans and receivables to customers that are individually impaired and to which individual allowances are created (commercial individually managed loans):

CZK m	31 Dec 2017	31 Dec 2016
Gross individually impaired loans and receivables, to which an individual loss allowances are created	826	728
Individual allowances	(396)	(406)
Net individually impaired loans and receivables to which an individual loss allowances are created	430	322

43.3.7 Forborne Receivables

Forborne receivables are receivables for which the Group provided the debtor with relief as it assessed that it would likely incur a loss if it did not do so. For economic or legal reasons associated with the debtor’s financial position, the Group granted it relief that it would not otherwise have granted. These primarily include the reworking of the repayment plan, decrease in the interest rate, waiver of default interest, deferral of principal or accrued interest repayments. Forborne receivables do not include receivables arising from the roll-over of a short-term loan for current assets if the debtor met all of its payment and non-payment obligations arising from the loan contract.

The forbearance is reflected in the categorisation of receivables in accordance with the receivables categorisation rules (see note 43.3.2). As categorisation rules also trigger impairment, allowances for forborne receivables are calculated accordingly. For commercial and mortgage receivables, the same methods as for receivables without forbearance are used. For other retail receivables, forborne receivables with impairment allowances are created up to the value of an estimated life time loss.

The Group applies the following general principles for the forbearance:

- Customer demonstrably lost ability to repay loan according to original loan contract,
- Customer demonstrates willingness and ability to pay his debts,
- Specific product/customer criteria must be met,
- Loan was not restructured more than once in last 12 months and more than twice during last 5 years.

For commercial loan/leases and mortgages, only instalments not past due are subject to rescheduling. The customer is obliged to repay all past due payments in full and delinquency status is calculated according the oldest unpaid instalment.

For retail products, the Bank offers the customer a new loan contract. The customer´s original (delinquent) loans are, by signature of this new contract, repaid and closed and a new (restructured) loan with different monthly instalments, interest rate and maturity is opened as non-delinquent (current).

As impairment is driven by categorisation, in compliance with categorisation rules (see note 43.3.2), forborne receivables become non-impaired if their categorisation improves to watch or standard.

a) All gross loans and receivables with forbearance:

CZK m	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans	Total
31 Dec 2017						
Forborne receivables	74	274	83	111	20	562
Total	**74**	**274**	**83**	**111**	**20**	**562**

CZK m	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans	Total
31 Dec 2016						
Forborne receivables	88	462	111	110	22	793
Total	**88**	**462**	**111**	**110**	**22**	**793**

b) Impaired loans out of all gross loans and receivables with forbearance:

CZK m	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans	Total
31 Dec 2017						
Forborne receivables	24	84	77	73	8	266
Total	**24**	**84**	**77**	**73**	**8**	**266**

CZK m	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans	Total
31 Dec 2016						
Forborne receivables	34	179	94	86	18	411
Total	**34**	**179**	**94**	**86**	**18**	**411**

c) Loans and receivables to customers forborne within the reporting year

CZK m	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans
2017					
Number of incrementally forborne receivables within the reporting year	0	55	5	53	12
Balance of the incrementally forborne gross receivables within the reporting year measured at the end of the reporting year (CZK m)	0	11	18	23	8

CZK m	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans
2016					
Number of incrementally forborne receivables within the reporting year	0	195	8	32	29
Balance of the incrementally forborne gross receivables within the reporting year measured at the end of the reporting year (CZK m)	0	41	37	96	19

43.4 RISK OF CONCENTRATION

The risk of concentration means the risk arising from the concentration of exposures with respect to a person, an economically-related group of persons, sector (see note 43.3.5), region (see note 42), activity or commodity. The Group manages the risk of concentration within individual risks, primarily the credit risk (see note 43.3.5) and liquidity risk (see note 43.7). Activity and commodity concentrations are not relevant.

43.5 INTEREST RATE RISK

Interest rate risk is the risk of a loss arising from changes in interest rates on financial markets. The Group is exposed to interest rate risk as interest bearing assets and liabilities have different maturity periods or interest rate readjustment periods.

The Bank strives to minimise the Group's interest rate risk by setting limits and keeping positions within these limits.

The interest rate risk management activities are aimed at reducing the risk of losses. The Group's interest rate risk management is centralised in the Bank.

To monitor and measure interest rate risk, a model of interest rate sensitivity is used which serves to determine the sensitivity of the Group to changes in the market interest rates. The model is based on the inclusion of interest-sensitive assets and liabilities into relevant time bands. The Group prefers to use behavioural features of cash flows rather than those that are purely contractual. All behavioural assumptions are approved by the ALCO. The model works with 1-month time bands up to a 10 year period and a time band exceeding 10 years.

Simultaneously, the Bank carries out stress testing based on the parallel shift of the yield curve by 200 basis points for all currencies that account for more than 5% of the Group's assets or liabilities. In 2016 and 2017, only the portfolios denominated in Czech Koruna and Euro exceeded 5% share of the Group's assets/liabilities.

To manage the interest rate risk, the Group uses a limit for the impact of the stress test on the total capital and annual net interest income. The results of stress testing are presented to ALCO on a monthly basis. To manage the discrepancy between the interest sensitivity of assets and liabilities, interest rate derivatives may be used. In October 2017, ALCO approved the interest rate hedging strategy for hedge accounting and the Bank started to use interest rate swaps as hedging instruments.

The below tables show sensitivity of the Group to changes in interest rates.

CZK

% change in annual net interest income	31 Dec 2017	31 Dec 2016
Impact of the interest rate movement +200 basis points	3.41%	1.31%
Impact of the interest rate movement -200 basis points	(1.06)%	(0.11)%

Change in economic value of equity as a % of capital	31 Dec 2017	31 Dec 2016
Impact of the interest rate movement +200 basis points	(2.71)%	(4.46)%
Impact of the interest rate movement -200 basis points	2.40%	0.83%

EUR

% change in annual net interest income	31 Dec 2017	31 Dec 2016
Impact of the interest rate movement +200 basis points	(1.19)%	(0.89)%
Impact of the interest rate movement -200 basis points	(0.22)%	(0.17)%

Change in economic value of equity as a % of capital	31 Dec 2017	31 Dec 2016
Impact of the interest rate movement +200 basis points	(0.46)%	(0.71)%
Impact of the interest rate movement -200 basis points	0.06%	(0.01)%

The percentage change in annual net interest income shows the impact of interest rate movement on net interest income in 12-month horizon. The change in economic value of equity shows the impact of interest rate movement on the difference between the present value of assets and liabilities (i.e. the value of equity), so this metric works with a long-term horizon. Given the mentioned differences between the two metrics, the two kinds of impact can have different signs and follow different trends. Interest rates are floored at 0% for the purpose of calculation of these metrics.

The below table summarises the Group's exposure to interest rate risk. Balances are allocated to the buckets based on the following parameters: for assets the next repricing date or principal payment dates, whichever occurs earlier, for non maturity deposits the expected maturity/repricing behaviour and for term deposits the maturity date.

CZK m	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Unspecified*	Total
31 Dec 2017							
Cash and balances with the central bank	2,564	0	0	0	0	4,563	7,127
Financial assets at fair value through profit or loss	0	0	0	0	0	48	48
Financial assets available for sale	0	0	0	0	0	57	57
Financial assets held to maturity	0	0	1,110	910	9,848	(145)	11,723
Loans and receivables to banks	53,224	0	0	0	0	156	53,380
Loans and receivables to customers	30,003	6,823	24,729	57,900	5,265	(1,040)	123,680
Other assets	0	0	0	0	0	3,719	3,719
Total assets	**85,791**	**6,823**	**25,839**	**58,810**	**15,113**	**7,358**	**199,734**
Due to banks	23,682	220	2,567	3,154	14	6	29,643
Due to customers	59,108	4,897	23,092	39,997	13,913	462	141,469
Financial liabilities through profit or loss	0	0	0	0	0	68	68
Other liabilities (without equity)	0	0	0	0	0	2,791	2,791
Total liabilities	**82,790**	**5,117**	**25,659**	**43,151**	**13,927**	**3,327**	**173,971**
Interest Rate Swaps assets*	486	5,494	0	0	0	0	5,980
Interest Rate Swaps liabilities*	0	0	0	5,568	412	0	5,980
Net interest rate exposure	**3,487**	**7,200**	**180**	**10,091**	**774**	**4,031**	**25,763**

* In case of interest rate swaps, the individual cash flows are used instead of accounting balances.

CZK m	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Unspecified*	Total
31 Dec 2016							
Cash and balances with the central bank	20,124	0	0	0	0	111	20,235
Financial assets at fair value through profit or loss	0	0	0	0	0	26	26
Financial assets available for sale	50	0	1,680	6,180	4,250	1,589	13,749
Loans and receivables to banks	70	0	0	0	0	119	189
Loans and receivables to customers	29,749	4,137	15,689	50,207	9,296	2,782	111,860
Other assets	0	0	0	0	0	3,320	3,320
Total assets	**49,993**	**4,137**	**17,369**	**56,387**	**13,546**	**7,947**	**149,379**
Due to banks	2,261	278	27	56	15	20	2,657
Due to customers	44,474	5,366	16,338	36,390	12,476	1,208	116,252
Financial liabilities through profit or loss	0	0	0	0	0	7	7
Other liabilities (without equity)	794	0	0	0	0	2,401	3,195
Total liabilities	47,529	5,644	16,365	36,446	12,491	3,636	122,111
Net interest rate exposure	**2,464**	**(1,507)**	**1,004**	**19,941**	**1,055**	**4,311**	**27,268**

The data for the individual time buckets except of 'Unspecified' column follows the interest rate gap from the model of interest rate sensitivity. In case of interest rate swaps notional amounts are used instead of accounting balances.

43.6 FOREIGN EXCHANGE RISK

Foreign exchange risk covers the risk of a loss due to changes in exchange rates. The Group is exposed to the foreign exchange risk primarily due to the provision of foreign exchange loan products to commercial borrowers and foreign exchange deposits.

The management of the Group's foreign exchange risk is centralised in the Bank. The Bank strives to minimise the foreign exchange risk of the Group. For this purpose, the Bank maintains a balance of assets and liabilities in foreign currencies (by using a mix of FX spots, forwards and swaps transactions).

To measure the foreign exchange risk on an individual basis, the Bank calculates, on a daily basis, net currency positions and an FX Value at Risk. The Bank uses the following limits:

- Ratio of the absolute value of the net currency position to capital for each foreign currency;
- Ratio of the absolute value of the net currency position in Czech Koruna to capital;
- Ratio of the absolute value of the total net currency position to capital;
- Absolute value of the net currency position for each foreign currency; and
- FX VaR (maximum expected loss per business day at the 99% confidence level) for the foreign currency portfolio.

As MONETA Auto provides loans only in CZK and MONETA Leasing in EUR and CZK, the Bank measures on a consolidated basis only the net currency position in EUR (monthly frequency).

The foreign exchange risk at MONETA Leasing at an individual level is managed primarily by the funding structure (natural hedging due to EUR funding) and MONETA Leasing regularly closes its open FX position with the Bank.

The below table shows the FX VaR of the Bank.

CZK ths	31 Dec 2017	Average of daily values in 2017	31 Dec 2016	Average of daily values in 2016
FX VaR	124	45	15	13

43.7 LIQUIDITY RISK

Liquidity risk represents the risk of inability to meet financial liabilities when due or to finance assets.

The new Basel III framework for liquidity risk measurement, standards and monitoring was introduced into EU and Czech law by Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended, and by Commission Delegated Regulation (EU) 2015/61 of 10 October 2014, to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions, which specifies the Liquidity Coverage Ratio (LCR) requirement.

The LCR addresses the liquidity risk of banks over a 30-day period and aims to ensure that banks have a sufficient buffer of high quality liquid assets available to meet short-term liquidity needs in a given stress scenario. The LCR became effective as a binding regulatory requirement in October 2015. The minimum required level for LCR is implemented progressively in accordance with the following schedule: 60% from 1 October 2015, 70% from 1 January 2016, 80% from 1 January 2017 and 100% from 1 January 2018. The Bank maintains an LCR well in excess of the requirement of 100% that needs to be achieved in 2018 (31 December 2017: 183%, 31 December 2016: 161%)

The second liquidity ratio introduced by the Basel III framework is Net Stable Funding Ratio (NSFR), which will establish the criteria for a minimum amount of stable funding to support a bank's assets and activities in the medium term (i.e. over one year). The binding minimum standards for NSFR have not yet been adopted by the EU and are not expected to come into effect not earlier than in 2018. Nevertheless, the Bank already monitors its NSFR for internal purposes, calculating the metric based on the existing Basel methodology.

The daily measurement of liquidity risk includes:

- Calculation of the liquidity position based on the liquidity gap model, which measures net cash flows in set time bands;
- Calculation of the Liquidity Coverage Ratio; and
- Calculation of Early Warnings Indicators.

The monthly measurement of liquidity risk includes:

- Calculation of Loan to Deposit Ratio;
- Assessment of the impact of liquidity management stress scenarios on the Bank's liquidity position;
- Measurement of concentration in deposits;
- Calculation of Interbank borrowing to Total Assets Ratio; and
- Calculation of Net Stable Funding Ratio.

To manage liquidity risk, the Bank applies a system of the following limits:

- Liquidity positions in selected time buckets;
- Liquidity Coverage Ratio;
- Net Stable Funding Ratio;
- Liquidity buffer (based on liquidity stress tests);
- Structure of the portfolio for liquidity management;
- Concentration in deposits; and
- Interbank borrowing to Total Assets Ratio

and monitors a chosen set of Early Warning Indicators.

The Group has access to diversified sources of financing, which include deposits, loans taken (including external funding for MONETA Leasing), as well as the Group's equity. In 2017, the Bank obtained 3-year unsecured EUR funding from the European Investment Bank with an option of drawing additional secured EUR funding). The bond and money markets are used to further diversify sources of liquidity and to deposit excess cash. In January 2017, the Bank obtained a rating of "BBB/A-2" (long- and short-term rating) with a stable outlook from the international rating agency Standard & Poor's[1] and a rating of "Baa2/P-2" (long- and short-term deposit rating) with a stable outlook from the international rating agency Moody's[1]. Based on that and in line with a funding strategy which aim to diversify long-term funding sources, the Bank set up its bond programme (Base Prospectus approved by the Czech National Bank in 2017). Under this bond programme, the Bank may issue bonds that are governed by Czech law, in particular senior unsecured bonds, mortgage covered bonds and subordinated bonds. None of them was issued in 2017.

For the purpose of liquidity management under extraordinary circumstances, the Bank has a contingency plan containing measures for recovering liquidity. The Treasury regularly reviews the contingency plan and forwards it to the ALCO for approval.

As other companies of the Group are either financed exclusively by the Bank or have only partial funding from banks (MONETA Leasing), the Group's liquidity management is executed as part of the Bank's liquidity management by including credit exposures to other companies of the Group.

[1] Each of Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd. is established in the European Union and registered according to the Regulation (EC) No. 1060/2009 on credit rating agencies as amended by Regulation (EU) No. 513/2011 of the European Parliament and of the Council and Regulation (EU) No. 462/2013 of the European Parliament and of the Council (the "CRA Regulation"). As such each of Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd. is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (www.esma.europa.eu/supervision/credit-rating-agencies/risk) in accordance with the CRA Regulation. In choosing rating agencies, the Bank proceeded according to the obligations laid down by the Article 8d of the above mentioned regulation. The market share of each of the aforementioned rating agencies exceeds 10% on the European Union market.

a) The below table summarises the remaining maturity of carrying amounts of assets, liabilities and equity according to their contractual maturity.

CZK m	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Unspecified	Total
31 Dec 2017							
Cash and balances with the central bank	7,127	0	0	0	0	0	7,127
Financial assets at fair value through profit or loss	6	12	22	8	0	0	48
Financial assets available for sale	0	0	0	0	0	57	57
Financial assets held to maturity	0	12	600	954	10,157	0	11,723
Hedging derivatives with positive fair values	0	0	0	3	1	0	4
Change in fair value of items hedged on portfolio basis	0	0	0	0	0	(6)	(6)
Loans and receivables to banks	53,294	0	0	0	0	86	53,380
Loans and receivables to customers*	10,086	3,551	19,089	51,779	35,174	4,001	123,680
Investments in associates	0	0	0	0	0	2	2
Current tax assets	0	0	0	0	0	308	308
Deferred tax assets	0	0	0	0	0	386	386
Other assets	241	0	46	0	0	2,738	3,025
Total Assets	**70,754**	**3,575**	**19,757**	**52,744**	**45,332**	**7,572**	**199,734**
Due to banks	23,855	204	2,511	3,043	0	30	29,643
Due to customers	135,251	272	5,386	79	311	170	141,469
Financial liabilities at fair value through profit or loss	25	16	20	7	0	0	68
Hedging derivatives with negative fair values	0	0	0	4	0	0	4
Provisions	0	0	364	0	0	0	364
Current tax liabilities	0	0	0	0	0	2	2
Deferred tax liabilities	0	0	0	0	0	267	267
Other liabilities	1,830	0	127	11	0	186	2,154
Equity	0	0	0	0	0	25,763	25,763
Total liabilities and equity	**160,961**	**492**	**8,408**	**3,144**	**311**	**26,418**	**199,734**
Net liquidity position of assets and liabilities and equity**	**(90,207)**	**3,083**	**11,349**	**49,600**	**45,021**	**(18,846)**	**0**
Issued guarantees and credit limits on guarantees	**1,660**	**0**	**0**	**0**	**0**	**0**	**1,660**
Loan commitments***	**6,467**	**0**	**0**	**0**	**0**	**0**	**6,467**

CZK m	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Unspecified	Total
31 Dec 2016							
Cash and balances with the central bank	20,235	0	0	0	0	0	20,235
Financial assets at fair value through profit or loss	11	11	4	0	0	0	26
Financial assets available for sale	128	12	3,266	4,887	5,407	49	13,749
Loans and receivables to banks	189	0	0	0	0	0	189
Loans and receivables to customers*	9,718	3,433	14,255	50,170	29,927	4,357	111,860
Investments in associates	0	0	0	0	0	2	2
Current tax assets	0	0	0	0	0	267	267
Deferred tax assets	0	0	0	0	0	805	805
Other assets	231	0	44	0	0	1,971	2,246
Total Assets	**30,512**	**3,456**	**17,569**	**55,057**	**35,334**	**7,451**	**149,379**
Due to banks	2,387	270	0	0	0	0	2,657
Due to customers	114,315	1,194	204	171	102	266	116,252
Financial liabilities at fair value through profit or loss	1	2	4	0	0	0	7
Provisions	0	0	406	0	0	10	416
Current tax liabilities	0	0	0	0	0	29	29
Deferred tax liabilities	0	0	0	0	0	280	280
Other liabilities	2,057	0	95	0	0	318	2,470
Equity	0	0	0	0	0	27,268	27,268
Total liabilities and equity	**118,760**	**1,466**	**709**	**171**	**102**	**28,171**	**149,379**
Net liquidity position of assets and liabilities and equity**	**(88,248)**	**1,990**	**16,860**	**54,886**	**35,232**	**(20,720)**	**0**
Issued guarantees and credit limits on guarantees	**1,512**	**0**	**0**	**0**	**0**	**0**	**1,512**
Loan commitments***	**3,049**	**0**	**0**	**0**	**0**	**0**	**3,049**

*Loans and receivables to customers presented under "Unspecified" category as at 31 December 2017 CZK 4,001 million (31 December 2016 CZK 4,357 million), represent the loans and receivables that are overdue more than 1 month.
**Net liquidity position of assets and liabilities and equity within 1 month at CZK (90, 207) million as at 31 December 2017 (as at 31 December 2016 at CZK (88,248) million) is primarily due to the fact that contractual maturity of current accounts falls within 1 month.
***The loan commitments represent irrevocable loan commitments only relating to commercial investment loans, commercial auto & equipment loans, commercial auto & equipment leases and mortgages. Total undrawn commitments on credit cards are not included in the table above as, historically, average limit usage is significantly below 100% and this behaviour is expected to continue.

b) The below table shows the remaining contractual maturity of non-derivative financial liabilities and issued financial guarantees and loan commitments held for the Group's liquidity management purposes. The presented amounts include contractual non-discounted cash flows.

CZK m	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Unspecified	Total
31 Dec 2017							
Due to banks	23,860	207	2,529	3,066	0	29	29,691
Due to customers	135,251	272	5,387	80	311	170	141,471
Provisions	0	0	364	0	0	0	364
Other liabilities	1,830	0	127	11	0	455	2,423
Total non-derivative financial liabilities	**160,941**	**479**	**8,407**	**3,157**	**311**	**654**	**173,949**
Issued guarantees and credit limits on guarantees	**1,660**	**0**	**0**	**0**	**0**	**0**	**1,660**
Loan commitments*	**6,467**	**0**	**0**	**0**	**0**	**0**	**6,467**

CZK m	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Unspecified	Total
31 Dec 2016							
Due to banks	2,387	270	0	0	0	0	2,657
Due to customers	114,315	1,194	204	171	103	266	116,253
Provisions	0	0	406	0	0	10	416
Other liabilities	2,057	0	95	0	0	627	2,779
Total non-derivative financial liabilities	**118,759**	**1,464**	**705**	**171**	**103**	**903**	**122,105**
Issued guarantees and credit limits on guarantees	**1,512**	**0**	**0**	**0**	**0**	**0**	**1,512**
Loan commitments*	**3,049**	**0**	**0**	**0**	**0**	**0**	**3,049**

*The loan commitments represent irrevocable loan commitments only relating to commercial investment loans, commercial auto & equipment loans, commercial auto & equipment leases and mortgages.

c) The below table shows the remaining contractual maturity of liabilities from financial derivatives:

CZK m	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
31 Dec 2017						
Held for trading derivatives						
Currency swaps	21	4	0	0	0	25
Currency forwards	4	12	20	7	0	43
Hedging derivatives						
Interest rate swaps	0	0	0	4	0	4
Total financial derivatives	**25**	**16**	**20**	**11**	**0**	**72**

CZK m	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Total
31 Dec 2016						
Held for trading derivatives						
Currency swaps	1	1	0	0	0	2
Currency forwards	0	1	4	0	0	5
Hedging derivatives						
Interest rate swaps	0	0	0	0	0	0
Total financial derivatives	**1**	**2**	**4**	**0**	**0**	**7**

d) The below table shows the remaining expected maturity of assets and liabilities as follows:

CZK m	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Unspecified	Total
31 Dec 2017							
Cash and balances with the central bank	7,127	0	0	0	0	0	7,127
Financial assets at fair value through profit or loss	5	12	23	8	0	0	48
Financial assets available for sale	0	0	0	0	0	57	57
Financial assets held to maturity	0	12	600	954	10,157	0	11,723
Inflows from hedging derivatives*	0	8	29	141	14	0	192
Change in fair value of items hedged on portfolio basis	0	0	0	0	0	(6)	(6)
Loans and receivables to banks	53,294	0	0	0	0	86	53,380
Loans and receivables to customers	10,086	3,551	19,089	51,779	35,174	4,001	123,680
Investments in associates	0	0	0	0	0	2	2
Current tax assets	0	0	0	0	0	308	308
Deferred tax assets	0	0	0	0	0	386	386
Other assets	242	0	46	0	0	2,737	3,025
Total Assets	**70,754**	**3,583**	**19,787**	**52,882**	**45,345**	**7,571**	**199,922**
Due to banks	23,673	222	2,573	3,164	15	(4)	29,643
Due to customers**	36,180	7,413	31,273	51,299	15,196	108	141,469
Financial liabilities at fair value through profit or loss	25	16	20	7	0	0	68
Outflows from hedging derivatives*	0	5	51	357	36	0	449
Provisions	0	0	364	0	0	0	364
Current tax liability	0	0	0	0	0	2	2
Deferred tax liability	0	0	0	0	0	267	267
Other liabilities	1,830	0	127	11	0	186	2,154
Equity	0	0	0	0	0	25,763	25,763
Total liabilities and equity	**61,708**	**7,656**	**34,408**	**54,838**	**15,247**	**26,322**	**200,179**
Net liquidity position	**9,046**	**(4,073)**	**(14,621)**	**(1,956)**	**30,098**	**(18,751)**	**(257)**

CZK m	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Unspecified	Total
31 Dec 2016							
Cash and balances with the central bank	20,235	0	0	0	0	0	20,235
Financial assets at fair value through profit or loss	11	11	4	0	0	0	26
Financial assets available for sale	128	12	3,266	4,887	5 407	49	13,749
Loans and receivables to banks	189	0	0	0	0	0	189
Loans and receivables to customers	9,718	3,433	14,255	50,170	29,927	4,357	111,860
Investments in associates	0	0	0	0	0	2	2
Current tax assets	0	0	0	0	0	267	267
Deferred tax assets	0	0	0	0	0	805	805
Other assets	231	0	44	0	0	1,971	2,246
Total Assets	**30,512**	**3,456**	**17,569**	**55,057**	**35,334**	**7,451**	**149,379**
Due to banks	2,224	284	48	85	16	0	2,657
Due to customers**	22,683	7,949	24,723	47,868	12,786	243	116,252
Financial liabilities at fair value through profit or loss	1	2	4	0	0	0	7
Provisions	0	0	406	0	0	10	416
Current tax liability	0	0	0	0	0	29	29
Deferred tax liability	0	0	0	0	0	280	280
Other liabilities	2,057	0	95	0	0	318	2,470
Equity	0	0	0	0	0	27,268	27,268
Total liabilities and equity	**26,965**	**8,235**	**25,276**	**47,953**	**12,802**	**28,148**	**149,379**
Net liquidity position	**3,547**	**(4,779)**	**(7,707)**	**7,104**	**22,532**	**(20,697)**	**0**

* In case of interest rate swaps, the individual cash flows are used instead of accounting balances.
**Balances are allocated to the buckets based on expected maturity of non-maturity deposits and contractual maturity date of term deposits. Expected maturity of non-maturity deposits is a function of deposits' volatility and average life of the non-volatile part.

43.8 OPERATIONAL RISK

Operational risk represents the risk of a loss resulting from inadequate or failed internal processes, people or systems, or from external events, including the risk of loss due to a breach of or failure to comply with a legal or regulatory requirement or a threat to the Group's reputation. It also includes legal and outsourcing risk.

The Group implemented standard tools and processes for operational risk management, including Risk & Control Self-Assessment (RCSA), Loss Data Collection of actual internal operational risk losses,monitoring of external risk events, Key Risk Indicators, and Issue management that is used to record, monitor and report identified risks and issues. The Issue management system is also used for monitoring of the relevant action plans, if applicable, and is closely linked to RCSA process.

To mitigate operational risk, the Group produces and maintains business continuity plans for critical situations and operations recovery with the aim of ensuring business activities at a backup workplace and IT disaster recovery plans for key IT applications.

The Group also uses the following methods for mitigation of operational risk:

- Decrease of risk by means of process improvements, organization changes, introduction of limits, Key Risk Indicators or controls, or use of technologies;
- Transfer of risk via outsourcing;
- Decrease of risk impact via insurance (in particular for high severity and low frequency operational risk events); and
- Avoidance of risk by terminating risk-inducing activities.

The Bank's Management Board specifically approves the operational risk governance structure and framework, and the Group's objectives for operational risk management.

The ERMC oversees the Group's operational risk management process and approves methods, limits and Key Risk Indicators monitors adherence to approved limits and Key Risk Indicators; and approves principal changes in the insurance programme and remedial measures.

The ERM department especially develops and maintains the operational risk methodology for RCSA, Loss Data Collection, Key Risk Indicators, outsourcing and insurance, provides measurement of operational risk using the Loss Data Collection process and Key Risk Indicators and reporting to ERMC.

Individual organisational units have operational risk coordinators who provide employees with methodological support for operational risk management and cooperate with the ERM department in operational risk management matters.

Other important parts of operational risk (compliance, information security, business continuity and legal risk) are managed by other organizational units as described below.

43.8.1 Compliance Risk

Compliance risk represents the risk of legal or regulatory sanctions, material financial loss or loss to reputation as a result of a failure to comply with laws, regulations, and relevant self-regulatory organisations' standards and codes of conducts.

The Bank's Compliance Division is an independent control function responsible for monitoring compliance with laws, regulations and internal policies. It oversees the implementation of applicable laws and regulations and provides compliance training to the Group's employees. The Compliance Division is headed by the Chief Compliance Officer, who functionally reports to the Bank's Management Board and organizationally directly to the Chief Executive Officer of the Bank.

The Group manages compliance risk by requiring business activities to adhere to the various compliance policies which it has established and by monitoring compliance with these standards. The Group also has an issue management system in place to monitor and resolve any compliance issues as they arise.

The key areas of responsibility of the Compliance Division include:

- Managing day-to-day regulatory interactions and management and follow-up of regulatory examination issues;
- Ensuring awareness of the Group of the latest legislative and regulatory news through the compliance early warning system process, including initiating the necessary implementation of the changes;
- Ensuring compliance of the Group's internal policies with applicable legal and regulatory provisions as well as the compliance with all other internal regulations;
- Covering the Integrity agenda: Anti-Bribery (Improper payments) and Corruption programme, Competitor Programme & Competitor Contacts database;
- Running the centralised anti-money laundering team, focusing on money laundering and terrorist financing prevention, detection, reporting and strategy;
- Running the anti-fraud risk management programme by the centralised anti-fraud team, covering all internal and external areas of fraud;
- Overseeing the data privacy and personal data protection agenda; and
- Verifying compliance with laws and regulatory requirements by implementing compliance monitoring and controls.

In the area of regulatory compliance, the Compliance Division acts as a single point of contact for communication to and from all regulatory bodies.

Furthermore, it continues to work with other departments in the preparation for the implementation of the EU Markets in Financial Instruments Directive (MiFID II), the EU Payments Services Directive II (PSD II) and General Data Protection Regulation (GDPR) as these are transcribed into Czech legislation.

43.8.2 Information Security

The main objective of Information Security is to protect and maintain information assets by maintaining the confidentiality, integrity, availability and credibility of information. The Group understands the significance of well designed and implemented Information Security and regards it as one of its key priorities. Information Security is applied via a variety of security tools and processes ranging from antivirus software to user awareness. The aim is to ensure maximum risk coverage and protection of the Group information, including client data.

In April 2017, responsibility for information security management was transferred from Information Technologies Division to Risk Division to enhance independency of information security management from IT delivery functions.

During 2017 the Group focused on security enhancements, such as the implementation of real-time security monitoring and modernisation of perimeter security elements. Together with Compliance and Product units, new security challenges driven by GDPR and PSD II are being addressed. The Bank successfully passed a Cyber Security test organised by the Czech Banking Association in June 2017.

During 2017 the Bank sought to inform and educate clients via different channels to increase their security awareness. The Bank participated again in the Czech Banking Association awareness for schools focused on Cyber security to help even the younger part of population understand the risks of cyber world, including as these relate to online banking services.

43.8.3 Business Continuity

The main goal of the business continuity management is to ensure the lowest possible impact on the Group's business continuity in the case of an extraordinary situation with regard to employee security or health, while maintaining duties prescribed by legal and regulatory requirements.

The regular business continuity management process includes Risk Assessment – decisions about critical and noncritical processes, Business Impact Analysis and Business Continuity Plans for critical processes, Trainings, and Tests. The Group has developed Business Continuity Plans for all critical processes. The Group regularly tests Business Continuity Plans and reviews and assesses their adequacy.

During the past four years, the Group has experienced no material interruption in its business operations.

43.8.4 Legal Risk

Dealing with legal risk and managing it means minimizing uncertainty associated with enforcement and interpretation of applicable law, contracts and regulations. In addition to standard legal functions in the various areas such as contract, banking and corporate law, the main tasks of the Group's lawyers during 2017 consisted in keeping both the retail and commercial contractual documentation aligned with both the business strategy and various needs of the business departments of the Group and new regulations. Significant changes were made to the processes and contractual documentation on distribution of investment funds in connection with the implementation of MiFID II as well as preparatory works on PSD II. All these actions were taken in due time in order to fully comply with the new regulations.

43.9 MODEL RISK

Model risk refers to the possibility of adverse consequences or other negative impact emerging from decisions based on the results of a flawed model or the incorrect use of model outputs and/or reports (linked to errors in the development, implementation or use of the models).

The Group manages the model risk mainly by actively managing individual phases of the model life cycle, among others by imposing requirements and standards on:

- Model Tiering;
- Model development documentation;
- Model validation;
- Model approvals;
- Model performance monitoring.

Model Tier reflects the influence, complexity and other aspects of models and triggers mainly the depth of model documentation, validation, and approval requirements.

The ERMC is responsible for the general setup of the model risk management process in the Group and its specific authorities cover notably approval of the Tiering framework and approval of model use for the most influential models. The ERMC also reviews quarterly reports on model risk management and decides on potential remedial measures.

The Model Risk Oversight Committee established by the CRO mainly

- Approves model documentation and validation standards and templates;
- Approves low influential models and their changes;

- Pre-approves the most influential models and support ERMC with recommendations;
- Monitors model performance on a regular basis, ensures that the model performance is in compliance with model complexity and importance, escalates potential issues to the ERMC; and
- Submits quarterly a holistic report on model risk management to the ERMC.

44. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The following table shows the carrying values and fair values of financial assets and liabilities that are not presented at fair values in the Group's consolidated statement of financial position. The fair value includes anticipated future losses while the carrying value (amortised cost and related impairment) includes only losses arising at the end of the reporting period.

The Group uses the following inputs and techniques to estimate the fair value:

- **Cash and balances with the central bank**
  The carrying value of cash and balances with the central bank approximates their fair value.

- **Financial assets held to maturity**
  Difference between fair value and carrying value of financial assets held to maturity is mainly driven by different market and effective interest rates of government bonds comprised in this portfolio.

- **Loan and receivables to banks**
  The carrying value of receivables to banks approximates their fair values due to the short maturity of those receivables.

- **Loans and receivables to customers**
  Fair values of loans are estimated on the basis of discounted future expected cash flows using the interest rate common for loans with similar credit risk and interest risk conditions profile and maturity dates (discounted rate technique according to IFRS 13). For impaired loans the present value of future expected cash flows including the expected proceeds from a collateral foreclosure, if any.

- **Due to banks**
  The carrying value of due to banks in principle approximates their fair values due to the short maturity of those deposits.

- **Due to customers**
  Fair values of deposits repayable on demand at request and term deposits bearing a variable interest rate are equal to their carrying value as of the balance sheet date. Fair values of term deposits with a fixed interest rate are estimated on the basis of discounted cash flows using the market interest rates.

	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
CZK m	Carrying value		Fair value	
FINANCIAL ASSETS				
Cash and balances with the central bank	7,127	20,235	7,127	20,235
Financial assets held to maturity	11,723	0	11,238	0
Loans and receivables to banks	53,380	189	53,380	189
Loans and receivables to customers	123,680	111,860	125,555	115,379
FINANCIAL LIABILITIES				
Deposits from banks	29,643	2,657	29,631	2,657
Due to customers	141,469	116,252	141,469	116,252

Financial assets held to maturity are classified as level 1 because fair value is based on quoted prices on active market. Cash and balances with the central bank, Loans and receivables to banks and Due to banks are classified as level 2 and all other fair values presented above are classified as level 3 as the data used for the estimation of the discount rate are not based on the data from the active market. There are assumptions applied for the estimation of the cash flows used for discounting taking into account expected repayment profile of the particular pool or product. The discount rates used for discounting are based on the rates of the major competitors or other benchmark rates for similar type of assets.

The following table summarises the hierarchy of fair values of financial assets and financial liabilities that are carried at fair value in the statement of financial position:

	31 Dec 2017			31 Dec 2016		
CZK m	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
FINANCIAL ASSETS						
Financial assets at fair value through profit or loss	0	48	0	0	26	0
Financial assets available for sale	0	0	57	13,444	256	49
Hedging derivatives with positive fair values	0	4	0	0	0	0
Change in fair value of items hedged on portfolio basis	0	0	(6)	0	0	0
FINANCIAL LIABILITIES						
Financial liabilities at fair value through profit or loss	0	68	0	0	7	0
Hedging derivatives with negative fair values	0	4	0	0	0	0

There were no transfers between level 1 and 2 during the year 2017 nor 2016.

The Group uses the following inputs and techniques to determine the fair value under level 2 and level 3:

The level 2 assets include mainly financial derivatives , corporate bonds and treasury bills. For derivative exposures the fair value is estimated using the present value of the cash flows resulting from the transactions taking into account market inputs like FX spot and forwards rates, benchmark interest rates, swap rates, etc. The fair value of corporate bonds, treasury bills is calculated as the present value of cash flows using the benchmark interest rates.

The level 3 assets include equity instruments not traded on the market where the fair value is calculated using the valuation techniques including expert appraisals.

Movement analysis of level 3 financial assets and liabilities:

CZK m	As at 1 Jan 2017	Purchases/Sales in the period	Total gains and losses in the period recognised in the income statement	Total gains and losses in the period recognised in OCI	As at 31 Dec 2017
Available for sale					
Equity investments	49	0	0	8	57

CZK m	As at 1 Jan 2016	Purchases/Sales in the period	Total gains and losses in the period recognised in the income statement	Total gains and losses in the period recognised in OCI	As at 31 Dec 2016
Available for sale					
Equity investments	135	(248)	162	0	49

45. MANDATORY PUBLISHED INFORMATION

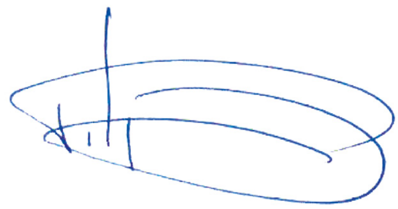
The Group publishes the mandatory information according to Part 8 of Regulation of the European Parliament and the Council (EU) No. 575/2013 of 26 June 2013 on its website in the section 'Mandatory information' at the following address: www.moneta.cz/o-nas/informacni-povinnost.

46. SUBSEQUENT EVENTS

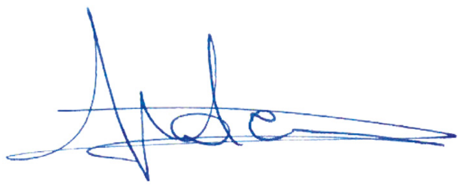
In accordance with already communicated strategy to reduce legacy portfolio of non-performing loans, the Bank entered on 17th January 2018 into an agreement for sale of a part of retail unsecured non-performing loans portfolio in the total nominal value of CZK 2.2 billion (balance sheet IFRS gross value of CZK 125 million and off-balance sheet value of CZK 2.1 billion). The Bank will realise as a result of this transaction a gain of approximately CZK 428 million in January 2018.

On 7 February 2018 the Management Board announced the intention to propose to the shareholders of the Bank dividend payment of CZK 8.0 per share.

Signature of statutory representatives
In Prague, 20 March 2018



Tomáš Spurný
Chairman of the Management Board



Philip Holemans
Vice Chairman of the Management Board

FINANCIAL SECTION

Auditor's Report and Separate Financial Statements as at and for the Year ended 31 December 2017

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Independent Auditor's Report to the Shareholders of MONETA Money Bank, a.s.

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the accompanying separate financial statements of MONETA Money Bank, a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Relugation (EU) No. 537/2014 of the European Parliament and of the Council, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG Česká republika Audit, s.r.o., a Czech limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Recorded in the Commercial Register kept by the Municipal Court in Prague, Section C, Insert No. 24185

Identification No. 49619187
VAT No. CZ699001996
ID data box: 8h3gtra

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Key Audit Matters

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

Loss allowances for loans and receivables to customers

Key audit matter	How the audit matter was addressed
We focused on this matter because of the highly subjective and complex judgements made by the Company's management in determining the necessity for, and then estimating the size of, loss allowances against loans. Loss allowances for loans and receivables to customers at CZK 3,512 million as at 31 December 2017 represent estimate of the impairment losses incurred within loans and receivables to customers (further only as "loans") at the balance sheet date. In order to calculate loss allowances, the entire loan portfolio is divided into non-impaired loans and impaired loans. The loan portfolio is further segmented into commercial and retail exposures. The calculation of allowances for the non-impaired loan portfolio is based on statistical models. Allowances for the impaired part of the loan portfolio are split into individual and portfolio allowances. Individual allowances are determined for impaired commercial individually-managed exposures by calculating the discounted future cash flows. Portfolio allowances are determined for remaining portfolios based on the statistical approach. Particularly important element in the impairment process includes the identification whether objective evidence of impairment exists for the respective loan exposure. The Company has set the series of criteria	We performed, among others, the procedures outlined below to address this key audit matter: We critically assessed and challenged the Company's credit policies and evaluated the processes for identifying impairment indicators and the categorisation of receivables according to these policies. We tested the design, implementation and operating effectiveness of system-based and manual controls over identification and timely recognition of impaired loans such as controls relating to calculation of days past due of loans, matching of borrower's repayments to loan instalments and appropriate categorisation of receivables by inquiry in combination with observation, inspection and re-calculation. We tested the design, implementation and operating effectiveness of controls over the impairment calculation models including data inputs for purposes of calculation of risk parameters (probability of default, loss given by default, etc.) and data transfers by inquiry in combination with observation, inspection and re-calculation. We tested the design, implementation and operating effectiveness of controls on performing commercial individually-managed loans over identification of the existence of impairment triggers by inquiry in combination with observation and inspection. In relation to loss allowances for non-impaired loans and impaired loans for which statistical historical models are used, we critically assessed key methods

Key audit matter	How the audit matter was addressed
to identify the objective evidence of impairment. This objective evidence includes observable data about the events such as, among others, the delinquency in contractual payments of principal or interest, prospective cash flow difficulties, etc. Key assumptions and judgements that underlie the statistical modelling of loss allowances include the probability of default (PD) and the loss given default (LGD) calculation. The impaired commercial individually-managed loans require the Company's management to monitor the borrowers' repayment abilities individually and assess the individual allowances of each borrower. The key judgment for individual allowances is determining future cash repayments of these loans taking into account the estimated value and timing of cash flows including estimating the recoverable value of underlying collateral. Refer to further information in the note 5.5.8 (Summary of significant accounting policies), 22 (Loans and receivables to customers) and 42.3 (Credit risk) to the separate financial statements.	and challenged the key assumptions applied by the Company's management. We involved our credit risk specialist for assessment and evaluation of the statistical models. We challenged the appropriateness of the key assumptions applied in the models, such as the probability of default and the loss given default calculation using our understanding of the Company, the historical accuracy of its estimates and current and past performance of the loans. We carried out year-on-year comparison of key ratios, including allowance-to-loan ratios at each product and segment. For a sample of impaired commercial individually-managed loans we considered the latest developments in relation to the borrower, existence of the impairment triggers and the basis of measuring the loss allowance. Furthermore, we examined the estimated cash flows from the impaired borrowers, as prepared by the credit risk department, and in particular challenged the key assumptions in relation to both the amount and timing of estimated cash flows. We re-calculated specific allowances calculated by the credit risk department in order to check the accuracy of data captured in the accounting records. We involved our real estate valuation specialist to critically assess methodology used by the Company for internal and external real estate appraisals. The specialist challenged the assumptions used in the appraisals by comparison with our own expectations based on our knowledge of the client and experience. We assessed the adequacy of the Company's disclosures on the loss allowances and the related credit risk management in the notes to the separate financial statements.

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Litigation and claims

Key audit matter	How the audit matter was addressed
The recognition and measurement of provisions and the measurement and disclosure of contingent liabilities in respect of litigation and claims require significant judgement by the Company's management. Therefore, we consider this a key audit matter. We paid particular attention to the following: - litigation risks in respect of the 1998 acquisition of a part of Agrobanka's banking business. Refer to further information in the note 5.8 (Summary of significant accounting policies), 34 (Provisions) and 39 (Contingent liabilities) to the separate financial statements.	Our audit procedures included, among others, the assessment of management's judgement regarding the most significant litigation and claims. For such litigation and claims, we considered whether an obligation exists, the appropriateness of provisioning and disclosure based on the facts and circumstances available. In order to assess the facts and circumstances, we obtained and assessed the relevant litigation and claims documents, including lawyer's letters. We also interviewed the Company's internal and external legal counsel in order to update our understanding of the latest development and key inputs, to assess completeness and accuracy of information applied in a calculation of the related provisions. We also critically assessed and challenged the assumptions made and key judgements applied by management. Additionally, we considered whether the Company's disclosures of the application of judgement in estimating provisions and contingent liabilities adequately reflects the uncertainties associated with the identified litigation and claims.

IT systems and controls over financial reporting

Key audit matter	How the audit matter was addressed
We identified IT systems and controls over financial reporting as an area of focus as the Company's financial accounting and reporting systems are dependent on complex systems and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed or operating effectively.	We assessed and tested the design, implementation and operating effectiveness of the controls over the information systems that are critical to financial reporting. We, among others, tested the controls over the access to programs and data and change management procedures including compensating controls where required by inquiry in combination with observation and inspection. We also assessed certain aspects of the security of the IT systems including access management and segregation of duties.

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Expected impact of IFRS 9 adoption which is effective from 1 January 2018

Key audit matter	How the audit matter was addressed
We focused on this matter because of the highly subjective and complex judgements made by the Company's management in determining the expected impact of adoption of IFRS 9 Financial instruments, mainly related to, among others, classification and measurement of financial assets and estimating the size of expected loss allowances against financial assets. IFRS 9 replaces IAS 39 as at 1 January 2018. For the purpose of separate financial statements as at 31 December 2017, the Company decided to disclose, among other, expected impact of IFRS 9 adoption as at 1 January 2018 in notes to the separate financial statements. Classification and measurement of financial assets with similar characteristics was assessed by the Company from the point of view of: - business model under which those assets are held, - SPPI test which assesses if contractual cash flows arising from the asset are solely payments of principal and interest. Loss allowances for loans and receivables represent estimate of the expected impairment losses within loans and receivables (further only as "loans") at the balance sheet date. Loss allowances are subject to highly subjective and complex judgements made by the Company's management. The loans are segmented into commercial and retail portfolio exposures. In order to calculate loss allowances, the entire loan portfolio is divided into three stages. Stage 1 and Stage 2 loans are performing loans. Stage 2 loans are	We performed, among others, the procedures outlined below to address this key audit matter: In relation to classification and measurement, in co-operation with our credit risk specialist, we critically assessed and challenged Company's policies and evaluated the analyses performed by management in order to determine relevant business models and evaluate SPPI test for most significant types of loans. In co-operation with our credit risk specialist, we critically assessed and challenged the Company's credit policies in relation to impairment based on our knowledge, experience and market standards within the banking industry. We evaluated the processes for identifying impairment indicators and the staging of receivables according to these policies. We tested the design, implementation and operating effectiveness of system-based controls over appropriate staging of receivables by inquiry in combination with observation and inspection. On a sample of loans we checked that the loans have been assigned to appropriate stage in accordance with the Company's credit policies. We involved our credit risk specialist for assessment and evaluation of the statistical models. We critically challenged the appropriateness of the key assumptions applied in the models, such as the probability of default and the loss given default calculation using our understanding of the Company's policies, types of loans and development of loan portfolios. We tested the design, implementation and operating effectiveness of controls over the impairment calculation models including

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Key audit matter	How the audit matter was addressed
loans where significant increase in credit risk since origination has been observed. Stage 3 loans are non-performing, i.e. impaired loans. Key assumptions and judgments made for the purpose of the calculation of loss allowances include: - definition of default, definition of significant increase in credit risk and estimation of probability of default (PD), - estimation of loss given default (LGD), - estimation of exposure at default (EAD), - estimation of development of selected macroeconomic indicators. Refer to further information in the note 4.1 (a) (IFRS 9 Financial Instruments) to the separate financial statements.	data inputs for purposes of calculation of risk parameters (probability of default, loss given by default, etc.) and data transfers among relevant IT systems by inquiry in combination with observation and inspection. On a sample of loans we recalculated expected credit losses using risk parameters determined by the Company and compared them with loss allowances calculated by the Company. We assessed the adequacy of disclosures related to IFRS 9 implementation as disclosed in the notes to the Company's separate financial statements.

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the separate financial statements and our auditor's report. The statutory body is responsible for the other information.

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

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

- the other information describing matters that are also presented in the separate financial statements is, in all material respects, consistent with the separate financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

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

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Separate Financial Statements

The statutory body is responsible for the preparation and fair presentation of the separate financial statements in accordance with Czech accounting legislation and for such internal control as the statutory body determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

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

The Supervisory Board and Audit Committee are responsible for the oversight of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.

- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of Auditor and Period of Engagement

We were appointed as the auditors of MONETA Money Bank, a.s. by the General Meeting of Shareholders on 24 April 2017 and our uninterrupted engagement has lasted for 20 years.

Consistency with Additional Report to Audit Committee

We confirm that our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 20 March 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014

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of the European Parliament and of the Council.

Provision of Non-audit Services

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

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

Statutory Auditor Responsible for the Engagement

Vladimír Dvořáček is the statutory auditor responsible for the audit of the separate financial statements of MONETA Money Bank, a.s. as at 31 December 2017, based on which this independent auditor's report has been prepared.

Prague
20 March 2018

KPMG Česká republika Audit

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

Vladimír Dvořáček
Partner
Registration number 2332

SEPARATE FINANCIAL STATEMENTS OF MONETA MONEY BANK, a.s.

As at and for the Year Ended 31 December 2017

Prepared according to IFRS as adopted by EU

Name of the Bank:	MONETA Money bank, a.s.
Registered office:	Vyskočilova 1422/1a, Praha 4–Michle
Identification no:	25672720
Business:	Bank
Code of the Bank:	0600
Date of preparation:	20 March 2018

SEPARATE STATEMENT OF FINANCIAL POSITION
as at 31 December 2017

CZK m	Note	31 December 2017	31 December 2016
Assets			
Cash and balances with the central bank	18	7,126	20,235
Financial assets at fair value through profit or loss	25	48	26
Financial assets available for sale	23	57	13,749
Financial assets held to maturity	24	11,723	0
Hedging derivatives with positive fair values	25	4	0
Change in fair value of items hedged on portfolio basis		(6)	0
Loans and receivables to banks	21	53,367	163
Loans and receivables to customers	22	117,035	107,353
Intangible assets	26	1,273	736
Property and equipment	27	749	520
Investments in subsidaries and associates	28	4,554	5,840
Current tax assets	29	286	248
Deferred tax assets	30	388	765
Other assets	31	807	637
TOTAL ASSETS		**197,411**	**150,272**
Liabilities			
Due to banks	32	26,643	2,657
Due to customers	33	141,656	116,349
Financial liabilities at fair value through profit or loss	25	68	7
Hedging derivatives with negative fair values	25	4	0
Provisions	34	325	401
Other liabilities	35	1,869	2,244
Total liabilities		**170,565**	**121,658**
Equity			
Share capital	36	511	511
Share premium	36	5,028	5,028
Statutory reserve	36	102	102
Available for sale reserve	36	(57)	363
Share based payment reserve		(2)	(2)
Retained earnings		21,264	22,612
Total equity		**26,846**	**28,614**
TOTAL LIABILITIES AND EQUITY		**197,411**	**150,272**

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2017

CZK m	Note	2017	2016 Restated*
Interest and similar income		6,845	7,611
Interest expense and similar charges		(205)	(191)
Net interest income	**6**	**6,640**	**7,420**
Fee and commission income		2,090	2,101
Fee and commission expense		(278)	(295)
Net fee and commission income	**7**	**1,812**	**1,806**
Dividend income	8	1,468	3,588
Net income from financial operations	9	706	600
Other operating income	10	272	195
Total operating income		**10,898**	**13,609**
Personnel expenses	11	(2,225)	(2,071)
Administrative expenses	12	(1,832)	(1,875)
Depreciation and amortisation	13	(381)	(284)
Other operating expenses	14	(160)	(396)
Total operating expenses		**(4,598)**	**(4,626)**
Profit for the year before tax and net impairment of loans and receivables and AFS		**6,300**	**8,983**
Net impairment of loans and receivables	15	(489)	(854)
Impairment of investments in subsidiaries and associates	28	(1,286)	0
Profit for the year before tax		**4,525**	**8,129**
Taxes on income	16	(865)	(860)
Profit for the year after tax		**3,660**	**7,269**
Items that are or might be reclassified to profit or loss			
- Change in fair value of AFS investments recognised in OCI	36.2	(176)	132
- Change in fair value of AFS investments recognised in P&L	36.2	(343)	(279)
- Deferred tax	36.2	99	28
Other comprehensive income, net of tax		**(420)**	**(119)**
Total comprehensive income		**3,240**	**7,150**
Earnings per share			
Profit for the year after tax attributable to the equity holders		3,660	7,269
Weighted average of ordinary shares (millions of shares)		511	511
Basic/Diluted earnings per share (in CZK)	17	7.16	14.23

*The comparative figures have been regrouped or reclassified, where necessary, on a basis consistent with the current year (see note 5.19).

SEPARATE STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

CZK m	Share capital	Share premium	Statutory reserve	Available for sale reserve	Share based payment reserve	Retained earnings	Total
Opening balance 1 January 2016	**511**	**5 028**	**102**	**482**	**(2)**	**19,847**	**25,968**
Transactions with owners of the company							
Dividends	0	0	0	0	0	(4,506)	(4,506)
Other changes	0	0	0	0	0	2	2
Total comprehensive income							
Profit for the year after tax	0	0	0	0	0	7,269	7,269
Other comprehensive income after tax							
Change in fair value of AFS assets							
Change in fair value of AFS investments recognised in OCI	0	0	0	132	0	0	132
Change in fair value of AFS investments recognised in P&L	0	0	0	(279)	0	0	(279)
Deferred tax	0	0	0	28	0	0	28
Balance 31 December 2016	511	5,028	102	363	(2)	22,612	28,614
Opening balance 1 January 2017	511	5,028	102	363	(2)	22,612	28,614
Transactions with owners of the company							
Dividends	0	0	0	0	0	(5,008)	(5,008)
Total comprehensive income							
Profit for the year after tax	0	0	0	0	0	3,660	3,660
Other comprehensive income after tax							
Change in fair value of AFS assets							
Change in fair value of AFS investments recognised in OCI	0	0	0	(176)	0	0	(176)
Change in fair value of AFS investments recognised in P&L	0	0	0	(343)	0	0	(343)
Deferred tax	0	0	0	99	0	0	99
Balance 31 December 2017	**511**	**5,028**	**102**	**(57)**	**(2)**	**21,264**	**26,846**

SEPARATE STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

CZK m	Note	2017	2016*
Cash flows from operating activities			
Profit for the year after tax		**3,660**	**7,269**
Adjustments for:			
Depreciation and amortisation	13	381	284
Impairment of tangible and intangible assets	26,27	3	0
Net impairment of loans and receivables	15	489	854
Net gain on sale of available for sale financial assets	9	(343)	(279)
Amortisation of coupon of financial assets available for sale	6	(38)	(87)
Amortisation of coupon of financial assets held to maturity	6	(25)	0
Net interest income from hedging derivatives	6	5	0
Net gain/ loss from revaluation of hedging derivatives	9	(5)	0
Net gain/ loss from revaluation of items hedged on porfolio basis	9	6	0
Impairment of investments in subsidiaries and associates	28	1,286	0
Creation of provision for restructuring not recognized in depreciation and amortization		67	0
Net loss on sale or impairment of tangible and intangible assets		4	60
Dividend income	8	(1,468)	(3,588)
Tax expense	16	865	860
		4,887	**5,373**
Changes in:			
Financial assets at fair value through profit or loss	25	(22)	(19)
Loans and receivables to customers	15,22	(10,171)	(8,857)
Other assets	31	(170)	(167)
Due to banks	32	23,986	2,368
Due to customers	33	25,307	4,834
Financial liabilities at fair value through profit or loss	25	61	(1)
Other liabilities and provisions	34,35	(521)	(49)
		43,357	**3,482**
Income taxes paid		(428)	(751)
Net cash used in operating activities		**42,929**	**2,731**
Cash flows from investing activities			
Acquisition of financial assets available for sale		0	(3,489)
Proceeds from financial assets available for sale		8,292	3,218
Acquisition of financial assets held to maturity		(6,448)	0
Proceeds from financial assets held to maturity		12	0
Acquisition of property and equipment and intangible assets	26,27	(1,167)	(661)
Dividends received	8	1,468	3,586
Proceeds from recovery of investments	28	0	3,927
Net cash used in investing activities		**2,157**	**6,581**
Cash flows from financing activities			
Dividend paid		(5,008)	(4,506)
Net cash used in financing activities		**(5,008)**	**(4,506)**
Net change in cash and cash equivalents		**40,078**	**4,806**
Cash and cash equivalents at the beginning of the period	**19**	**20,398**	**15,592**
Cash and cash equivalents at the end of the period	**19**	**60,476**	**20,398**
Interest received**		6,508	6,857
Interest paid**		(204)	(239)

*The comparative figures have been regrouped or reclassified, where necessary, on a basis consistent with the current year
**Interest received and Interest paid represent interest as per contractual rate and are included within cash flows from operating activities

Foreign exchange losses relating to average balance of cash and cash equivalents in foreign currencies in 2017 are in the amount of CZK 50 million (2016: foreign exchange gain CZK 3 million).

NOTES TO SEPARATE FINANCIAL STATEMENTS OF MONETA MONEY BANK, a.s.

As at and for the Year Ended 31 December 2017

Prepared according to IFRS as adopted by EU

CONTENT

1. GENERAL INFORMATION

MONETA Money Bank (further the "Bank") is a joint-stock company incorporated and domiciled in the Czech Republic, its registered office and principal place of business is Vyskočilova 1422/1a, 140 28 Prague 4, Michle, Czech Republic, ID Number: 25672720, incorporated in the Commercial Register by the Municipal Court in Prague, Section B, Entry No. 5403, ISIN number: CZ0008040318. As of 31 December 2015 the Bank was the wholly owned subsidiary of GE Capital International Holdings Limited ("GECIHL"). The ultimate parent of GECIHL was General Electric Company ("GE").

Following the strategy announced by GE in April 2015 to sell most of its financial services businesses and focus on its industrial businesses, the sole shareholder of the Bank GECIHL offered all common shares to trading on the Prime Market of Prague Stock Exchange. The Offering was completed and settled on 10 May 2016. For more details about transactions of GE with the Bank including changes in its ownership interest in the Bank see the note 40.

As part of the overall separation from GE, the Bank ceased using the GE corporate brand. On 1 May 2016 the Bank was officially renamed from GE Money Bank, a.s., to MONETA Money Bank, a.s. The legal and commercial names of the Bank and its three subsidiaries were changed on 1 May 2016 as follows:

Old name till 30 April 2016	New name from 1 May 2016
GE Money Bank, a.s.	MONETA Money Bank, a.s.
GE Money Auto, s.r.o.	MONETA Auto, s.r.o.
GE Money Leasing, s.r.o.	MONETA Leasing, s.r.o.
GE Money Leasing Services, s.r.o.	MONETA Leasing Services, s.r.o.

The latest available list of shareholders holding more than 1% of the shares is available in the investor relations section of the Bank's website at **https://investors.moneta.cz/shareholder-structure**.

The Bank operates in the Czech Republic and focuses primarily on secured and unsecured consumer lending and commercial financing. The consumer portfolio consists of secured and unsecured lending. Unsecured lending products include consumer loans, credit cards and personal overdrafts. Secured lending is provided in the form of mortgages. Commercial lending products range from working capital, investment loans, financing of small businesses and entrepreneurs through guarantees, letters of credits and foreign exchange transactions. The Bank provides a wide range of deposit and transactional products to retail and commercial customers.

The Bank issues debit and credit cards in cooperation with VISA and MasterCard. In addition, the Bank intermediates additional payment protection insurance which covers the customer's monthly loan payment in the event of unemployment, accident or sickness. The Bank also acts as the intermediary to provide its customers with other insurance and investment products.

The Bank's financial statements were authorised for issue by the Management Board on the 20 March 2018. In addition, the financial statements are subject to approval at the General Meeting of shareholders.

All press releases, financial reports and other information are available on the Bank´s website: **www.moneta.cz**.

The Bank has not prepared a separate annual report, because the Bank includes the respective information in the consolidated annual report.

2. BASIS OF PREPARATION

2.1 BASIS OF PRESENTATION

The financial statements contained herein are separate financial statements of the Bank prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRS").

International Financial Reporting Standards comprise accounting standards issued or adopted by the International Accounting Standards Board ("IASB") as well as interpretations issued or adopted by the IFRS Interpretations Committee ("IFRIC").

2.2 GOING CONCERN

The separate financial statements are prepared on a going concern basis, as the Management Board are satisfied that the Bank has the resources to continue in business for the foreseeable future. In making this assessment, the Management Board have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources.

2.3 FUNCTIONAL AND PRESENTATION CURRENCY

The Bank's financial statements are presented in Czech Koruna (CZK) which is the Bank's functional currency. All amounts have been rounded to the nearest million, except where otherwise indicated.

2.4 MEASUREMENT

The separate financial statements have been prepared on a historical cost basis, except for available for sale investments and derivative financial instruments which have been measured at fair value. The carrying values of recognised assets that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged, and this adjustment is reported on a separate line of the statement of financial position because of application of portfolio fair value hedges.

3. USE OF ESTIMATES AND JUDGEMENTS

The preparation of the Bank's financial statements in conformity with IFRS requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based, resulting in materially different conclusions from those reached by management for the purposes of the 2017 Separate Financial Statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements and estimates in applying accounting policies that have the most significant effect on the amounts recognised in the Bank's financial statements is included in the following notes:

- Deferred tax assets – note 30
- Impairment of financial assets – notes 15 and 42
- Provisions – note 34
- Fair value – note 43
- Classification of leases – note 5.9

4. NEW STANDARDS AND INTERPRETATIONS

4.1 STANDARDS AND AMENDMENTS ISSUED BY THE IASB ENDORSED BY THE EU BUT EFFECTIVE AFTER 31 DECEMBER 2017

(a) IFRS 9 Financial Instruments

IFRS 9 "Financial Instruments" issued on 24 July 2014 replaces IAS 39 Financial Instruments: Recognition and Measurement. The Standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. IFRS 9 issued in 2014 is mandatorily effective for periods beginning on or after 1 January 2018 and it was endorsed by the EU in November 2016.

Classification and measurement

IFRS 9 divides all financial assets into two classifications – those measured at amortised cost and those measured at fair value. Where assets are measured at fair value, gains and losses are either recognised entirely in profit or loss (fair value through profit or loss, FVTPL), or recognised in other comprehensive income (fair value through other comprehensive income, FVTOCI). Equity instruments are measured at FVTPL, unless irrevocable election at initial recognition to classify such instrument as at FVTOCI, with all subsequent changes in fair value being recognised in the Other comprehensive income (OCI) is made by the Bank.

The classification of a financial asset is made at the time it is initially recognised, namely when the entity becomes a party to the contractual provisions of the instrument and the classification and measurement will depend on the company's business model and financial asset's contractual cash flow characteristics.

All financial instruments are initially measured at fair value plus respectively minus transaction costs, in case of a financial asset respectively financial liability not at fair value through profit or loss.

Impairment

The impairment model in IFRS 9 is based on the premise of providing for expected losses, while IAS 39 is based on an incurred loss model. The IFRS 9 impairment model applies to financial assets measured at amortised cost; financial assets mandatorily measured at FVTOCI; loan commitments when there is a present obligation to extend credit, financial guarantee contracts and lease receivables.

Under the IFRS 9 model, credit losses are required to be measured through a loss allowance at an amount equal to:

- the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
- full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).

A loss allowance for full lifetime expected credit losses (ECL) is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition. The assessment of whether there has been a significant increase in credit risk is based on an increase in the probability of a default occurring since initial recognition or if a default event has occurred for the financial instrument.

The assessment of credit risk, and the estimation of ECL, are required to be unbiased and probability-weighted and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the time value of money must also be incorporated into the calculation.

Financial assets measured at amortised cost are generally divided into 3 stages:
- Stage 1: losses are determined on the basis of 12-month ECL and interest revenue is recognised using effective interest rate method applied on the financial asset's gross carrying amount
- Stage 2: losses are determined on the basis of lifetime ECL and interest revenue is recognised using effective interest rate method applied on the financial asset's gross carrying amount
- Stage 3: losses are determined on the basis of lifetime ECL and interest revenue is recognised using effective interest rate method applied on the financial asset's net carrying amount

Hedge Accounting
IFRS 9 contains fewer restrictions regarding hedging instruments and hedge accounting is more principles-based than IAS 39, providing better links to a company's risk management activities. More types of financial instruments will be accepted as hedging instruments. A hedged item can be a recognised asset or liability, an unrecognised firm commitment, a highly probable forecast transaction or a net investment in a foreign operation and must be reliably measurable.

However, IFRS 9 incorporates a policy choice that allows the existing hedge accounting requirements under IAS 39 to continue in place or the hedge accounting requirements under IFRS 9, pending the completion of the IASB's project on macro hedge accounting.

The new hedge accounting disclosures required by the related amendments to IFRS 7 Financial Instruments: Disclosures, however, are required for the annual period beginning January 1, 2018.

Transition
The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening statement of financial position at the date of initial application i.e. 1 January 2018, with no requirement to restate comparative periods. Hedge accounting is generally applied prospectively from that date.

The Bank has analysed the contractual cash flow characteristics of financial assets, with the focus on the identification of features, which may influence results of solely the payments of the principal and interests test ("SPPI test"). Failing the SPPI test would in turn require the measurement of the instrument at fair value through profit or loss.

The Bank has defined its business models as follows:
- Held to collect (HTC) business model for financial assets acquired with the intention to be held until its maturity and to collect contractual cash flows. Sales, which are insignificant or infrequent, related to management of increased credit risk of the asset, or close to maturity of the financial assets are considered to be consistent with HTC business model.
- Held to collect and sell (HTCS) business model for financial assets acquired with the intention to be held to collect contractual cash flow and to be sold. More frequent sales within this portfolio are expected, mainly for reason of managing the Bank's liquidity needs. At transition date, the Bank did not hold any financial assets within HTCS business model.
- Other business model for financial assets neither classified as HTC nor HTCS.

The Bank prepared detailed analysis of its business model applied for managing financial assets and SPPI tests for loans and receivables arising from its products or other receivables. The analysis proved that financial assets currently classified as loans and receivables are meeting the SPPI test and their business model shall be regarded as held to collect. They will still be measured at amortised cost under IFRS 9.

Non-derivative financial instruments recognised in line with IAS 39 classification as, Financial assets held to maturity or Financial assets available for sale will be recognised in the single line of the statement of financial position "Investment securities". In the Notes and for the purposes of subsequent measurement they will be split into three categories:
- held to collect (HTC) measured after initial recognition at amortised cost; or
- held to collect and sell (HTCS) measured subsequently at fair value through other comprehensive income (FVTOCI); or
- other financial assets measured after initial recognition at fair value through profit or loss (FVTPL).

Derivative financial instruments not designated as hedging instrument will be recognised in single statement of financial position line "Derivative financial instruments".

Equity securities classified as Financial assets available for sale (AFS) cannot pass SPPI test and they are not held for trading purposes. Major part of current equity securities portfolio classified as AFS will be measured at FVTPL after IFRS 9 transition. For the residual minor part, the Bank elected irrevocable option provided by IFRS 9 to classify it as at the date of transition as FVTOCI.

All debt securities classified as AFS as at the date of transition meeting SPPI test and are held within the HTC business model, therefore, will be measured at amortised cost after transition date.

Total Available for sale reserve recognised in the equity in the amount of CZK 57 million will be derecognised as at the date of transition. First part of this reserve relating to revaluation of debt instruments until their reclassification from AFS to HTM portfolio in August 2017 will be booked against the carrying value of these debt instruments classified as HTC and measured at amortised cost under IFRS 9. Second part relating to equity securities classified as FVTPL under IFRS 9 will be transferred to retained earnings. Residual minor part resulting from equity instruments for which the Bank elected irrevocable option to measure them at FVTOCI will be recorded in statement of financial position line "Other reserves". Further, deferred tax related to AFS reserve will be derecognised.

Estimated impact after deferred tax is increase of the equity in amount of CZK 64 million from release of AFS reserve against carrying value of HTC, increase of the equity in amount of CZK 2 million from reclassification of equity securities from AFS to FVTPL and decrease of the equity in the amount of CZK 5 million resulting from measurement of financial guarantee contracts. Therefore, total impact of new IFRS 9 classification and measurements requirements is estimated to be an increase of the equity in amount of CZK 61 million at transition date, 1 January 2018.

The Bank also focused on the impact of rules stipulated by the standard with respect to purchased or originated credit-impaired ("POCI") financial assets mainly on effective interest rate calculation that represent new topic as compared to IAS 39 for originated financial assets. According to the analyses provided, the Bank does not recognise any POCI financial assets in its portfolio. The Bank's general intention is not to purchase any credit impaired financial assets. In the case of forborne receivables, newly recognised receivables are not originated with deep discount.

The Bank also performed gap analysis relating to impairment methodology changes triggered by IFRS 9. Main changes in the impairment model are the following:

- adjustment of the current process of estimation future cash flows of individually impaired receivables to incorporate multiple probability – weighted estimate,
- definition of the staging criteria in order to split the performing receivables between Stage 1 and Stage 2 (significantly deteriorated credit quality),
- development of the lifetime expected loss estimate for Stage 2 receivables through risk parameters,
- incorporation of the forward looking adjustment into expected losses.

The Bank shall consider financial asset to be in default if:

- its full repayment is uncertain, although its partial settlement is highly likely; or
- principal, interest or fees are being paid with problems and the borrower is more than 90 days past due; or
- financial asset was forborne in the past 6 months due to the deterioration in the borrower's financial situation; or
- commercial individually managed receivable with the borrower's internal rating above specified level.

The Bank identifies significant increase in credit risk if a cumulative residual PD as at the reporting date significantly increased compared to the cumulative residual PD as at the date of origination, and PD at the reporting date is not immaterial.

Table below shows split of carrying amount of loans and receivables to customers into stages as at 1 January, 2018:

Stage/Portfolio	IFRS Gross carrying amount 31 Dec 2017	IAS 39 Allowance	IFRS 9 Allowance book-up	IFRS 9 Net carrying amount 1 Jan 2018
Total Stage 1	**113,143**	**(483)**	**(310)**	**112,350**
Authorized overdrafts and credit cards	3,708	(40)	(94)	3,574
Consumer loans	33,750	(268)	(243)	33,239
Mortgages	19,146	(3)	(8)	19,135
Commercial loans	56,520	(153)	35	56,402
Other loans - Commercial	2	(2)	0	0
Other loans - Retail	17	(17)	0	0
Total Stage 2	**2,848**	**(114)**	**(221)**	**2,513**
Authorized overdrafts and credit cards	215	(22)	(69)	124
Consumer loans	691	(68)	(124)	499
Mortgages	990	(1)	(9)	980
Commercial loans	951	(22)	(19)	910
Other loans - Commercial	0	0	0	0
Other loans - Retail	1	(1)	0	0
Total Stage 3	**4,556**	**(2,915)**	**(100)**	**1,541**
Authorized overdrafts and credit cards	305	(221)	10	94
Consumer loans	2,372	(1,508)	(41)	823
Mortgages	359	(153)	(6)	200
Commercial loans	954	(467)	(63)	424
Other loans - Commercial	79	(79)	0	0
Other loans - Retail	487	(487)	0	0
Total	**120,547**	**(3,512)**	**(631)**	**116,404**

Under IFRS 9 the Bank incorporates forward looking information as inputs into estimation of parameters used for calculation of expected loss. Such inputs include macroeconomic variables which are correlated to development of expected losses or to the variable which is correlated to expected losses of the Bank portfolio. Each macroeconomic variable has forecast which is then used as forward looking information. Macroeconomic variables include especially unemployment rates and gross domestic product.

Using an ECL model, the impairment charge is estimated to lead to one time increase in the total level of allowances in amount of CZK 635 million and provisions in amount of CZK 19 million as of 1 January 2018 with corresponding charge into the equity. Therefore, total impact of new IFRS 9 impairment requirements is estimated to be a decrease of the equity in amount of CZK 654 million.

Net impact of the first time adoption of IFRS 9 Financial instruments is estimated by the Bank to be a one time decrease of the equity in amount of CZK 593 million (consists of CZK 654 million decrease resulting from impairment charge from ECL and increase of CZK 61 million resulting from other adjustments) at transition date 1 January 2018.

In terms of capital adequacy requirements, the Bank has decided not to apply the transitional arrangements specified in Article 473a of Regulation (EU) No 575/2013 for mitigating the impact of the introduction of IFRS 9 and analogous ECLs, and therefore its own funds, capital and leverage ratios will already reflect the full impact of IFRS 9 and analogous ECLs.

Following table shows transition of statement of financial position:

Financial Statement line	IAS 39	IFRS 9	IFRS 9	IFRS 9
	Balance 31 Dec 2017	Impairment	Other adjustments	Balance 1 Jan 2018
Cash and balances with the central bank	7,126	0	0	7,126
Financial assets at fair value through profit or loss	48	0	(48)	0
Derivative financial instruments	0	0	48	48
Financial assets available for sale	57	0	(57)	0
Financial assets – held to maturity	11,723	0	(11,723)	0
Hedging derivatives with positive fair values	4	0	0	4
Change in fair value of items hedged on portfolio basis	(6)	0	0	(6)
Loans and receivables to banks	53,367	0	0	53,367
Loans and receivables to customers	117,035	(631)	0	116,404
Investment securities	0	(4)	11,850	11,846
Intangible assets	1,273	0	0	1,273
Property and equipment	749	0	0	749
Investments in associates	4,554	0	0	4,554
Current tax assets	286	0	0	286
Deferred tax assets	388	0	(14)	374
Other assets	807	0	10	817
Total Assets	**197,411**	**(635)**	**66**	**196,842**
Derivative financial instruments	0	0	68	68
Due to banks	26,643	0	0	26,643
Due to customers	141,656	0	0	141,656
Financial liabilities at fair value through profit or loss	68	0	(68)	0
Hedging derivatives with negative fair values	4	0	0	4
Provision	325	19	0	344
Other liabilities	1,869	0	5	1,874
Total Liabilities	**170,565**	**19**	**5**	**170,589**
Share capital	511	0	0	511
Share premium	5,028	0	0	5,028
Legal and statutory reserve	102	0	0	102
Available for sale reserve	(57)	0	57	0
Share based payment reserve	(2)	0	0	(2)
Retained earnings*	21,264	(654)	4	20,614
Total Equity	**26,846**	**(654)**	**61**	**26,253**
Total Liabilities & Equity	**197,411**	**(635)**	**66**	**196,842**

*One-off allowances book-up resulting from expected loss may represent temporary difference and may lead into recognition of deferred tax asset with respective reduction of negative effect on retained earnings. However, the Bank believes that there is portion of legal uncertainty of tax deductibility of such book-up, therefore deferred tax asset will not be recognized on IFRS 9 opening balance sheet.

(b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 is effective for accounting periods starting on and after 1 January 2018 and it was endorsed by the EU in October 2016. IFRS 15 Revenue from Contracts with Customers applies to all contracts with customers except for: leases within the scope of IAS 17 Leases; financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures; insurance contracts within the scope of IFRS 4 Insurance Contracts; and non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

The standard provides a single, principles based five-step model to be applied to all contracts with customers:
- identify the contract(s) with a customer,
- identify the performance obligations in the contract,
- determine the transaction price,
- allocate the transaction price to the performance obligations in the contract,
- recognise revenue when (or as) the entity satisfies a performance obligation.

The standard should be applied retrospectively with certain practical expedients available.

The Bank has assessed expected impact that IFRS 15 will have on the financial statements in relevant areas, especially related to principal versus agent considerations or recognition of fees and commissions. The assessment has not indicated any significant impact on the Bank's financial statements.

(c) IFRS 16 Leases

IFRS 16 was endorsed by the EU in November 2017 and shall be effective for accounting periods starting on and after 1 January 2019, with a full or modified retrospective approach.

The contract is identified as a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 will bring major changes in the accounting of lessees. Right of use of the asset and corresponding liability shall be recognised in the lessee's statement of financial position with only two exceptions:
- when the lease term does not exceed 12 months and contains no purchase option,
- when the underlying asset has a low value when new.

Right of use shall be depreciated for a shorter period of economic useful life of the underlying asset and the lease term. Interest expense arising from lease liability shall be recognised separately from the depreciation charge in the statement of profit and loss.

A lessor shall classify each of its leases as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset.

The Bank leases mainly head office premises and branches that would be recognised in Property and equipment under IFRS 16.

The Bank is currently assessing the impact of IFRS 16 on lines "Property, plant and equipment" in its Statement of financial position and the line "Depreciation and amortization" in the Statement of profit or loss and other comprehensive income.

(d) Other amendments to standards with minor or without impact on the Bank

- Amendments to IFRS 4 Insurance Contracts
- Annual Improvements to IFRS Standards 2014–2016 Cycle

4.2 STANDARDS AND AMENDMENTS ISSUED BY THE IASB EFFECTIVE AFTER 31 DECEMBER 2017 BUT NOT ENDORSED BY THE EU

Certain new accounting standards and interpretations have been published by the IASB that are not mandatory for 31 December 2017 reporting periods and have not been adopted by the European Union. The Bank intends to adopt these standards, if applicable, when they become effective as endorsed by the EU. The Bank's assessment of the impact of these new standards and interpretations is set out below.

(a) Amendments to IFRS 2 Share-based Payments Transactions

In June 2016 IASB issued "Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions".

IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payment transactions. These amendments state that vesting conditions (service and non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction.

These amendments further clarify a situation where the net settlement arrangement is designed to meet an entity's obligation, under tax laws or regulations, to withhold a certain amount in order to meet the employee's tax obligation associated with the share-based payment. These share-based payment transactions with net settlement features should be classified as equity-settled in its entirety, provided it would have been classified as equity-settled without net settlement feature.

Amendments also introduce accounting treatment for situations when cash-settled share-based payment transaction changes to equity-settled transaction. In case of this change the original liability recognised for cash-settled share-based payment transaction is derecognised and the equity-settled share-based payment reserve is recognised at the modification date fair value to the extent to which goods or services have been received or rendered up to this date. The difference between the carrying amount of the liability as at the modification date and the amount recognised in the equity at the same date should be recognised in profit or loss immediately.

These amendments are effective from 1 January 2018 subject to endorsement by the EU, which is expected in 1Q 2018. These amendments will not have material influence on the Bank's financial statements.

(b) Amendments to IAS 28: Investments in Associates and Joint Ventures

In October 2017, IASB issued "Amendments to IAS 28 "Investments in Associates and Joint Ventures" – Long-term Interests in Associates and Joint Ventures".

Amendments were introduced to clarify that an entity applies IFRS 9 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 but to which the equity method is not applied. Amendments also delete paragraph 41 because the Board felt that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests.

These amendments are effective from 1 January 2019 subject to endorsement by the EU. These amendments will not have material influence on the Bank´s financial statements.

(c) Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation

In October 2017, IASB issued "Amendments to IFRS 9 "Financial Instruments" – Prepayment Features with Negative Compensation".

The amendments modify the existing requirements of IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the feature of the prepayment amount is not relevant, i.e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

These amendments are effective from 1 January 2019 subject to endorsement by the EU what is expected in the first quarter of 2018. The Bank has assessed possible impact of these amendments to measurement of financial assets in the Bank's portfolio. The assessment has not identified prepayment features with negative compensation in the Bank´s portfolio, and therefore these amendments are expected to have no influence on the Bank´s financial statements.

(d) Other amendments to standards with minor or without impact on the Bank

- IFRS 17 Insurance Contracts
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
- Annual Improvements to IFRS Standards 2015–2017 Cycle
- Amendments to IAS 40 Investment property

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 FOREIGN CURRENCY

The separate financial statements are presented in Czech Koruna (CZK) which is the Bank's functional currency. Transactions in foreign currencies are translated into the functional currency of the Bank at the exchange rates at the date of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss in "Net income from financial operations".

5.2 INTEREST

Interest income or expense from all interest-bearing financial instruments including derivatives is recognised using the effective interest rate and reported in the profit or loss in the line items "Interest and similar income" and "Interest expense and similar charges" respectively as part of revenue and expenses from continuing operations.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or a financial liability. The effective interest rate is a rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability to their carrying amount. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument and includes transaction costs and fees paid or received that are an integral part of the effective interest rate but excludes future credit losses.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Interest income and expense presented in the profit or loss include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis
- Interest on available for sale investment securities calculated on an effective interest basis
- Interest on interest rate derivatives designated as hedging derivatives using contractual interest rate of the corresponding derivative

If the financial receivable is considered impaired, the interest income representing the time value of money between the impairment event and the estimated recovery date continues to be recognised using the effective interest rate method – unwinding. The Bank calculates the unwinding for the period using individual deal by deal approach and individual effective interest rates.

5.3 FEES AND COMMISSIONS

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income are recognised when the related services are performed. Fees and commissions income are earned mainly from providing payment services, intermediary and investment services.

Fee income on impaired financial assets is recognised on receipt of cash or performance of the service obligation whichever is later.

5.4 DIVIDENDS

Dividend income is recognised when the right to receive the payment is established. Dividend income is reported in the profit or loss in the line item "Dividend income".

5.5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.5.1 Recognition

The Bank initially recognises financial assets measured at amortised cost on the date on which they are originated. All other financial instruments are recognised on the trade date which is the date the Bank becomes a party to the contractual provisions of the instrument.

All financial instruments are initially recognised at their fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

5.5.2 Classification

5.5.2.1 Financial Assets

The Bank classifies its non-derivative financial assets into one of the following categories:

- loans and receivables,
- held to maturity,
- available for sale financial assets,
- financial assets at fair value through profit or loss:
  - held for trading, or
  - designated at fair value through profit or loss.

Management determines the classification based upon management's intent for acquiring a particular asset and the cash flow characteristics of that asset.

Currently the Bank does not hold any non-derivative assets that are classified as designated at fair value through profit or loss.

In 3Q 2017 management approved new investment strategy of the Bank. According to this strategy the Bank established held to maturity portfolio for securities intended to be held until maturity that is used since 1 August 2017. Consequently, all bonds comprised in the available for sale portfolio as at 1 August 2017 were reclassified into the held to maturity portfolio and they are measured at amortised costs rather than at fair values. Total carrying value of the reclassified portfolio was CZK 5,287 million. For more details see note 23, 24.

(a) Loans and receivables

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

- financial assets designated as held for trading that the Bank intends to sell immediately or in the near term and those assets designated as at fair value through profit or loss;
- those financial assets that the Bank upon initial recognition designates as available for sale; or
- those financial assets for which the Bank cannot recover the majority of its initial investment for a reason other than deterioration of credit quality. These assets will be classified as available for sale.

Loans and receivables are subsequently measured at the amortised cost using the effective interest rate method.

Financial assets in this category are reported in the line item "Loans and receivables to banks" or "Loans and receivables to customers".

(b) Available for sale financial assets

Available for sale ("AFS") financial assets are non-derivative investments that are designated as AFS or are not classified as another category of financial assets. In this category are those financial assets 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 include equity and debt securities. However, majority of debt securities have been reclassified into held to maturity portfolio as at 1 August 2017 due to the change in the Bank´s investment strategy. For more details see note 23, 24.

Interest income is recognised in the profit or loss using the effective interest method. Dividend income is recognised in the profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on AFS debt securities investments are recognised in profit or loss.

Fair value changes other than impairment losses are recognised in other comprehensive income and reported in the "Available for sale reserve". When the AFS asset is disposed of or impaired, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to profit or loss. Disposal gains/losses are recorded in "Net income from financial operations".

Details on how the fair value of financial instruments is determined are disclosed in note 5.7.

(c) Held to maturity financial assets

Held to maturity ("HTM") financial assets are non-derivative debt instruments with fixed or determinable payments and fixed maturity that the Bank intends and is able to hold to maturity. Investments in equity shares cannot be classified as held to maturity due to its indefinite maturity. HTM financial assets are measured initially at fair values including directly attributable transaction costs.

HTM financial assets are measured at amortised costs after the initial recognition. Interest income is recognised in the profit or loss using the effective interest method. Foreign exchange gains or losses on HTM debt securities investments are recognised in profit or loss.

5.5.2.2 Financial Liabilities

The Bank classifies its non-derivative financial liabilities, other than financial guarantees and loan commitments, at amortised cost. Non-derivative financial liabilities are contractual arrangements resulting in the Bank having an obligation to either deliver cash or another financial asset to the holder.

5.5.3 Reclassification

Generally, the Bank does not reclassify any financial asset or liabilities after initial recognition with the exception of changes in investment strategy in August 2017 described in previous chapter.

5.5.4 Derecognition

The Bank derecognises a financial asset when the contractual rights to receive cash flows from the financial assets expire or the rights to receive the contractual cash flows and substantially all the risks and rewards of ownership have been transferred.

On derecognition the difference between the carrying amount of the asset and the sum of the consideration received and any cumulative gain or loss recognised in other comprehensive income is recognised in profit or loss.

A financial liability is derecognised when the obligation under the liability as specified in the contract is discharged, cancelled or expired.

5.5.5 Offsetting

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position, when and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS.

5.5.6 Amortised Cost Measurement

The amortised cost of a financial asset or financial liability is the amount at which the asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

5.5.7 Derivatives and hedge accounting

Derivatives are initially recognised, and are subsequently remeasured, at fair value. Fair values of derivatives are obtained by using valuation techniques. Since 3Q 2017, the Bank designates at the inception certain derivatives as hedging according to IAS 39 and other derivatives are held for trading according to IAS 39 despite being held for risk management purposes rather than speculative.

(a) Derivatives classified as held for trading

A derivative that is not designated and effective as a hedging instrument is reported in the category financial assets at fair value through profit or loss. These derivatives include currency derivatives (swaps and forwards) and are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivatives which are not designated as hedging instruments are presented in the statement of financial position under the line item "Financial assets at fair value through profit or loss" and "Financial liabilities at fair value through profit or loss". Changes in the fair value of derivatives and any interest income/expense related to these derivatives are recorded in "Net income from financial operations".

(b) Derivatives designated as hedging instruments

The Bank designates at the initial recognition interest rate swaps derivatives as hedging instruments to hedge its exposure to the change of the fair value of a defined part of portfolio of loans to customers or loan commitments related to interest rate risk, that could affect profit or loss. On the initial recognition of the hedge, the Bank formally documents the relationship between the hedging instrument and hedged item, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedge relationship at the inception and ongoing bases. The Bank applies for all hedge relationships portfolio fair value hedge as defined in paragraphs 81A and 89A of IAS 39 ("macro hedge").

Hedge accounting is applied, if and only if, all of the following conditions are met:

- The hedge is in line with the approved Bank´s Hedging Strategy;
- The hedging relationship is formally documented at the inception;
- The hedge effectiveness can be objectively and reliably measured
- The hedge is expected to be highly effective at inception and throughout its life;

The hedge is considered to be effective when change in the fair value of the hedged item to change in the fair value of the hedging instrument is within a range of 80–125%.

Change in clean fair value excluding accrued interest of a derivative, which is designated as a fair value hedge is daily booked to the profit or loss and presented in the line "Net income from financial operations" to match there with change in fair value of hedged portfolio. Accrued interest from hedging derivatives is recognized in the profit or loss in the line "Interest and similar income" to match there with interest income from hedged portfolio.

In the statement of financial position, derivatives with positive fair values (total fair value including accrued interest) are presented in the line item "Hedging derivatives with positive fair values", derivatives with negative fair values (total fair value including accrued interest) are disclosed in the line "Hedging derivatives with negative fair values".

If the hedging instrument expires, is sold, terminated or exercised or the hedge no longer meets the criteria for hedge accounting the hedge relationship is discontinued. In this case, fair value adjustment to the carrying amount of hedged item is amortised to profit or loss under the line "Interest and similar income".

5.5.8 Impairment of financial assets

Financial assets carried at amortised cost

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

Objective evidence that a financial asset or group of assets is impaired includes observable data about the following events:

- delinquency in contractual payments of principal or interest,
- cash flow difficulties,
- breach of loan covenants,
- deterioration of the borrower's competitive position,
- deterioration in the value of collateral,
- external downgrade below an acceptable level,
- initiation of bankruptcy proceedings,
- granting a concession to a borrower for economic or legal reasons relating to the borrower's financial difficulty that would not otherwise be considered.

In terms of the individually assessed financial assets (which are primarily represented by individually managed commercial loans (see the individually managed exposures defined in the section 42.3.1.), the Bank first assesses whether objective evidence of impairment exists individually for these financial assets. If the Bank determines that no objective impairment exists for an individually assessed financial asset, the Bank includes the financial asset in a group of financial assets with similar credit risk characteristics and collectively measures them for impairment. Financial 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 there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment (see note 42.3.1), financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. The methodology (see note 42.3) and assumptions (see note 15) used for estimating future cash flows are reviewed regularly to reduce difference between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

When the Bank does not expect material recovery cash flow from the loan it is deemed uncollectible. This loan is derecognised and the loan loss allowance for impairment is utilized.

Available for sale financial assets

Available for sale financial assets are assessed at each balance sheet date for objective evidence of impairment. Where such evidence exists an impairment loss is recognised. In addition to the factors set out above, a prolonged (i.e. 12 consecutive months) or significant (i.e. 30%) decline in the fair value of an investment in an available for sale equity instrument below its cost is considered in determining whether an impairment loss has been incurred.

If an impairment loss has been incurred, the cumulative loss that has been recognised in other comprehensive income is removed from equity and recognised in the profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases, and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the profit or loss.

Impairment losses on equity instruments that were recognised in the profit or loss are not reversed through profit or loss in a subsequent period.

5.6 REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

The Bank enters into contracts to sell and buy back financial instruments at a specific future date ("repo") or to buy and sell back financial instruments at a specific future date ("reverse repo").

In repo transactions the securities provided by the Bank continue to be recognised and reported in the statement of financial position as the Bank retains substantially all the risks and rewards of ownership together with all coupons and other income payments received during the period of repo transaction. The corresponding cash received is recognised in the statement of financial position and a corresponding obligation to return it (including accrued interest) is recorded as a liability.

Securities purchased as a reverse repo transaction are not recognised in the statement of financial position. The consideration paid (including accrued interest) is recorded in the statement of financial position as "Loans and receivables to banks" or "Loans and receivables to customers".

Securities obtained in reverse repo transactions are not recognised in the statement of financial position. The Bank is allowed to provide securities received in reverse repo transactions as collateral or sell them, even in the absence of default by their owner.

The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

5.7 FAIR VALUE MEASUREMENT

Fair value is the price the Bank would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date.

In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Bank´s market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3 – Significant inputs to the valuation model are unobservable.

The Bank maintains policies and procedures to value instruments. In addition, the Bank has risk management teams that review valuation, including independent price validation for certain instruments (e.g. treasury bills). With regard to Level 3 valuations, the Bank performs a variety of procedures to assess the reasonableness of the valuations. Such reviews, which may be performed quarterly, monthly or weekly, include an evaluation of instruments whose fair value change exceeds predefined thresholds (and/or does not change) and consider the current interest rate, currency and credit environment, as well as other published data, such as rating agency market reports and current appraisals.

Fair values of financial assets and liabilities that are not presented in the Bank's balance sheet at fair values are shown in the note 43.

5.8 PROVISIONS

A provision is recognised by the Bank when:

- it 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
- the Bank can reliably estimate the amount of the obligation.

Provisions are reported on the statement of financial position and include provisions for credit risk (loan commitments) and provisions for litigation and other obligations. Expenses or income related to provisions are reported based on substance of the expense. Provisions are disclosed in note 34.

5.9 LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incident to ownership. All other leases are classified as operating leases. Classification is made at the inception of the lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form.

(i) Bank as a Lessee

Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Any lease incentives received are recognised as an integral part of the total lease expense over the term of the lease. Operating lease payments made by the Bank are recorded in "Administrative expenses" in the profit or loss.

As a lessee, operating leased assets are not recognised in the statement of financial position of the Bank.

Assets subject to a finance lease are recognised in the Bank's statement of financial position initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. The asset is recorded in "Property and Equipment" and the corresponding liability to the lessor is included in "Other liabilities". Impairment losses are recognised to the extent that the carrying values are not fully recoverable.

(ii) Bank as a Lessor

The Bank only subleases office premises to other entities. Rentals receivable from clients with operating leases are spread on a straight-line basis over the lease periods and are recognised in "Other operating income". The majority of operating lease income is derived from subleasing office premises to other companies.

5.10 PROPERTY AND EQUIPMENT

Items of property and equipment are measured at cost less accumulated depreciation less impairment losses over their estimated useful lives.

Cost includes the purchase price of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the initial estimate of the costs of dismantling and removing the item.

Property and equipment is depreciated on a straight-line basis over their estimated useful lives as follows:

Technical Improvements related to branches	5–15 years
Furniture	4–10 years
Equipment	5 years
Cars	5 years
Computers and servers	3–5 years
ATM	8 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease terms or their remaining useful lives.

Assets' residual values and useful lives are monitored and adjusted if appropriate at each financial statement date. Property and equipment are subject to quarterly impairment reviews (see note 5.13). If the carrying amount of the asset exceeds its estimated recoverable amount, the asset is adjusted accordingly. Its estimated recoverable amount is the higher of fair value including costs to sell and its value in use.

Gains and losses on disposals are determined by deducting the carrying value from the consideration received. Any gain/loss on sale is recognised in the profit or loss.

5.11 INTANGIBLE ASSETS

Software

Software acquired by the Bank is measured at cost less accumulated amortization and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate its intention and ability to complete the development and use the software to generate future economic benefits and the costs to complete the development can be reliably measured.

Internally developed software is stated at capitalized cost less accumulated amortization and impairment.

Purchased software and internally developed software is on average amortised over its useful life of 9 years. During its useful life the development is done on the software. This development prolongs the useful life of the software, which can be extended in exceptional cases up to 22 years since the initial recognition.

Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

5.12 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

A subsidiary is an entity in which the Bank has control, i.e. it directly or indirectly owns more than 50% of the voting rights or it has the power to govern this entity as a result of another circumstances. An associate is an entity in which the Bank has significant influence, i.e. directly or indirectly owns 20% to 50% of the voting rights. If the Bank owns directly or indirectly less than 20% of the voting rights the investment is disclosed in the line „Financial assets available for sale".

Investments in subsidiaries and associates are measured at historical decreased by potential accumulated impairment losses. The Bank assesses regularly whether there is any impairment loss by comparing the carrying values of the investment with its recoverable amount. If the recoverable amount is lower, the Bank recognises the impairment loss.

5.13 IMPAIRMENT OF NON-FINANCIAL ASSETS

At the end of each reporting date the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists then the assets recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's fair value less costs of disposal and its value in use. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognised in the profit or loss in the "Other operating expenses" (see note 14). An impairment loss may be reversed to the extent it does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

5.14 EMPLOYEE BENEFITS

Employee benefits include short term bonus payments, flexible benefits (Cafeteria), bonuses for loyalty, retention bonuses and bonuses tied to equity and stock option plan. In 2017, remuneration policy relevant for the Management Board members that is subject to the terms and conditions described in the Executive Variable Incentive Plan ("EVIP") was introduced under which bonuses are partly linked to the share price and dividend paid in the longer term.

Executive Variable Incentive Plan ("EVIP") for the Management Board members and other Material risk takers

EVIP was introduced in 2017 and it replaced similar incentive program for the Key Executive Managers. The amount of the incentive compensation that a participant receives under this incentive programme is based on the basis of the participant´s performance; including achievement of goals and objectives set by the Supervisory Board and the Chief Executive Officer (although the Chief Executive Officer is not involved in decision regarding the setting of his own goals and objectives). A portion of this compensation is received in cash (partially the year after the performance year and partially it is deferred to 3 annual instalments in the following years) and the remainder is linked to the total shareholders return ("TSR") and deferred also to 3 annual instalments. This part of variable deferred bonus represents share based payment and is disclosed in line with IFRS 2 Share-based payments, specifically as cash settled share-based payment. For more detail about this program see section 4.11 of the Annual report.

Bonus payments are accrued over time and represent the best estimate of the amount that will be paid.

Sales, collection and customer service incentives

Sales incentives represent a performance benefit to retail employees at branches and commercial bankers. The size of the sales incentives for retail sales depends on fulfilment of performance targets, which are evaluated and paid quarterly. Employees providing telesales are evaluated and paid on monthly basis. In Commercial Banking, performance is evaluated quarterly and the payment is partially made in the subsequent quarter and in the first quarter after the end of the year.

Collection incentives represent a performance benefit for employees participating on collection of debts. Performance of collection from persons is evaluated and paid on monthly basis, in case of collection from companies on quarterly basis.

The Bank also provides Origination and Customer Service incentive program where the performance is evaluated and paid on monthly basis.

The Bank recognises a liability as of the reporting date representing the sum of the sales incentives in the fourth quarter and the amounts deferred from the previous reporting periods.

Award for Loyalty

The Award for Loyalty is a programme that rewards employees for loyalty. Employees are eligible for an award every five years of employment with the Bank. A liability is recognised for the benefit reflecting the probability of each eligible employee attaining each anniversary. The Bank records a provision for a loyalty based on an actuarial model that is in line with IAS 19 and it is recognised in the statement of financial position in the line item "Provisions".

Flexible benefits (Cafeteria)

Each employee of the Bank, based on his/her job seniority, is granted each year with a certain number of points, which may be redeemed for free time activities, contribution to pension insurance, free day or meal vouchers. Costs of granted points are recognised into profit or loss line "Personnel expenses" on the straight-line basis over the accounting period.

Retention Programmes connected to IPO

There were three types of retention programmes for employees and members of the senior management.

The most critical members of the senior management and management teams (including members of the Management Board) participated in the first part of the retention programme under which they received a retention award equal to a percentage of their annual base salary at the time of pay-out. For 31 employees, the retention award was paid out in cash upon the First Day of Official Trading with a second instalment being paid six months thereafter and, in one case, 30 per cent of the award was paid out in cash upon the First Day of Official Trading with a further 20 per cent instalment being paid six months thereafter and a final 50 per cent instalment being paid 18 months thereafter.

The second part of the retention programme targeted fixed retention rewards for up to 10 per cent of the most critical employee population. The criteria for selection were unique expertise, outstanding performance or exceptional know-how.

The expense resulting from both the first and second part of the retention programme were, or will be born by Selling Shareholder Group (GECIHL) and as such netted within the profit or loss line "Personnel expenses".

The third part was virtual share programme (the "Virtual Share Programme"). Under the Virtual Share Programme, each of the Bank's employees actively employed on the date of Listing received a number of virtual shares. The number of virtual shares was based on the relevant employee's level of job seniority. The expense of this initial allocation is borne by the Selling Shareholder Group (GECIHL). Subsequent allocation is born by the Bank. Each virtual share under the Virtual Share Programme tracks the share price of the Bank and will be paid out in cash on the second anniversary of the First Day of Official Trading, provided that the relevant employee is still employed by the Bank on such date. In the event of an employee's voluntarily termination on or prior to such vesting and settlement date, the virtual shares are forfeited. The Virtual Share Programme is classified as cash-settled share-based payment under the scope of IFRS 2 (see note 37).

5.15 CASH AND CASH BALANCES WITH THE CENTRAL BANK

Cash and balances with the central bank include current accounts and time deposits with the Czech National Bank (CNB), cash in ATMs and in branches. Cash and balances are reported in the statement of financial position in "Cash and balances with the central bank". The Bank's mandatory minimum reserve held by the CNB is also included within "Cash and balances with the central bank".

5.16 INCOME TAX AND DEFERRED TAX

Income tax expense comprises current and deferred tax. It is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current Tax
Current tax represents the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted by the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the Bank intends to settle on a net basis and the legal right to offset exists.

Deferred Tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probably that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Significant temporary and timing differences arise mainly from different accounting and tax value adjustments to receivables, provisions and from the revaluation of financial assets.

5.17 SEGMENT REPORTING

The Bank´s operating businesses are organized based on the nature of markets and customers.

Operating segments are reported in accordance with the internal reports prepared on a regular basis and presented to the members of The Management Board..

The Bank has identified the following segments:
- Commercial clients – includes individually and portfolio managed commercial loans. Clients are mainly entrepreneurs and business corporations.
- Retail clients – segment covers most of the Bank's consumer products (consumer loans, mortgages etc.). Products in the Bank's consumer portfolio have similar characteristics. They consist mainly of term loans offered through a network of individual branches, call centers, online channels and external partners. The products are primarily targeted at consumers and households.
- Treasury/Other – includes mainly investment banking and equity investments and other areas that are not included in the above segments.

The Management Board of the Bank (the chief operating decision maker) does not use the above described segmental view on all items of the separate Statement of Profit and Loss. For this reason, Operating expenses, Taxes and consequently Profit for the year before tax and Profit for the year after tax is not reported for segments but only on the Total level.

Information about the reported segments is described in note 41.

5.18 FINANCIAL GUARANTEES AND LOAN COMMITMENTS

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

The provided guarantees are shown in note 38.

5.19 CHANGES IN PRESENTATION OF EXTERNAL COLLECTION COSTS

At the beginning of the year 2017 the Bank started to take into account external collection costs in determining impairment loss of loans and receivables and these costs are disclosed in the line "Net impairment of loans and receivables" when they are incurred. Estimate of these costs also reduces present value of recovery cash flows expected from related impaired receivables. Previously, these costs were presented in the line "Other operating expenses" and "Administrative expenses". This change has been applied retrospectively and the impact on the statement of profit or loss and the other comprehensive income for 2016 is disclosed in the following table:

CZK m	2016 original	change due to reclass of external coll. costs	2016 reclassified
Administrative expenses	(1,904)	29	(1,875)
Other operating expenses	(453)	57	(396)
Total operating expenses	**(4,712)**	**86**	**(4,626)**
Net impairment of loans and receivables	(768)	(86)	(854)
Profit for the year before tax	**8,129**	**0**	**8,129**
Taxes on income	(860)	0	(860)
Profit for the year after tax	**7,269**	**0**	**7,269**

6. NET INTEREST INCOME

CZK m	2017	2016
Interest income from financial assets measured at amortised cost	6,787	7,524
Loans to customers*	6,683	7,513
out of which interest income from impaired loans	215	273
out of which penalty interest	97	84
Loans to banks	92	1
out of which arising from repurchase and reverse repurchase agreements**	91	0
Cash and deposit with the central bank and other banks	12	10
Interest income from hedging derivatives	(5)	0
Interest income from available for sale financial assets	38	87
Held to maturity investments	25	0
Interest income and similar income	**6,845**	**7,611**
Interest expense from financial liabilities measured at amortised cost	(205)	(191)
Due to banks	(2)	0
Due to customers	(203)	(191)
out of which arising from repurchase agreements	(6)	0
Interest expense and similar expense	**(205)**	**(191)**
Net interest income	**6,640**	**7,420**

* Out of which Interest Income from repurchase agreements with a negative interest rate at CZK 5 million in 2017 (2016: CZK 0).
** Out of which Interest Income from repurchase agreements with a negative interest rate at CZK 41 million in 2017 (2016: CZK 0).

7. NET FEE AND COMMISSION INCOME

CZK m	2017	2016
Lending servicing fees	217	253
Deposit servicing fees	483	587
Investment funds*	109	59
Insurance**	337	315
Penalty fees (incl. early termination fees)	315	308
Transactional and other fees	629	579
Fee and commission income	**2,090**	**2,101**
Fee and commission expense	**(278)**	**(295)**
Net fee and commission income	**1,812**	**1,806**

* Increase in investment funds fee income is caused by 12% increase in balance of assets under management and higher commissions in comparison with 2016.
** The line "Insurance" includes especially commissions on payment protection insurance, car insurance (Casco and third party liability insurance), travel insurance, accident insurance, life insurance and pension funds.

8. DIVIDEND INCOME

CZK m	2017	2016
Dividends from investments in subsidiaries and associates*	1,468	3,566
Dividends from equity instruments	0	22
Dividend income	**1,468**	**3,588**

*Dividends from investments in subsidiaries MONETA Leasing, s.r.o. in the amount of CZK 1,466 million (2016: CZK 600 million from MONETA Leasing, s.r.o., and CZK 2,964 million from MONETA Auto, s.r.o.), as described in the note 28.

9. NET INCOME FROM FINANCIAL OPERATIONS

CZK m	2017	2016
Net gain on available for sale financial assets	**343**	**279**
Net gain/(loss) from hedging instruments	**5**	**0**
Net gain/(loss) from hedged instruments	**(6)**	**0**
Net income from financial assets and liabilities at FVTPL	**(135)**	**17**
Expense on currency derivative instruments	(266)	(36)
Income from currency derivative instruments	131	53
Exchange rate differences	**499**	**304**
Net income from financial operations	**706**	**600**

10. OTHER OPERATING INCOME

CZK m	2017	2016
Service revenues*	57	90
Rent income	18	6
out of that accretion of unamortized rent incentive	10	0
Other collection income**	166	73
Other incomes	31	26
Total other operating income	**272**	**195**

* Service revenues include primarily services provided by the Bank to its subsidiaries MONETA Auto, s.r.o, and MONETA Leasing, s.r.o. as described in the note 40.
** The line "Other collection income" includes recoveries arising from written-off receivables exceeding the write-off recognised in the line "Net impairment of loans and receivables" of CZK 54 million in 2017 (2016: CZK 11 million), the residual amount represents legal costs paid by clients being collected by solicitor offices.

11. PERSONNEL EXPENSES

	2017	2016
The average number of employees during the period*	3,021	2,838
out of which: Management Board	5	4
out of which: Supervisory Board**	7	5
out of which: other Key Executive Managers***	2	8

CZK m	2017	2016
Salaries and bonuses******	**(1,622)**	**(1,513)**
Salaries and bonuses actuals	(1,409)	(1,333)
Salaries and bonuses accruals	(213)	(180)
Social security and health insurance	(504)	(479)
Restructuring costs	(19)	0
Other employee related expenses	(80)	(79)
Total personnel expenses	**(2,225)**	**(2,071)**

* The average number of employees during the period is an average of the figures reported to Czech Statistical Authority (CSA) on a monthly basis in accordance with Article 15 of Czech Act No. 518/2004. The figures reported to CSA equal to quotient of the following nominator and the following denominator. The nominator is defined as all hours worked by all employees, their related leaves/holidays and their related sick days. The denominator represents a standard working hours per an employee and a month.
** Only 6 members out of 7 members received compensation as the members of the Supervisory Board.
*** The Bank reconsidered definition of key management personnel in 2017,therefore, only two employees are reported in this category.
**** Includes the bonuses for the first and second part of the retention programmes mentioned in the Bank´s prospectus in connection with the Offering and Virtual Share Programme as described in the note 37 which were compensated in 2016 by GE Capital International Holding Limited as a former shareholder in the amount of CZK 121 million (as described in the note 40).

12. ADMINISTRATIVE EXPENSES

CZK m	2017	2016
IT and software expense	(399)	(322)
Regulatory charges*	(96)	(68)
Rent expense	(361)	(308)
Rent-related services	(134)	(127)
Advisory services	(65)	(143)
Auditor's fees	(13)	(10)
out of that: audit	(6)	(7)
out of that: other services	(7)	(3)
Marketing	(246)	(334)
Travel cost	(31)	(29)
Collection expense**	0	54
Other expenses***	(487)	(588)
out of that: services provided by company	(33)	(32)
out of that: services provided by previous majority shareholder	(41)	(202)
Total administrative expenses	**(1,832)**	**(1,875)**

* The line "Regulatory charges" includes annual contribution to the Deposit Insurance Fund in the amount of CZK 44 million (2016: CZK 56 million) and to the Resolution and Recovery Fund in the amount of CZK 52 million (2016: CZK 12 million).
** In December 2016 the Bank reached an agreement with solicitors through realized debt sale of aged written-off loan portfolio and released related provisions for bailiffs in the amount of CZK 52 million. Release of provision is shown in the line "Provisions for collection services" in the breakdown of other provisions presented in the note 34 and profit or loss line "Administrative expenses". Furthermore, according to change in presentation regarding external collection costs (see the note 5.19) the amount of CZK 38 million for external collection costs was reclassified in 2016 into the line „Net impairment of loans and receivables".
*** The line"Other" comprises expenses on other services provided by 3rd parties not disclosed separately, e.g. subscription fees, support of ATMs, transport of cash, postage, training, cleaning services, car expense, etc.

Non-audit services provided by statutory auditor amounts to CZK 7 million in 2017. In 2016 the Bank incurred CZK 282 million of administrative expenses relating to IPO and separation from GE comprising from costs on rebranding (CZK 184 million), on services related to the Initial Public Offering ("IPO", CZK 63 million) and on expenses related to IT separation from GE (CZK 35 million). In 2017 there were no similar expenses arising.

13. DEPRECIATION AND AMORTISATION

CZK m	2017	2016
Depreciation of property and equipment	(179)	(154)
Amortisation of intangible assets	(202)	(130)
Total depreciation and amortisation	**(381)**	**(284)**

Impairment losses are shown in the note 14.

14. OTHER OPERATING EXPENSES

CZK m	2017	2016
Trademark GE	0	(47)
Trademark GE – withholding tax	0	(5)
Damages	(10)	(16)
Unrecoverable VAT	(228)	(270)
Other collection costs*	84	10
Other expenses	(6)	(68)
out of that: impairment of assets	(4)	(61)
Total other operating expenses*	**(160)**	**(396)**

*According to change in the Bank´s accounting policy (taking into account external collection costs for calculation of impairment loss), the amount of CZK 57 million for external collection costs was reclassified in 2016 from "Other operating expenses" to "Net impairment of loans and receivables" (see note 5.19). Thereafter, other collection costs comprise release of liability to Solicitor office when recognition criteria for liability are not met due to remote probability of payment.

15. NET IMPAIRMENT OF LOANS AND RECEIVABLES

CZK m	2017	2016
Additions and release of loan loss allowances*	(589)	(948)
Additions and release of provisions to unused commitments	6	0
Use of loan loss allowances	2,468	5,199
Income from previously written-off receivables	320	173
Write offs of uncollectable receivables**	(2,575)	(5,199)
Change in allowances to operating receivables	0	2
Collection expense	(119)	(86)
Net impairment of loans and receivables* **	**(489)**	**(854)**

* The decrease of Additions and release of loan loss allowances from CZK (948) million in 2016 to CZK (589) million in 2017 was caused by a continuous improvement of macroeconomic environment, which was reflected in an improvement of the loan portfolio performance, and significant sales of NPLs.

** Higher amount recognized in 2016 compared to 2017 is driven by execution of write offs of legacy non-performing loans ("NPLs") executed in 2016 fully covered by loan loss allowances.

*** The decrease in the Net impairment of loans and receivables from CZK (854) million in 2016 to CZK (489) million in 2017 is due to persisting good macroeconomic environment, significant sales of NPLs and additions to loan loss allowances in 2016 linked to the legacy NPL portfolio.

At the beginning of the year 2017 the Bank started to reflect external collection costs in determining impairment loss of loans and receivables and these costs are disclosed in the line "Net impairment of loans and receivables" when they are incurred (previously presented in the line "Other operating expenses" and "Administrative expenses"). Estimate of these costs also reduces present value of recovery cash flows expected from related impaired receivables. This change has been applied retrospectively and the impact is disclosed in the table above as "Collection expense". For more details see the note 5.19.

At each financial statement date financial assets not measured at fair value through profit or loss are assessed for impairment. The Bank determines whether as a result from event or events occurred alone or in a combination an impairment loss should be recognised and for what amount.

For individually managed loans and receivables a judgment is required to determine if there is an objective evidence of impairment. The identification of the evidence of impairment is based on the analysis of the financial status, payment history, collateral value, industry conditions and other relevant factors. For impaired loans the estimate is made by determining future amount and timing of expected recovery cash flows. These estimates are made by taking into account a range of factors, including prospects of the business model, the collateral fair value, expected proceeds from a bankruptcy or liquidation and other relevant factors.

Portfolio managed loans and receivables are subject to estimation uncertainty as the identification of the impairment on the individual contract level is not practical due to the large number of such exposures. The loss is measured using statistical models with inputs based on historically observed data by the Bank such as historical credit losses and default rates. Judgement is required to determine whether the current macroeconomic situation is in line with the historical loss experience. For further detail see the Risk management section (see note 42).

If loss given default (LGD) (in the either individual assessment or statistical models) changes by +/- 10% in relative terms, then the loan loss allowances would change by +/- CZK 212 million as at 31 December 2017 and by +/- CZK 259 million as at 31 December 2016.

16. TAXES ON INCOME

Tax expense from the Bank's profit before tax can be analysed as follows:

CZK m	2017	2016
Current income tax for the year	(404)	(608)
Income tax related to prior years	15	(45)
Change in deferred tax recognised in profit or loss	(476)	(207)
Taxes on income	**(865)**	**(860)**

The chart below shows the reconciliation of actual tax charge and the tax charge based on applying standard corporate income tax rate according to Czech Republic income tax law:

CZK m	2017	2016
Theoretical income tax accounted for into expenses, calculated with the rate of 19%	(860)	(1,545)
Income tax related to the prior years	(10)	(22)
Impact of the tax non-deductible expenses	(6)	(2)
Impact of the tax non-taxable income	11	709
Taxes on income	**(865)**	**(860)**
Effective income tax rate	19%	11%

17. EARNINGS PER SHARE

Earnings per share amounts are calculated by dividing the net profit for the year after tax attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year.

CZK m	2017	2016
Profit for the year after tax attributable to the equity holders	3,660	7,269
Weighted average of ordinary shares (millions of shares)	511	511
Basic earnings per share (CZK)	**7.16**	**14.23**

Significant decrease in Profit for the year after tax attributable to the equity holders in 2017 is caused especially by lower Dividend income from subsidiaries in the amount of CZK 1,468 million (2016: CZK 3,588 million) and impairment of investment in subsidiary MONETA Leasing, s.r.o. in the amount of CZK 1,286 million (see the note 28).

In April 2016, existing shares were split due to the IPO in ratio 1:1,000,000 (see note 36).

As the Bank has not issued any potentially dilutive instruments, the basic earnings per share equals to diluted earnings per share.

18. CASH AND BALANCES WITH THE CENTRAL BANK

CZK m	31 Dec 2017	31 Dec 2016
Cash and cash in transit	4,673	3,843
Balances with the central bank other than mandatory minimum reserves*	1	14,100
Mandatory minimum reserve requirement with the central bank	2,452	2,292
Total cash and balances with central bank	**7,126**	**20,235**

*Decrease of balances with the central bank in 2017 is driven by deployment of excess cash in reverse repo transactions. See the note 21.

The Bank includes a mandatory minimum reserve with the Czech National Bank into "Cash and balances with the central bank". The Bank may draw funds from the mandatory minimum reserve at any point in time provided that the average balance over the relevant period meets the minimum levels required according to the regulations of the Czech National Bank.

19. CASH AND CASH EQUIVALENTS

For the purposes of separate statement of cash flows, cash and cash equivalents comprise the following balances with maturities from the acquisition of less than 3 months:

CZK m	31 Dec 2017	31 Dec 2016
Cash and deposits with the central bank	7,126	20,235
Loans and receivables to banks	53,350	163
Total cash and cash equivalents	**60,476**	**20,398**

20. TRANSFER OF FINANCIAL ASSETS – REPURCHASE TRANSACTIONS

CZK m	Carrying amount of transferred assets	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities
31 Dec 2017				
Repurchase agreements with clients	0	9,445	0	9,445
Repurchase agreements with banks	0	23,155	0	23,155
Financial assets held to maturity	3,371	0	3,206	0
Financial assets received in reverse repos	29,201	0	29,201	0
Total repurchase agreements	**32,572**	**32,600**	**32,407**	**32,600**

CZK m	Carrying amount of transferred assets	Carrying amount of associated liabilities	Fair value of transferred assets	Fair value of associated liabilities
31 Dec 2016				
Repurchase agreements with banks	0	1,479	0	1,479
Financial assets available for sale	1,863	0	1,863	0
Total repurchase agreements	**1,863**	**1,479**	**1,863**	**1,479**

Associated liabilities from repurchase agreements represent the obligation to repay the borrowing and are shown in line "Due to banks" (note 32) and "Due to cusomers" (note 33). Financial assets used as collateral consist of treasury bonds from held to maturity portfolio (note 24) and treasury bills obtained in reverse repo agreements recognized in the off balance sheet.

21. LOANS AND RECEIVABLES TO BANKS

Loans and receivables to banks include:

CZK m	31 Dec 2017	31 Dec 2016
Current accounts at banks	157	128
Term deposits in banks payable within 3 months	0	35
Receivables arising from reverse repo agreements*	53,107	0
Cash collaterals granted**	86	0
Other***	17	0
Included in cash equivalents	53,350	163
Total loans and receivables to banks	**53,367**	**163**

* In 2017, the Bank started to provide reverse repo operations with the Czech National Bank, received collateral in the amount of CZK 52,033 million represented by treasury bills that are not recognised in the statement of financial position.
** Comprises collateral granted for repo operations and derivative transactions.
*** Represents an unsolicited dividend for the year 2016 transferred to Komerční banka, a.s. that is administrating the payment.

The Bank has not created any allowances on loans and receivables to banks as no impairment has been identified.

22. LOANS AND RECEIVABLES TO CUSTOMERS

a) Loans and receivables to customers by sector

CZK m	31 Dec 2017	31 Dec 2016
Financial organisations*	11,573	13,619
Non-financial organisations	37,896	34,646
Government sector	36	53
Non-profit organisations	174	43
Entrepreneurs	8,540	7,509
Resident individuals	61,670	56,670
Non-residents entrepreneurs	1	0
Non-residents individuals	657	330
Gross loans and receivables to customers	**120,547**	**112,870**
Loss allowances for loans and advances to customers**	(3,512)	(5,517)
Net loans and receivables to customers	**117,035**	**107,353**
Gross loans and receivables to customers without impairment	115,991	106,152
Loss allowances for loans and advances to customers without impairment	(599)	(708)
Net loans and receivables to customers without impairment	**115,392**	**105,444**

* The balance of gross loans and receivables to financial organizations includes exposures to MONETA Leasing, s.r.o., and MONETA Auto, s.r.o. in total amount of CZK 11,104 million as at 31 December 2017 (as at 31 December 2016 CZK 13,111 million).
** Significant decrease in the line "Loss allowances for loans and advances to customers" in 2017 is driven by persisting good macroeconomic environment and the execution of write offs of legacy NPLs that have been fully covered by loan loss allowances and NPLs sales.

b) Loans and receivables to customers by product (net of loss allowances)

CZK m	31 Dec 2017	31 Dec 2016
Consumer authorised overdrafts and credit cards	3,945	4,551
Consumer loans	34,969	32,281
Mortgages	20,338	15,571
Commercial loans*	57,783	54,933
Other retail loans	0	17
Net loans and receivables to customers	**117,035**	**107,353**

*The balance of the commercial loans includes exposures to MONETA Leasing, s.r.o., and MONETA Auto, s.r.o. in the amount of CZK 11,104 million as at 31 December 2017 (as at 31 December 2016: CZK 13,111 million).

c) Loss allowances for loans and receivables to customers

CZK m	2017			2016		
	Individual allowances	Portfolio allowances	Total allowances	Individual allowances	Portfolio allowances	Total allowances
1 Jan	**377**	**5,140**	**5,517**	**991**	**8,953**	**9,944**
Additions and release of allowances	130	459	589	102	846	948
Effect of written off receivables	(133)	(2,335)	(2,468)	(706)	(4,493)	(5,199)
Interest income from impaired loans (unwiding)	(3)	(123)	(126)	(10)	(166)	(176)
Net movement of allowances	**(6)**	**(1,999)**	**(2,005)**	**(614)**	**(3,813)**	**(4,427)**
31 Dec	**371**	**3,141**	**3,512**	**377**	**5,140**	**5,517**

d) Loss allowances for loans and receivables to customers by sectors

CZK m	Financial organisations	Non-financial organisations	Non-profit organisations	Entrepreneurs	Resident individuals	Non-residents individuals	Total
1 Jan 2017	**6**	**555**	**2**	**408**	**4,529**	**17**	**5,517**
Net change of allowances	(2)	197	(1)	29	249	(9)	463
Effect of written off receivables	(3)	(221)	0	(247)	(1,997)	0	(2,468)
31 Dec 2017	**1**	**531**	**1**	**190**	**2,781**	**8**	**3,512**

CZK m	Financial organisations	Non-financial organisations	Non-profit organisations	Entrepreneurs	Resident individuals	Non-residents individuals	Total
1 Jan 2016	**3**	**1,032**	**3**	**744**	**8,146**	**16**	**9,944**
Net change of allowances	3	78	(1)	21	669	2	772
Effect of written off receivables	0	(555)	0	(357)	(4,286)	(1)	(5,199)
31 Dec 2016	**6**	**555**	**2**	**408**	**4,529**	**17**	**5,517**

23. FINANCIAL ASSETS AVAILABLE FOR SALE

CZK m	31 Dec 2017	31 Dec 2016
Treasury bonds	0	13,444
Corporate bonds	0	256
Equity investments	57	49
Total available for sale financial assets	**57**	**13,749**
By listing:		
– listed	0	13,444
– unlisted	57	305

Available for sale financial assets as at 31 December 2016 comprised equity investments, Czech government bonds, treasury bills and bonds with fixed or variable coupon issued mainly by financial institutions.

On 1 August 2017 all bonds comprised in the available for sale portfolio (Czech government bonds) with total carrying value of CZK 5,287 million were reclassified into the held to maturity portfolio in compliance with change in the Bank´s investment strategy under which these investments are intended to be held until the maturity. Related Available for sale reserve from revaluation of reclassified bonds remains recognised in the equity because fair value of these bonds as at the date of reclassification is considered to be their carrying value on the date of reclassification.

Equity investments include investments in SWIFT and VISA Inc.

In 2017 and 2016 no impairment of available for sale assets has been recognised.

There are no financial assets available for sale transferred as collateral under repurchase transactions as at 31 December 2017 (31 December 2016: CZK 1,863 million). Repurchase transactions are disclosed in the note 20.

24. FINANCIAL ASSETS HELD TO MATURITY

CZK m	31 Dec 2017	31 Dec 2016
Treasury bonds	11,723	0
Total Held to maturity financial assets	**11,723**	**0**
By listing:		
– listed	11,723	0

Held to maturity financial assets comprise Czech government bonds. This portfolio is used since 1 August 2017 when the Bank introduced new investment strategy and all bonds were transferred from available for sale portfolio into held to maturity portfolio. The Bank has intention and ability to hold them until maturity. For more details see note 23.

As at 31 December 2017 held to maturity financial assets with carrying amount CZK 3,371 million are transferred as collateral under repurchase transactions (31 December 2016: CZK 0 million).

25. FINANCIAL DERIVATIVES

Financial derivatives include Over the Counter ("OTC") derivatives.

The Bank enters into foreign exchange derivatives (currency swaps, currency forwards) to economically hedge its foreign currency risk but these derivatives are not designated at the initial recognition as hedging derivatives according to IAS 39, they are classified as held for trading for accounting purposes and presented in the line "Financial assets at fair value through profit or loss", resp. "Financial liabilities at fair value through profit or loss". Hence, the portfolio of financial assets at fair value through profit or loss includes positive fair value of foreign exchange derivatives and the portfolio of financial liabilities at fair value through profit or loss only includes negative fair value of foreign exchange derivatives.

Since 2017, the Bank designates at the initial recognition interest rate swaps derivatives as hedging instruments according to IAS 39 to hedge its exposure to the change of the fair value of a defined part of portfolio of loans to customers or loan commitments related to interest rate risk (see note 5.5.7).

In the statement of financial position, derivatives with positive fair values (total fair value including accrued interest) are presented in the line item "Hedging derivatives with positive fair values", derivatives with negative fair values (total fair value including accrued interest) are disclosed in the line "Hedging derivatives with negative fair values".

Financial derivatives classified as held for trading

CZK m	Nominal value		Fair value	
	Assets	Liabilities	Assets	Liabilities
31 Dec 2017				
CURRENCY DERIVATIVES				
Currency swaps	2,472	2,498	1	25
Currency forwards	3,972	3,968	47	43
Total derivatives for trading	**6,444**	**6,466**	**48**	**68**

CZK m	Nominal value		Fair value	
	Assets	Liabilities	Assets	Liabilities
31 Dec 2016				
CURRENCY DERIVATIVES				
Currency swaps	2,240	2,221	20	1
Currency forwards	619	618	6	6
Total derivatives for trading	**2,859**	**2,839**	**26**	**7**

Financial derivatives designated at the initial recognition as hedging derivatives

CZK m	Nominal value		Fair value	
	Assets	Liabilities	Assets	Liabilities
31 Dec 2017				
INTEREST RATE DERIVATIVES				
Interest rate swaps	5,980	5,980	4	4
Total hedging derivatives	**5,980**	**5,980**	**4**	**4**

The Bank did not have any Interest rate swaps as of 31 December 2016.

26. INTANGIBLE ASSETS

CZK m	Software purchased	Software – internally developed	Intangibles not in use	Total
Carrying amount as at 31 Dec 2015	**67**	**334**	**27**	**428**
Additions to assets	67	180	458	705
Transfers of assets	0	0	(247)	(247)
Amortisation for period	(25)	(105)	0	(130)
Impairment of assets	0	(20)	0	(20)
Carrying amount as at 31 Dec 2016	**109**	**389**	**238**	**736**
Additions to assets*	168	501	741	1,410
Transfers of assets	0	0	(669)	(669)
Amortisation for period	(65)	(137)	0	(202)
Impairment of assets	0	(2)	0	(2)
Carrying amount as at 31 Dec 2017	**212**	**751**	**310**	**1,273**

*Increase in the line "Additions to assets" in 2017 is caused primarily by higher investments into the IT systems connected especially with digitalisation strategy of the Bank.

CZK m	Software purchased	Software – internally developed	Intangibles not in use	Total
Cost as at 31 Dec 2015	649	3,595	27	4,271
Accumulated Amortisation 2015	(582)	(3,261)	0	(3,843)
Carrying amount as at 31 Dec 2015	**67**	**334**	**27**	**428**
Cost as at 31 Dec 2016	722	3,730	238	4,690
Accumulated Amortisation 2016	(613)	(3,341)	0	(3,954)
Carrying amount as at 31 Dec 2016	**109**	**389**	**238**	**736**
Cost as at 31 Dec 2017	1,029	3,648	310	4,987
Accumulated Amortisation 2017	(817)	(2,897)	0	(3,714)
Carrying amount as at 31 Dec 2017	**212**	**751**	**310**	**1,273**

Annual costs related to research and development (that did not meet capitalization criteria) amounted to CZK 49.3 million in 2017 (2016: CZK 33 million).

27. PROPERTY AND EQUIPMENT

CZK m	Capital improvements of leased assets	Equipment and machinery	Fixtures and other tangibles	Property and equipment not in use	Total
Carrying amount as at 31 Dec 2015	**187**	**253**	**19**	**52**	**511**
Additions to assets	17	153	4	203	377
Disposals/transfers of assets	0	0	0	(174)	(174)
Depreciation for period	(57)	(92)	(5)	0	(154)
Impairment of assets	(32)	(3)	(3)	(2)	(40)
Carrying amount as at 31 Dec 2016	**115**	**311**	**15**	**79**	**520**
Additions to assets	58	217	30	415	720
Disposals/transfers of assets	(1)	(4)	(1)	(305)	(311)
Depreciation for period	(57)	(115)	(7)	0	(179)
Impairment of assets	(1)	0	0	0	(1)
Carrying amount as at 31 Dec 2017	**114**	**409**	**37**	**189**	**749**

CZK m	Capital improvements of leased assets	Equipment and machinery	Fixtures and other tangibles	Property and equipment not in use	Total
Cost as at 31 Dec 2015	875	1,560	73	52	2,560
Accumulated Depreciation 2015	(688)	(1,307)	(54)	0	(2,049)
Carrying amount as at 31 Dec 2015	**187**	**253**	**19**	**52**	**511**
Cost as at 31 Dec 2016	888	1,485	68	79	2,520
Accumulated Depreciation 2016	(773)	(1,174)	(53)	0	(2,000)
Carrying amount as at 31 Dec 2016	**115**	**311**	**15**	**79**	**520**
Cost as at 31 Dec 2017	754	1,611	93	189	2,648
Accumulated Depreciation 2017	(640)	(1,202)	(56)	0	(1,899)
Carrying amount as at 31 Dec 2017	**114**	**409**	**37**	**189**	**749**

Net book value of assets leased under finance lease is CZK 2.6 million as at 31 December 2017 (2016: CZK 9.1 million).

Assets leased under operating lease contracts are not comprised in line "Property and equipment" in accordance with requirements of IAS 17 Leases (see the note 39).

28. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

CZK m

Name	Registered office	Business activity	Equity 31 Dec 2017	Share of voting rights	Share in equity	Cost	Book value
31 Dec 2017							
Inkasní Expresní Servis s.r.o.	Vyskočilova 1422/1a, 140 28 Prague 4	Debt recovery services	46	100%	100%	32	32
MONETA Auto, s.r.o.	Vyskočilova 1422/1a, 140 00 Prague 4	Auto financing (Loans and Leases)	1,900	100%	100%	6,787	2,860
MONETA Leasing Services, s.r.o.	Holandská 1006/10, 639 00 Brno, Štýřice	Lease and rental of movables	19	100%	100%	10	10
MONETA Leasing, s.r.o.*	Holandská 1006/10, 639 00 Brno, Štýřice	Financing of loans and leasing	1,520	100%	100%	2,938	1,652
CBCB – Czech Banking Credit Bureau, a.s.	Na Vítězné pláni 1719/4, 140 00 Prague 4	Banking Credit Register	2	20%	20%	0	0
Total investments in subsidiaries and associates as of 31 December 2017						**9,767**	**4,554**

*The General Meeting approved on 31 March 2017 the payment of retained earnings of CZK 1,465 million to the shareholders of the company based on their share in equity.

In 2017 after the approval of new operation plan of MONETA Leasing, s.r.o. and MONETA Leasing Services, s.r.o., the Bank provided test of these investments for potential impairment, both entities represent single cash generating unit. The assessment has been made with the following assumptions: value in use (recoverable amount) has been determined using cash flow predictions based on financial budgets covering a three-year period, with a terminal growth rate of 1% (2016: 3%) applied thereafter. The forecast cash flows have been discounted at a pre-tax rate of 10% (2016: 10%) and resulting net present value of future cash flows was lower than carrying value of these investments. The minimum recoverable amount was stated to be book value of assets less book value of liabilities of these entities because their fair value was even higher (by CZK 132 million as at the date of testing) than their book value and the same assumption was used in consolidated financial statements of the Bank for assessment of related goodwill impairment. As a result, the impairment of investments in mentioned entities was recognised in the amount of CZK 1,286 million in 2017. Nevertheless, the Group will continue in monitoring these investments for potential impairment.

CZK m

Name	Registered office	Business activity	Equity 31 Dec 2016	Share of voting rights	Share in equity	Cost	Book value
31 Dec 2016							
Inkasní Expresní Servis s.r.o.	Vyskočilova 1422/1a, 140 28 Prague 4	Debt recovery services	41	100%	100%	32	32
MONETA Auto, s.r.o.*	Vyskočilova 1422/1a, 140 00 Prague 4	Auto financing (Loans and Leases)	1,242	100%	100%	6,787	2,860
MONETA Leasing Services, s.r.o.	Holandská 1006/10, 639 00 Brno, Štýřice	Lease and rental of movables	11	100%	100%	10	10
MONETA Leasing, s.r.o.**	Holandská 1006/10, 639 00 Brno, Štýřice	Financing of loans and leases	2,688	100%	100%	2,938	2,938
CBCB – Czech Banking Credit Bureau, a.s.	Na Vítězné pláni 1719/4, 140 00 Prague 4	Banking Credit Register	2	20%	20%	0	0
Total investments in subsidiaries and associates as of 31 December 2016						**9,767**	**5,840**

* The Bank as the sole member action in lieu of the General Meeting of MONETA Auto, s.r.o., adopted the following decisions in changes in the equity of MONETA Auto, s.r.o.:
- on 23 June 2016 to distribute retained earnings of CZK 2,964 million to the sole member,
- on 11 August 2016 to decrease the share capital by CZK 3,227 million and return this amount to the sole member,
- on 23 September 2016 to return in full the contribution to other capital funds of CZK 700 million to the sole member.

The decrease in share capital and return of contribution to other capital funds was accounted for as a recovery of the investment and reduced carrying value of investment in Moneta Auto, s.r.o.

** The General Meeting of MONETA Leasing, s.r.o, approved on 23 June 2016 the distribution of retained earnings of CZK 600 million to the members of the company based on their share in equity.

Changes in investments in subsidiaries and associates in 2017

CZK m	Book value 1 Jan 2017	Decrease	Book value 31 Dec 2017
Inkasní Expresní Servis s.r.o.	32	0	32
MONETA Auto, s.r.o.	2,860	0	2,860
MONETA Leasing Services, s.r.o.	10	0	10
MONETA Leasing, s.r.o.	2,938	1,286	1,652
CBCB – Czech Banking Credit Bureau, a.s.*	0	0	0
Total	**5,840**	**1,286**	**4,554**

*The book value of CBCB – Czech Banking Credit Bureau is CZK 240,000 as at 31 December 2017.

Changes in investments in subsidiaries and associates in 2016

CZK m	Book value 1 Jan 2016	Decrease	Book value 31 Dec 2016
Inkasní Expresní Servis s.r.o.	32	0	32
MONETA Auto, s.r.o.	6,787	3,927	2,860
MONETA Leasing Services, s.r.o.	10	0	10
MONETA Leasing, s.r.o.	2,938	0	2,938
CBCB – Czech Banking Credit Bureau, a.s.*	0	0	0
Total	**9,767**	**3,927**	**5,840**

*The book value of CBCB – Czech Banking Credit Bureau is CZK 240,000 as at 31 December 2016.

29. CURRENT TAX ASSETS

CZK m	31 Dec 2017	31 Dec 2016
Income tax receivable	286	248
Total current tax asset	**286**	**248**

Income tax receivable in amount of CZK 286 million consists of 2017 current income tax payable in amount of CZK 404 million and tax receivable arising from 2017 tax advances in amount of CZK 690 million. Corporate income tax advances will be offset with current income tax payable in 2017 tax return and the difference will be refunded by tax authority in 2018.

30. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax is determined based on all temporary and timing differences between the tax residual values of assets and liabilities and their residual book values in the Bank's financial statements. Deferred tax is determined using tax rate enacted by balance sheet date. The applicable rate is 19%.

The recognition of deferred tax assets relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

Deferred tax assets and liabilities consist of following differences:

CZK m	31 Dec 2017	31 Dec 2016
Deferred tax liabilities	**(112)**	**(151)**
Difference between residual book value and tax residual value of long-lived assets	(112)	(66)
Revaluation of available for sale financial assets	0	(85)
Deferred tax assets	**500**	**916**
Loans allowances	320	747
Difference between remaining book value and tax residual value of long-lived assets	54	57
Revaluation of available for sale financial assets	14	0
Other temporary variances	112	112
Net deferred tax asset/liability	**388**	**765**

The following table shows the movement of the net deferred tax asset:

CZK m	2017	2016
Net deferred tax assets at the beginning of period	**765**	**944**
Change of the net deferred tax – total profit and loss impact	**(476)**	**(207)**
Loss allowances for loans and receivables to customers	(427)	(203)
Difference between remaining book value and tax residual value of long-lived assets	(49)	(28)
Change of the net deferred tax – other temporary variances	0	24
Change of the net deferred tax – equity impact	**99**	**28**
Revaluation of available for sale financial assets	99	28
Net deferred tax receivable at the end of period	**388**	**765**

31. OTHER ASSETS

CZK m	31 Dec 2017	31 Dec 2016
Accounts receivables*	73	119
Advances and guarantees for rent related services	227	140
Receivables to finance authorities	148	46
Other receivables net of allowances	52	52
out of that allowances	(75)	(82)
Prepayments	89	70
Other accruals	218	210
out of that accruals to former shareholder**	42	21
out of that accruals to subsidiaries	61	67
Total other assets	**807**	**637**

*Includes receivable to former shareholder (GE Capital International Holding Limited) arising from reimbursement of retention bonuses of CZK 6 million (2016: CZK 52 million) as described in the note 5.14.
**Includes accruals to former shareholder (GE Capital International Holding Limited) arising from Virtual Share Programme as described in the note 37.

32. DUE TO BANKS

The Bank has following liabilities to other banks:

CZK m	31 Dec 2017	31 Dec 2016
Deposits on demand	445	233
Term deposits	970	945
Liabilities arising from repurchase agreements*	23,155	1,479
Cash collaterals received	29	0
Other due to banks**	2,044	0
Total due to banks	**26,643**	**2,657**
Type of rate:		
Fixed interest rate	26,170	2,424
Floating interest rate	473	233

* Liabilities arising from repurchase agreements represent the obligation to repay the borrowing. Financial assets transferred under these agreements as collateral are disclosed in note 20.
** Other due to banks comprises of loan provided by European Investment Bank in September 2017 in the residual amount as at 31 December 2017 of CZK 2,044 million to MONETA Money Bank, a.s. that will be used for financing of SME loans.

33. DUE TO CUSTOMERS

Breakdown of due to customers by sector:

CZK m	31 Dec 2017	31 Dec 2016
Financial organisations	7,660	3,342
Non-financial organisations	23,825	22,250
Insurance organisations	7,148	587
Government sector	4,506	3,966
Non-profit organisations	2,564	2,314
Entrepreneurs	11,617	10,533
Resident individuals	82,171	72,336
Non-residents	2,165	1,021
Total due to customers	**141,656**	**116,349**
Rate type:		
Fixed interest rate	15,905	4,205
Floating interest rate	125,332	111,547
Non-interest bearing	419	597
Total due to customers	**141,656**	**116,349**

Breakdown of due to customers according to the type is as follows:

CZK m	31 Dec 2017	31 Dec 2016
Deposits on demand	125,332	111,547
Savings accounts with notice period	211	249
Term deposits	6,249	3,956
Liabilities arising from repurchase agreements*	9,445	0
Other liabilities towards customers	419	597
Total due to customers	**141,656**	**116,349**

*Liabilities arising from repurchase agreements represent the obligation to repay the borrowing. Financial assets transferred under these agreements as collateral are disclosed in note 20.

34. PROVISIONS

CZK m	2017	2016
Provisions for undrawn loan commitments		
1 Jan	**44**	**49**
Additions to provisions	91	0
Use of provisions	0	0
Release of unused provisions	(97)	(5)
31 Dec	**38**	**44**
Provisions for legal claims		
1 Jan	**266**	**290**
Additions to provisions	0	0
Use of provisions*	(158)	(20)
Release of unused provisions	0	(4)
31 Dec	**108**	**266**
Other provisions		
1 Jan	**91**	**188**
Additions to provisions**	93	9
Use of provisions	(2)	(8)
Release of unused provisions	(3)	(98)
31 Dec	**179**	**91**
Total provisions	**325**	**401**

* The payment of the liquidation balance to Agrobanka shareholders was commenced in March 2017 and simultaneously provision recorded by the Bank for Agrobanka was used in the amount of CZK 143 million that equals the amount paid (see note 38.2).
** Creation of provision for restructuring in the amount of CZK 70 million in 2017 (2016: CZK 0 million) discussed under the following table.

Provisions for undrawn loan commitments are created for irrevocable loan commitments (refer to the note 38).

The provision created for Agrobanka Praha, a.s. v likvidaci settlement is included in the line "Provisions for legal claims". The balance as at 31 December 2017 of CZK 72 million (2016: CZK 220 million) should be used to complete the settlement.

The Bank created other provisions for legal obligation of the Bank associated with the retirement of the premises leased for operation, for the long-term employee benefit that entitles employees to receive award after specific year of service, for legal costs associated with claims of solicitors related to collection of the bad debts, and for onerous contracts resulting from rental contracts.

Other provisions

CZK m	31 Dec 2017	31 Dec 2016
Provisions for assets retirement obligation	49	40
Provisions for restructuring*	70	0
Provisions for employee bonuses and awards	33	30
Provisions for collection services**	17	18
Other provisions	10	3
Total other provisions	**179**	**91**

* Provision for restructuring created in 2017 relates to restructuring of the Bank and related severance payment (CZK 9 million) and restructuring of the branch network of the Bank (CZK 60 million).
** In December 2016 the Bank realized the debt sale of an aged written-off loan portfolio and released related provisions for legal costs associated with claims of solicitors in amount of CZK 52 million. Release of provision is shown in the line "Provisions for collection services" and profit or loss line "Administrative expenses".

35. OTHER LIABILITIES

CZK m	31 Dec 2017	31 Dec 2016
Trade payables	465	413
out of which payables to solictiors	117	198
Payables to employees	115	103
Payables for social and health insurance	59	53
Payables to the state	25	21
Accruals for uninvoiced services/goods	278	560
Accruals for employees bonuses*	262	274
Clearing account of payment settlement	569	733
Deferred income and accrued expenses	53	63
out of that rental services and cards services	20	37
Other liabilities**	43	24
Total other liabilities	**1,869**	**2,244**

* Accruals for employees bonuses as at 31 December 2017 includes bonuses to members of the Management Board under the EVIP policy at amount CZK 70 million (2016: CZK 0 million) described in the note 37, liability from Virtual share programme at amount of CZK 45 million (2016: CZK 18 million) described in the note 37 and other management, retention or sales bonuses.
** Other liabilities as at 31 December 2017 includes an unsolicited dividend for the year 2016 in the amount of CZK 17 million.

36. EQUITY

36.1 SHARE CAPITAL AND SHARE PREMIUM

In order to establish the Bank, GE Capital International Holdings Corporation subscribed 500 shares of original capital with a nominal value of CZK 1 million per share and paid CZK 2,000 million for such shares. No authorized shares are incorporated under the Czech law.

In 1998 the Bank issued 10 (ten) ordinary shares with a nominal value of CZK 1 million each and in 2015 an additional 1 (one) ordinary share with the same nominal value. The increase in registered capital was recorded in the Commercial Register on 25 March 2003 and on 23 November 2015, respectively.

All of the Bank's shares are freely transferable. The common shares carry a right to participate in the General Meeting of the Bank through voting rights (one vote per share) and the right to share in profits. As at 23 November 2015 the registered capital of the Bank was CZK 511 million which has been paid up and is presented as Share capital in the statement of financial position.

On 11 April 2016, 511 ordinary registered book-entry shares in the Bank with a par value of CZK 1,000,000 each were split into 511,000,000 fully paid ordinary registered book-entry shares with a par value of CZK 1.00 each.

Since then, the Bank has not issued any ordinary shares. The Bank did not acquire any own shares.

The latest available list of shareholders holding more than 1% of the shares is available in the investor relations section of the Bank's website at: **https://investors.moneta.cz/shareholder-structure**.

Overview of related parties holding shares of the Bank as at 31 December 2017:

Shareholder	Number of shares	Ownership in %
Tomáš Spurný, Chairman of the Management Board	74,426	0.015%

No other related person or other related party with a relationship to the Bank held any shares of the Bank as at 31 December 2017 or 31 December 2016.

36.2 STATUTORY RESERVE AND AVAILABLE FOR SALE RESERVE

Statutory reserve
The reserve fund stood at CZK 102 million as at 31 December 2017 (2016: CZK 102 million) and is presented as Legal and statutory reserve in the statement of financial position.

Available for sale reserve

CZK m	Bonds	Shares	Deferred Tax	Total
1 Jan 2017	**447**	**1**	**(85)**	**363**
(Gain) and losses in the period recognises in the income statement*	(343)	0	0	(343)
Gain and (losses) in the period recognises in AFS reserve**	(184)	8	99	(77)
31 Dec 2017	**(80)**	**9**	**14**	**(57)**

CZK m	Bonds	Shares	Deferred Tax	Total
1 Jan 2016	**477**	**118**	**(113)**	**482**
(Gain) and losses in the period recognises in the income statement*	0	(279)	0	(279)
Gain and (losses) in the period recognises in AFS reserve**	(30)	162	28	160
31 Dec 2016	**447**	**1**	**(85)**	**363**

* Represents net gain from sale of available for sale financial assets recognised in the profit or loss line "Net income from financial operations".
** Comprises revaluation of available for sale financial assets to fair values including revaluation of debt instruments until reclassification to held to maturity (see note 5.5.2.1).

37. BONUSES TIED TO THE EQUITY

Virtual Share Programme

The following table shows inputs used by determination of fair value of virtual shares under the Virtual Share Programme (as described in the accounting policy note 5.14):

in CZK	2017	2016
Weighted average fair value	**82.40**	**82.80**
Information how fair value was determined		
Valuation model	Black-Scholes	Black-Scholes
Share price	82.40	82.80
Expected volatility	12.75%	21.43%
Risk-free interest rate	0.58%	0.45%
Weighted average remaining life of options outstanding (in years)	0.33	1.33

The following table reconciles the number of virtual shares outstanding:

	Units in thousands	Weighted average share price in CZK
Outstanding at 1 Jan 2016	**0**	**0**
Granted	650	68.00
Exercised	3	77.87
Forfeited	57	76.57
Outstanding at 31 Dec 2016	**590**	**82.80**
Exercisable at 31 Dec 2016	**0**	**0**
Granted	0	0
Exercised	10	80.51
Forfeited	70	79.60
Outstanding at 31 Dec 2017	**510**	**82.40**
Exercisable at 31 Dec 2017	**0**	**0**

The table below reconciles outstanding liability resulting from cash-settled share-based payment under the Virtual Share Programme recognised within the line "Other liabilities":

CZK m	
Outstanding liability to employees at 1 Jan 2016	**0**
Total expense recognised in 2016	1
of which Personnel expenses recognised in 2016	18
of which Personnel expenses compensation from GECIHL	(17)
Outstanding liability to employees at 31 Dec 2016	**18**
Total expense recognised in 2017	2
of which Personnel expenses recognised in 2017	27
of which Personnel expenses compensation from GECIHL	(25)
Outstanding liability to employees at 31 Dec 2017	**45**

Outstanding receivable from GECIHL for Virtual Share Programme as of 31 December 2017 is CZK 42 million (31 December 2016: CZK 17 million). For further detail about Virtual Shares Programme see note 5.14.

Executive Variable Incentive Plan ("EVIP")

In 2017, the Supervisory Board adopted remuneration policy relevant for the Management Board members for performance (fiscal) year 2017 and onward that is subject to the terms and conditions described in the Executive Variable Incentive Plan ("EVIP") policy. For more details about EVIP (esp. total benefits awarded and paid in 2017) see section 4.11 of the Annual report.

The total balance of accrual for EVIP disclosed in "Other liabilities" as at 31 December 2017 is CZK 70 million, thereof the amount of CZK 37 million relates to cash settled share based payment remuneration that will be paid in the following years in three cash instalments as defined in EVIP conditions regardless potential leave of the Management Board. This variable part is tied to the total shareholders return ("TSR"), hence the amount paid will vary according to changes in market price of the Bank´s shares and profit distributions of the Bank (dividend paid). For accruals as at 31 Dec 2017, TSR 1.093 was applied to variable part of EVIP bonuses and it was calculated as follows:

$$1.0 + \left\{ \frac{(\text{MMB Share Price End} - \text{MMB Share Price Begin}) + \text{Dividend per Share}}{\text{MMB Share Price Begin}} \right\} = \text{MMB TSR}$$

MMB Share Price End (average market price of MMB shares during December 2017)	79.5
MMB Share Price Begin (average market price of MMB shares during January 2017)	81.68
Dividend per Share	9.8

For variable part actually paid in 2018 TSR 1.14 will be applied based on MMB Share Price End calculated from average market price of MMB shares during January 2018.

38. CONTINGENT LIABILITIES

38.1 LOAN COMMITMENTS AND ISSUED GUARANTEES

CZK m	31 Dec 2017	31 Dec 2016
Irrevocable loan commitment	19,683	15,369
Issued guarantees	2,603	1,029
Credit limits on issued guarantees*	807	483
Issued letter of credit	1	2
Total loan commitments and issued guarantees	**23,094**	**16,883**

*This line represents committed limits on guarantees that can be withdrawn by customers.

38.2 SIGNIFICANT LEGAL DISPUTES

The pending significant legal dispute include the court action by ARC equity services a.s. (formerly Arca Services a.s., "**ARC Services**") against the Bank in connection with the 1998 acquisition of a part of banking business of Agrobanka Praha, a.s., currently Agrobanka Praha, a.s. v likvidaci ("**Agrobanka**"; the "**Acquisition**").

38.2.1 Litigation risks in respect of the 1998 acquisition of a part of banking business of Agrobanka

In connection with the court action by ARC Services, the Bank notes that it is subject to the risks set out below in connection with the Acquisition and the ongoing liquidation of Agrobanka which could have a material adverse effect on the reputation, business, results of operations and financial condition of the Bank and the value of its shares.

Following the completion of the Acquisition in 1998, certain Agrobanka shareholders and members of its supervisory board filed claims against the Bank and Agrobanka in the Czech courts, alleging that the Acquisition was not legal, valid and enforceable. If this had been found to have been the case at the time, the consequences could have been the unwinding of the Acquisition and the return by the Bank to Agrobanka of all assets and / or liabilities deemed to belong to Agrobanka or, alternatively, a payment by the Bank of their financial equivalent to Agrobanka. In 2010, the Bank and certain other entities affiliated with GE (the sole shareholder of the Bank at that time) reached a general settlement with Agrobanka and shareholders holding in aggregate more than 60 per cent of the shares in Agrobanka as a result of which: (i) the claims set out above against the Bank were withdrawn and terminated; and (ii) Agrobanka and its shareholders bound by the settlement waived any claims against the Bank in connection with the Acquisition (the "2010 Settlement"). In September 2014, the general meeting of Agrobanka approved the liquidation balance of Agrobanka in line with the 2010 Settlement by more than 96% majority of present Agrobanka shareholders.

Legal Challenges by Arca Group

In October 2016, ARC Services, a minority shareholder of Agrobanka not bound by the 2010 Settlement and to our best knowledge a member of Arca Group, filed action with the District Court for Prague 4 against the Bank, Agrobanka and Mr. Jiří Klumpar (the forced administrator of Agrobanka in 1998) challenging the legality, validity and enforceability of the Acquisition. The Bank understands that ARC Services acquired shares in Agrobanka only in the course of 2016, i.e., two years after the approval of the liquidation balance of Agrobanka by its shareholders.

As a result of an initial response by the Bank, the High Court in Prague decided that the subject matter jurisdiction to hear the case belongs to the Municipal Court in Prague and the case was moved to, and will be heard by, the Municipal Court in Prague. The Bank believes (as the Bank and Agrobanka also declared in their joint submission to the Municipal Court in Prague of October 2017) that the Acquisition is legal, valid and enforceable, ARC Services, as well as any Agrobanka shareholders, directors and members of the supervisory board, does not have standing to take legal action to claim otherwise, and the court action of ARC Services is baseless. Likewise, the Czech National Bank declared in its statement dated 11 August 2017 and published on its official webpage that it considers the Acquisition valid.

The Bank will vigorously contest the court action of ARC Services and any other claim made against it, any of its subsidiaries or any of its or their respective assets. In this respect, the Bank notes that the Municipal Court in Prague (as the trial court) and the High Court in Prague (as the appellate court) have already dismissed similar court action filed by another Agrobanka's shareholder.

In the remote event that the court action filed by ARC Services is upheld by court there would be considerable uncertainty as to what remedial action a court could decide to take and what effect such decision would have on the Bank. The Bank believes that an unwinding of the Acquisition and return to Agrobanka of all assets and / or liabilities deemed to belong to Agrobanka would be difficult to implement in practice given that almost 20 years have elapsed since the completion of the Acquisition and substantially all assets and liabilities that were originally acquired by the Bank from Agrobanka no longer exist.

In such remote event a court may, therefore, award a payment by the Bank of a financial equivalent of such assets and / or liabilities to Agrobanka instead. It is uncertain how a court would determine the appropriate amount of such financial equivalent and there is a high likelihood of additional litigations to establish such amount.

In September 2016, ARC Services filed a criminal complaint, in which it asserted, inter alia, that the signatories to the 2010 Settlement and related transactions within Agrobanka's liquidation, including Agrobanka's liquidator and corporate bodies and representatives of two GE entities and the Bank, may allegedly have committed, by entering into the 2010 Settlement, certain criminal offences under Czech law, namely bribery and breaching of fiduciary duties when administering third party's assets. The Bank rejected and denied all such allegations as the 2010 Settlement and the process of Agrobanka's liquidation are in full compliance with law. Although Czech law recognizes, in addition to the criminal liability of individuals, the criminal liability of legal entities, the Bank rules out that this applies to it in this case.

Potential risk of Agrobanka insolvency

Agrobanka has historically been at risk of insolvency. In such, albeit unlikely, case, Agrobanka bankruptcy trustee could treat the Acquisition as not being legal, valid and enforceable and attempt to treat any assets of the Bank that it deems to belong to Agrobanka as part of the bankruptcy estate, seek to assume control over such assets and challenge the Acquisition. Alternatively, a bankruptcy trustee could make a claim against the Bank to pay a financial equivalent of such assets.

Given that almost 20 years have elapsed since the completion of the Acquisition, the Bank believes that it would be difficult for a bankruptcy trustee to determine which assets of the Bank could be treated as part of Agrobanka's bankruptcy estate and assume control over any assets of the Bank, and the Bank would vigorously contest any attempts by a bankruptcy trustee to treat any assets of the Bank as part of Agrobanka's bankruptcy estate.

The risk of Agrobanka's insolvency has been significantly lessened by the 2010 Settlement and an agreement between the Bank and Agrobanka on the funding by the Bank of a portion of Agrobanka's ongoing liquidation costs. However, in an unlikely event of Agrobanka's insolvency, there is a residual risk that Agrobanka's bankruptcy trustee would violate the 2010 Settlement and attempt to challenge the Acquisition and assume control over any assets deemed to belong to Agrobanka, or make a claim against the Bank to pay a financial equivalent of the assets deemed to belong to Agrobanka. Nevertheless, the Bank believes that any bankruptcy trustee of Agrobanka would be bound by the 2010 Settlement and hence prohibited from challenging the legality, validity and enforceability of the Acquisition.

Agrobanka's insolvency may potentially arise from: (i) unforeseen tax liabilities of Agrobanka being determined by Czech tax authorities; and (ii) challenge to the liquidation balance of Agrobanka. To that end we note that the liquidation balance of Agrobanka was approved by the general meeting of Agrobanka in September 2014 by more than 96% majority of present Agrobanka shareholders and, as far as the Bank is aware, Agrobanka is not insolvent as of the date hereof.

Other potential risks

Furthermore, there is a risk that also other Agrobanka shareholders not bound by the 2010 Settlement may attempt to challenge the Acquisition and, even though the 2010 Settlement documents provide that neither Agrobanka nor shareholders bound by the 2010 Settlement may challenge the legality, validity and enforceability of the Acquisition, there is also no guarantee that the 2010 Settlement parties will not do so in breach of the terms and conditions of the 2010 Settlement. No such claims have been notified to the Bank until date of this report.

Finally, negative developments in relation to Agrobanka, may generate negative publicity which may, in turn, have a material adverse effect on the reputation, business, results of operations, financial condition and / or prospects of the Bank and the value of its shares. The Bank follows thoroughly any such negative publicity and carefully react to any attempts to harm its business, good reputation and prospects.

Current status of Agrobanka liquidation

Agrobanka is in the final phase of its liquidation, its shares were cancelled in 2016 and the process of the payment of the liquidation balance to Agrobanka shareholders was commenced in March 2017. Simultaneously, provision recorded by the Bank for Agrobanka was released in the amount of CZK 143 million that equals the amount to be paid. To date, a vast majority of Agrobanka shareholders have received their respective payments.

In this connection, we note that, under the applicable corporate law, it is possible to revive even an entity which was fully liquidated and ceased to legally exist in case any unknown assets are discovered. The Bank believes that the risks associated with renewal of the liquidation of Agrobanka after its deregistration will lessen over time.

38.2.2 Legal Challenges of General Meeting Resolutions by Arca Group

On 16 January 2018, Arca Capital Bohemia, a.s., a minority shareholder of the Bank and to our best knowledge a member of Arca Group, filed with the Municipal Court in Prague action against the Bank challenging the validity of the resolutions adopted by the General Meeting of the Bank held on 26 October 2017 concerning approval of the internal regulation on remuneration of the Supervisory Board and Audit Committee members and respective template service contracts. The Bank believes that the concerned General Meeting resolutions are valid and were adopted in compliance with applicable law, the Articles of Association of the Bank and good morals, and that the court action is baseless.

39. LEASING

Operating lease – the Bank as a Lessee

The Bank leases mainly office or branch property and vehicles. Property leases are both for indefinite and definite period (usually 5 years). Vehicles are leased at maximum for 5 years.

Following table summarizes non-cancellable operating lease commitments not disclosed in the financial statements:

Non-cancellable operating lease commitments

CZK m	31 Dec 2017	31 Dec 2016
No later than one year	245	302
Later than one year but not later than five years	648	481
Later than five years	542	9
Total minimum lease payments	**1,435**	**792**

Expense resulting from non-cancellable operating leases recognised in profit or loss:

CZK m	2017	2016
Lease payments expensed within the period	311	331
Less received sub-lease payments	(8)	(6)
Total administrative expenses for period	**303**	**325**

Sub-lease payments represent rent charge to affiliated companies.

Finance lease – the Bank as a Lessee

The Bank leases various banking equipment such as bill counters with a lease term of 5 years. Such leases are classified as finance leases on inception. The lessor is the legal owner of the leased asset during the lease term according to Czech law, and after the end of the lease term legal ownership is transferred to the Bank.

Minimum Lease Payments – Finance lease

CZK m	31 Dec 2017	31 Dec 2016
No later than one year	1	7
Later than one year but not later than five years	3	1
Total minimum lease payments	**4**	**8**
Total outstanding liability	**4**	**8**

40. TRANSACTIONS WITH RELATED PARTIES

The Bank's related parties include the parent, fellow subsidiaries, associates, key management personnel, and close family members of key management personnel.

Following the strategy announced by GE in April 2015 to sell most of its financial services businesses and focus on its industrial businesses, the sole shareholder of the Bank GECIHL offered 51% of the common shares of the Bank (the "Offering") to institutional investors via the admission of all common shares to trading on the Prime Market of Prague Stock Exchange (the "Listing"). The Offering was completed and settled on 10 May 2016. Conditional trading in the shares commenced on 6 May 2016 and official trading in shares commenced on 10 May 2016. In addition, the Offering incorporated an overallotment option to the benefit of underwriters exercisable within 30 days starting on the first day of conditional trading in the shares of up to 7.65% of the shares to cover overallotments or short positions incurred in connection with the Offering, if any. The underwriters exercised the overallotment option with respect to 6.5% of the common shares of the Bank.

On 29 September 2016, GE announced that it had sold 125.0 million shares in the Bank equal to approximately 24.5% of the Bank's share capital. Following the completion of this equity offering, GE had a remaining ownership interest of approximately 18%.

In November 2016, GE announced that it had sold remaining 92.2 million shares in the Bank equal to approximately 18% of the Bank's share capital.

Transactions provided by the Bank to the related parties represent bank services (esp. loans and interest bearing deposits), expenses from transactions with related parties comprise remunerations to members of Supervisory Board, Management Board and other Key Executive Managers. The transactions provided to the Bank by the former shareholder were mainly related to the use of trademark, collection and administrative services. The former ultimate parent irrevocably and unconditionally guaranteed the due and punctual payments due to the landlord under the terms and conditions of lease agreement of the Bank's headquarter buildings. The unconditional guarantee was terminated in January 2017.

Transactions with related parties are carried out in the normal course of business operations and conducted under normal market conditions. The balances at year end are unsecured. The Bank did not create any provisions for doubtful receivables to related parties as at 31 December 2017 and as at 31 December 2016.

The following transactions were undertaken between related parties in 2017:

CZK m	Subsidiaries	Associates	Key members of the management*	Former majority shareholder	Other related parties	Total
Loans and receivables to customers	11,104	0	17	0	0	11,121
Property and equipment	1	0	0	0	0	1
Intangible assets	14	0	0	0	0	14
Other assets	61	0	0	0	0	61
Due to customers	268	0	24	0	0	292
Other liabilities	15	0	0	0	0	15
Interest and similar income	71	0	0	0	0	71
Fee and commission expense	3	0	0	0	0	3
Operating expenses	(34)	(14)	(115)	0	0	(163)
Dividend income	1,466	2	0	0	0	1,468
Other operating income	61	0	0	0	0	61

The following transactions were undertaken between related parties in 2016:

CZK m	Subsidiaries	Associates	Key members of the management*	Former majority shareholder**	Other related parties	Total
Loans and receivables to customers	13,111	0	10	0	0	13,121
Intangible assets	1	0	0	0	0	1
Property and equipment	21	0	0	0	0	21
Other assets	67	0	0	0	0	67
Due to customers	184	0	19	0	0	203
Other liabilities	14	0	0	3	0	17
Interest expense and similar charges	(1)	0	0	0	0	(1)
Interest and similar income	147	0	0	0	0	147
Operating expenses	(40)	(16)	(165)	60	(212)	(373)
Dividend income	3,564	2	0	0	0	3,566
Other operating income	90	0	0	0	3	93

* Includes members of Supervisory Board, Management Board and other Key Executive Managers.
** Due to the announcement made by GE in September 2016 to sell shares and reduce the share on capital below 20% only the overview of expenses or income is included in the overview for 2016. Receivables and liabilities as of 31 December 2016 are not included because GE was not related party as of 31 December 2016.

Loans and receivables to customers of CZK 11,104 million represent intercompany loans to Bank's subsidiaries (MONETA Leasing s.r.o., MONETA Auto s.r.o.) provided in 2017 (2016: CZK 13,111 million).

The line "Operating expenses" from key members of the management includes wages, compensation and benefits that were paid or accrued during the year to members of the Management Board, Supervisory Board and other Key Executive Managers.

40.1 REMUNERATION TO MEMBERS OF SUPERVISORY BOARD, MANAGEMENT BOARD AND OTHER KEY EXECUTIVE MANAGERS

The following remuneration were paid or accrued to the key members of the management during the year:

CZK m	2017	2016
Short-term employee benefits, there of:	**87**	**98**
Members of the Management Board and other Key Executive Managers	76	91
Members of the Supervisory Board	11	7
Other long-term employee benefits, there of:	**43**	**75**
Members of the Management Board and other Key Executive Managers	43	75
Pay-outs from stock option plans	**5**	**8**
Members of the Management Board and other Key Executive Managers	5	8
Total remuneration	**135**	**181**

This table shows wages, compensation, benefits and payments relating to retention programmes that were paid or accrued during the year to members of the Management Board, Supervisory Board and other Key Executive Managers. It also includes long-term benefits paid during the year that were granted in previous years.

41. SEGMENT REPORTING

The segment reporting is prepared in accordance with IFRS 8 Operating segments.

Operating segments are reported in a manner consistent with reporting to the Management Board and other Key Executive Managers, which are responsible for allocating resources and assessing performance of operating segments.

The Bank's operating segments are following: Commercial, Retail, Other/Treasury.

Commercial segment consists of deposits, investment loans, revolving products, financing of real estate and other services related to transactions with small and medium entrepreneurs, corporate clients, financial institutions, public sector institutions. Services are provided through the branch network , online channels or external sales channels.

Retail segment focuses on deposits, loans, revolving products, credit cards, mortgages and other transactions with retail customers. Retail customers are comprised of private individuals, the Bank's employees and employees of Bank's partners. This segment provides services to citizens through branch network, online channels and external sales channels.

Other/Treasury segment provides primarily the treasury function. The focus of the segment is on foreign exchange transactions, interest rate swaps, investment in debt securities, equity investments, other non-interest bearing assets and other operations that cannot be associated with above mentioned segments.

The Bank has no client or economic group for which the proceeds of realized transactions exceeded 10% of the income of the Bank. Segment reported revenues, below, represent only revenues realized with external customers.

Cross-funding among operating segments is not material, because most of the liabilities are represented by customers' current accounts which bear no interest or only 0.1% p.a.

The Bank's income is generated within the territory of the Czech Republic and there are no intersegment revenues.

CZK m	Commercial	Retail	Other/ Treasury	Total
2017				
Interest and similar income	1,433	5,244	168	6,845
Interest expense and similar charges	(41)	(157)	(7)	(205)
Net fee and commission income	412	1,376	24	1,812
Dividend income	0	0	1,468	1,468
Net income from financial operations	0	0	706	706
Other operating income	31	242	0	272
Total operating income	**1,835**	**6,705**	**2,358**	**10,898**
Net impairment of loans and receivables	(153)	(336)	0	(489)
Risk adjusted operating income	**1,682**	**6,369**	**2,358**	**10,409**
Total operating expenses				**(4,598)**
Impairment of investments in subsidiaries and associates				**(1,286)**
Profit for the year before tax				**4,525**
Taxes on income				(865)
Profit for the year after tax				**3,660**
Total assets of the segment	**66,450**	**63,471**	**67,490**	**197,411**
Net value of loans and receivables to customers	**57,783**	**59,252**	**0**	**117,035**
Total liabilities of the segment	**51,346**	**84,472**	**34,747**	**170,565**

CZK m	Commercial	Retail	Other/ Treasury	Total
2016				
Interest and similar income	1,471	6,042	98	7,611
Interest expense and similar charges	(47)	(144)	0	(191)
Net fee and commission income	408	1,390	8	1,806
Dividend income	0	0	3,588	3,588
Net income from financial operations	0	0	600	600
Other operating income	24	171	0	195
Total operating income	1,856	7,459	4,294	13,609
Net impairment of loans and receivables	(78)	(776)	0	(854)
Risk adjusted operating income	1,778	6,683	4,294	12,755
Total operating expenses				(4,626)
Profit for the year before tax				**8,129**
Taxes on income				(860)
Profit for the year after tax				**7,269**
Total assets of the segment	**64,310**	**55,796**	**30,166**	**150,272**
Net value of loans and receivables to customers	**54,933**	**52,420**	**0**	**107,353**
Total liabilities of the segment	**45,256**	**74,916**	**1,486**	**121,658**

42. RISK MANAGEMENT

The Bank aims to achieve competitive returns at an acceptable risk level as part of its business activities. Risk management covers the control of risks associated with all business activities in the environment in which the Bank operates and ensures that the risks taken are in compliance with regulatory limits, as well as falling within its risk appetite.

When managing risks, the Bank relies on three pillars:

- people (the qualifications and experience of its employees),
- risk governance (including well defined information flows, processes and responsibilities), and
- risk data (including the use of sophisticated analytical instruments and technologies).

This combination has supported the Bank's success and the stability of its economic results.

The Bank's risk management processes are underpinned by advanced analytics, based on an enterprise-wide data warehouse and centralised underwriting process. This allows the Bank to price on a risk basis, according to its in-house scoring and rating models.

The level of risk is measured in terms of its impact on the value of assets and/or capital and the profitability of the Bank. To determine this, the Bank evaluates potential effects of changes in political, economic, market and operational conditions and changes to clients' creditworthiness on its business.

42.1 RISK MANAGEMENT ORGANISATIONAL STRUCTURE

The Bank's key committees for risk management as established by the Management Board are:

- the Enterprise Risk Management Committee (ERMC) for the risk management framework, internal control system and internal capital adequacy assessment process;
- the Credit Committee (CRCO) for credit risk management;
- the Asset & Liability Committee (ALCO) for asset and liability management, market risk and liquidity risk management;
- the Capital Committee (CAPCO) for capital management (the Management Board decided in December 2017 to cancel CAPCO and its agenda split between ALCO and ERMC); and
- the Compliance & Anti-Fraud Committee for compliance, operational managing of internal controls and anti-fraud management.

The members of these committees include the members of the Management Board and other senior managers of the Bank. The committees are responsible for, inter alia:

- Approval of the relevant risk management framework including the basic methods, limits, scenario assumptions and any other parameters used in the risk management process;
- Monitoring the development of relevant risks, including the observance of limits, approval of remedial measures in the case of exceeded limits or unfavourable development trends; and
- Monitoring of the adequacy, reliability and efficiency of internal regulations, processes and limits for risk management in the area of their responsibility.

Other committees that are established by the Chief Risk Officer (CRO) and who manage individual risks include the following:

- The Credit Monitoring and Management Committee (CMMC) monitors and manages the credit risk of the commercial credit portfolio not in work-out process. Members of the committee are employees of the Risk Division and the Commercial Banking Division. The CMMC reports to the CRCO.
- The Problem Loan Committee (PLC) monitors and manages the credit risk of the commercial credit portfolio in the work-out process for commercial individually managed loans and its members are employees of the Risk Division and the Legal Division. The PLC reports to the CRCO.
- The New Product Introduction Council (NPIC) coordinates development and implementation of new or material changes of current products. Its members are employees of relevant divisions. The NPIC reports to the ERMC.
- The Model Risk Oversight Committee (MROC) monitors the model risk. Its members are employees of the Risk Division and the Finance Division. The MROC reports to the ERMC.

The Risk Division is responsible for risk management. The Risk Division is headed by the CRO, who is also a member of the Management Board. The Risk Division primarily:

- Monitors, measures and reports credit, market, model, operational and liquidity risks and proposes remedial measures in the case of limits being exceeded or unfavourable trends;
- Sets terms and conditions for granting loans and lines of credits including their subsequent approval;
- Assesses the adequacy of collateral given by borrowers to the Bank as security for extending loans and lines of credit;
- Manages the loan portfolio;
- Executes controls in the area of credit deals;
- Ensures methodology support and control functions in the area of information security;
- Administers the data infrastructure and analytical systems supporting risk management;
- Ensures the model risk management;
- Maintains and develops models for credit risk management, collections, provisioning, management of operational risks and capital allocation;
- Monitors indicators of fraudulent operations in the credit portfolio and is involved in the prevention of credit frauds; and
- Collects amounts due from borrowers.

The particular departments of the Risk Division are responsible mainly for the following:

- The Commercial Portfolio Management & Underwriting department: commercial credit risk (products' conditions, underwriting, monitoring, reporting, quality assurance and controls);
- The Consumer Risk department: consumer credit risk (products' conditions, underwriting, monitoring, reporting, quality assurance and controls);
- The Collateral Management department: collateral management (methodology, valuation);
- The Risk Infrastructure department: risk IT infrastructure (information systems, applications and data structures for credit risk management purposes);
- The Planning, Reserving & Models department: credit and provisioning model development;
- The Collections & Recovery department: collections (including commercial early work-out process);
- The Enterprise Risk Management (ERM) department: market, liquidity, model governance and operational risk methodology, measuring, monitoring and reporting, credit risk measurement, regulatory and internal capital requirement methodology and calculation; and
- The IT Security department: information security management.

The Bank's business activities involve the provision of: deposit accounts, loans and lines of credit to retail customers; and providing funding to entrepreneurs, as well as SME businesses in the Czech Republic (see note 1). The Bank takes steps to avoid risks that are not associated with its main lines of business and to minimise all other risks. The principal objectives in the management of risks and tolerance of individual types of risks are defined in the Risk Appetite Statement document approved by the Management Board.

42.2 CAPITAL MANAGEMENT

The framework used for capital management involves monitoring and complying with the capital adequacy limit in accordance with the Basel III rules codified in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended. Furthermore, from local perspective, the regulatory framework is given by Banking Act No. 21/1992 Coll., as amended, and CNB Decree No. 163/2014 Coll., as amended.

The Bank manages its capital in order to meet the regulatory capital adequacy requirements prescribed in Basel III and allow the Bank to continue its operations on a going concern basis while maximising the return to shareholders through the optimisation of the debt and equity balance.

The minimum regulatory capital requirement (Pillar I) is equal to 8% of risk weighted assets. In 2017, the Bank was obliged to maintain a mandatory capital conservation buffer of 2.5% and countercyclical capital buffer of 0.5% that were applied for the whole Czech market. Therefore, the overall Pillar I capital requirement on an individual and a consolidated basis was 11%.

Under Pillar II (or also the Internal Capital Adequacy Assessment Process, hereinafter "ICAAP"), pursuant to the assessment of the Bank's report on the internal capital adequacy assessment process submitted in 2014, the Czech National Bank informed the Bank (in November 2014) that it expects that the Bank will meet the capital requirement, on a consolidated basis, by achieving Tier 1 Capital Ratio 14% from 2014. The Bank accepted the regulator's expectation and decided to maintain as a target a capital adequacy ratio at 15.5%.

Pursuant to the assessment of the Bank's report on the internal capital adequacy assessment process submitted in 2017, the Czech National Bank informed the Bank (in November 2017) about a new additional Pillar II capital requirement of 3% applicable from 1. January 2018 (i.e. the final required capital adequacy ratio remains at 14%).

In accordance with applicable regulations, the Bank manages capital both above the level of the regulatory capital requirement (Pillar I) and the internal capital requirement (Pillar II or also the Internal Capital Adequacy Assessment Process).

- In order to calculate the regulatory capital requirement for credit risk, the Bank uses the standardised approach. To calculate the capital requirement for operational risk, the Bank uses the alternative standardised approach. However, the Czech National Bank has prescribed that the capital requirement for operational risk on an individual basis shall not fall below 75% of the capital requirement for operational risk per the standardized approach.

- In order to calculate the internal capital requirement, the Bank applied methods similar to advanced approaches according to regulatory Pillar I.

The Bank's capital primarily consists of share capital, share premium and unallocated profit from prior years that is the highest quality Common Equity Tier 1 capital.

From 31 December 2016 the Bank included available for sale reserve into the Bank's capital. The Bank paid a dividend in the amount of CZK 19.7 billion in 2015. On 13 April 2016 the Bank paid a pre-listing dividend of CZK 4,506 million (including withholding tax) to GE Capital International Holdings Limited. The size of the dividend paid in 2016 equalled the net income of the Group for 2015. The dividend of CZK 5,008 million (including withholding tax) paid in 2017 exceeded the net income of the Group for 2016.

The Bank met all regulatory requirements regarding capital adequacy in 2015, 2016 and 2017, even after the payment of the dividends in 2015, 2016 and 2017.

Regulatory capital and its components:

CZK m	31 Dec 2017	31 Dec 2016
Common Equity Tier 1 capital CET1		
Subscribed share capital	511	511
Share premium	5,028	5,028
Statutory reserve and Retained earnings excl. profit for the year	17,706	15,445
Available for sale reserve	(57)	363
Items deductible from Tier1 capital	(1,161)	(684)
Regulatory Capital	**22,027**	**20,663**
Total Risk Exposure (Total Risk Weighted Assets)	**121,197**	**113,834**
Regulatory capital adequacy requirement	11.0%	10.5%
Capital requirement	13,332	11,953
Capital adequacy ratio	18.2%	18.2%

42.2.1 Internal Capital Requirement on a One-year Horizon

The internal capital requirement represents the stock of capital which is needed to cover unexpected losses in the following 12 months at the chosen confidence level.

To determine the internal capital requirement, the Bank currently uses the internal ECAP model. This model covers all regular risks that are material for the Bank and for which the Bank has decided to hold capital to cover:

- Credit risk including concentration risk;
- Interest rate risk in the banking book;
- Operational risk; and
- Business risk: the risk that the Bank does not achieve the planned profit level due to the volatility in business volumes.

The ECAP model is calibrated and relevant risks are quantified on at least 99.95% confidence interval corresponding to a AA credit rating.

Other risks not covered by the ECAP model, that are material to the Bank in the following planning period are identified through workshops with members of the Bank's Management Board and selected senior managers organised every year. The list of key identified risks, relevant stress scenarios and the ICAAP report resulting from this process are discussed and approved by the ERMC. Identified risks are subject to monitoring via quarterly reviews presented at the ERMC with possibility to add new risks operatively.

Capital sources to cover the internal capital requirement are the same as the capital sources to cover the regulatory capital requirement.

42.2.2 Three-Year Capital Outlook and stress testing

In addition to the assessment of the internal capital requirement, the Bank annually prepares a three-year capital outlook, which includes the anticipated development according to the base case scenario of the economic environment and at least one downside scenario. The capital outlook includes the outlook of the regulatory capital requirement, outlook of the internal capital requirement, outlook of capital sources and outlook of economic results. The main stress scenario assumes the worsening of the most significant risk factors that may occur once in a 25-year period, the other stress scenarios cover the most significant identified strategic and other risks. This outlook is reported to the Czech National Bank on a yearly basis as a part of the ICAAP report.

In 2017, the capital outlook together with stress testing results confirmed that the Bank is capable to keep Capital Adequacy Ratio safely above 15.5% even under the circumstances of unexpected adverse macroeconomic developments.

42.2.3 Recovery Plan

Given the regulatory requirements the Bank also prepares a recovery plan. The recovery plan includes three stress scenarios provided by regulation (idiosyncratic event, system-wide event and a combination of the two) with a proposal of relevant measures to ensure it is possible to respond to the developing situation in a timely and proper manner as and when needed.

42.3 CREDIT RISK

Credit risk is the risk of loss for a party resulting from the failure of a counterparty to meet its obligations arising from the terms and conditions of the contract under which the party became the creditor of this counterparty. The Bank is exposed to credit risk in particular in the case of credits granted, non-approved debits, guarantees provided, letters of credit issued and interbank deals.

42.3.1 Credit Risk Management

Credit risk management is organised along the following approval processes:

Individually managed exposures represent exposures to entrepreneurs and SMEs where loans and lines of credit are approved based on an individual assessment of the borrower's creditworthiness in connection with the loan size.

Portfolio managed exposures include exposures to natural persons, natural persons acting as entrepreneurs, and SMEs where loans and lines of credit are approved using an automated credit scoring process. Mortgages have a specific position as mortgages form a part of the retail exposures (usually portfolio managed) but a number of the processes and methods used fall within the category of individually managed exposures.

The exposures to counterparties on the financial market include the exposures to financial institutions and governments. These exposures primarily arise as a part of liquidity management and market risks management. The credit risk of these exposures is managed through limits to countries and counterparties approved based on external ratings.

Individually managed exposures

a) Internal Rating

The Bank uses an internal statistical rating model, which uses the most recent available qualitative and quantitative information, to estimate the probability that a commercial borrower will default in the following 12 months. The rating calculation is based on an assessment of ratios of two types. The ratios of first type (financial) are derived from financial statements and reflect the financial strength of a borrower. The ratios of second type (non-financial) are used to assess the borrower based on qualitative information, which reflects non-financial attributes of the borrower's business. The financial ratios are more significant. The rating model assigns an "obligor rating" (OR) grade from zero to twenty-one to borrowers that are not in default. Borrowers in default are given the internal rating grade twenty-two (OR22 or ORD). The 23 ORs and their associated probabilities of default are:
a) OR0 to 5: 0% to 0.07%
b) OR6 to 10: 0.08% to 0.39%
c) OR11 to 15: 0.59% to 3.03%
d) OR16 to 21: 4.55% to 35.00%
e) ORD: 100%

The predictive power of the rating model is reviewed periodically and significant changes in the model, if any, are approved by the ERMC.

b) Approval Process

The approval process is based on an individual evaluation of a borrower with approval required from CRCO or two authorised persons – one in the Commercial Banking Division and one in the Risk Division. Approval authorities are set on an individual basis and are determined by combining the level of exposure, the borrower's internal rating, maturity, product and collateral.

As part of the approval process, the Bank assesses the financial situation of the prospective borrower, the persons economically related to the borrower and the collateral being offered using internal and external data sources, including credit registers.

The Bank has implemented its own IT solution supporting the process of SME credit approval and administration facilitating the preparation of credit applications, the linking of them with data warehouses, document storage and the subsequent production of contract documentation. The system enables access to financial analysis tools including internal ratings.

c) Monitoring

All SME clients are monitored both individually and on a portfolio basis. Individual monitoring and any potential remedial measures are dealt with by the CMMC, which also decides on categorisation changes (see note 42.3.2).

Reports on the quality of the commercial portfolio are discussed by the CRCO each month. And, if necessary, or if required by the CRCO or CRO, the CRCO will also review individual loan exposures.

Individually managed exposures above a certain threshold are also subject to at least a yearly credit review, which follows the approval process similar to new exposures.

d) Recovery of Debtors' Receivables

In order to achieve maximum recovery, the Collections & Recovery department of the Risk Division manages the Bank's loans where recoverability of the exposure is not reasonably assured. The department engages affected borrowers with a view to recovering the Bank's exposure. This may involve taking legal action against the borrower, restructuring the loans, taking relevant legal steps to realise collateral, debt sale or representing the Bank in insolvency proceedings.

Portfolio managed exposures

a) Scoring Instruments

When approving portfolio managed exposure, internal scoring models are used. These statistical models classify individual borrowers into categories of homogeneous exposures using socio-demographic and behavioural data. The development of these scoring models and monitoring of their predictive power is carried out by the Planning, Reserving & Models department of the Risk Division. The calculated score for the commercial portfolio managed exposures is, similarly to individually managed exposures, mapped to the OR scale. The calculated score for retail portfolio managed exposures is grouped into five "credit rating" (CR) grades with associated probabilities of default in the following 12 months as outlined below:

a) CR1: 1.3% and lower
b) CR2: 1.3% to 3.2%
c) CR3: 3.2% to 7.7%
d) CR4: 7.7% to 15.8%
e) CR5: 15.8% and greater.

For reporting of the overall portfolio quality, the commercial OR grades are mapped to the above mentioned five CR grades. In order to ensure methodological and factual accuracy, models are monitored on a regular basis.

b) Approval Process

The approval process is based on the use of internally-developed scoring models and access to external data sources (in particular credit registers). Approval strategies are set by the Risk Division.

Risk Division underwriters may approve individual exposures that do not pass the automatic approval process.

Mortgages are approved based on an individual assessment of the prospective borrower supported by an input from internally-developed scoring models with approval required from an authorized underwriter from the Risk Division.

c) Monitoring

The Risk Division regularly monitors segments of the portfolio managed exposures, which are reported to the CRCO.

d) Collection

The Collections & Recovery department of the Risk Division is in charge of the recovery process for the Bank's loans. The Bank has a comprehensive collection process which includes an automated collection system. The Bank optimizes its overall recovery capacity and performance by using external capacities (collection agencies) as well as debt sales of non-performing receivables.

Counterparties in the Financial Market

a) External Rating

The main tool for measuring the credit risk of countries and counterparties (financial institutions and governments) with respect to transactions in financial markets is the rating set by international rating agencies: Standard & Poor's, Moody's, and Fitch. The Bank sets individual limits for individual countries and counterparties, for which it requires a minimum short-term rating of A-1 / P-1 / F1 (exceptions must be properly approved).

b) Approval Process

The approval of limits is based on an individual assessment with approval required from the CRO or an authorised approver from the Risk Division. The approval levels are determined individually and are based primarily on the combination of the limit, external rating, maturity and product. In selected cases, the prior approval of the CRCO is required.

c) Monitoring

All counterparties and countries with a determined limit are monitored individually. The subject of the monitoring is primarily the external rating. Remedial measures (in particular a decrease/cancellation of the limit, categorisation of receivables) are approved by an authorised approver from the Risk Division.

The Bank monitors compliance with limits. Any breach of limits is escalated to the Treasurer and CRO. In addition, intentional material limit breaches are escalated also to the CFO and breaches over CZK 100 million to the ALCO members.

42.3.2 Categorisation of Receivables

The Bank has assigned receivables to individual categories in compliance with CNB Decree No. 163/2014 Coll. The categorisation is used for regulatory reporting, impairment testing and calculation of loan loss allowances. The categorisation is as follows:

Receivables without Borrower Default

The receivables without borrower default are classified as performing and without impairment. The Bank assigns receivables without borrower default to the following sub-categories:

a) Standard Receivables

A receivable is regarded as "standard" if there is no reason to doubt that it will be repaid in full. The Bank includes in this category receivables where the principal, interest and fees are being duly paid, with none of them being more than 30 days past due. None of the receivables from the borrower have been forborne in the last two years due to the deterioration in the borrower's financial situation. In the case of individually managed commercial receivables the current value of the borrower's internal rating is better than OR18 and receivables are not in work-out process.

b) Watch Receivables

A receivable is regarded as "watch" if, given the borrower's financial and economic situation, it is likely to be repaid in full. The Bank includes in this category receivables where the principal or interest and fees are being paid with some problems, but none of them are more than 90 days past due. None of the receivables from the borrower have been forborne in the last six months due to the deterioration in the borrower's financial situation. In addition, this category includes individually managed commercial receivables with the borrower's internal rating from OR18 to OR21 (including).

Receivables with Borrower Default

Receivables where the borrower has defaulted are classified as non-performing and impaired and assigned to one of three sub-categories:

a) Sub-standard Receivables

A receivable is regarded as "sub-standard" if, given the borrower's financial and economic situation, its full repayment is uncertain, although its partial settlement is highly likely. The Bank includes in this category receivables where the principal, interest or fees are being paid with problems, but with none of them more than 180 days past due. In addition, sub-standard receivables include receivables that were forborne in the past 6 months due to the deterioration in the borrower's financial situation, and a commercial individually managed receivable with the borrower's internal rating of OR22.

b) Doubtful Receivables

A receivable is regarded as "doubtful" if, given the borrower's financial and economic situation, its full repayment is highly unlikely, although its partial settlement is possible and likely. The Bank includes in this category receivables where the principal, interest or fees are being paid with problems, but with none of them being more than 360 days past due. A receivable is also considered doubtful if a competent court has issued a decision on settling the borrower's bankruptcy via a discharge from debts or reorganisation.

c) Loss Receivables

A receivable is regarded as "loss" if, given the borrower's financial and economic situation, its full repayment is impossible. The expectation is that such receivable will not be repaid or will only be repaid in part in a very small amount. The Bank involves in this category receivables where principal, interest or fees are more than 360 days past due. A receivable from a borrower who is subject to bankruptcy or settlement proceedings is also considered to be a loss receivable.

The Bank automatically assesses the following criteria for this categorisation on a daily basis:

- The fulfilment of debt service (not assessed in non-approved debits on current accounts up to CZK 2,000);
- Borrower's internal rating (in respect of individually managed commercial receivables);
- Completed/not completed forbearance of the debt; and
- Announcement of the bankruptcy or allowed discharge from debt or reorganisation or settlement to the borrower's assets.

42.3.3 Collateral Assessment

The Bank determines the nature and extent of a collateral that is required either by individually assessing a prospective borrower's creditworthiness or as an integral part of the given credit product. The Bank considers the following types of collateral acceptable for mitigating the credit risk on a loan or line of credit:

- Cash;
- Securities;
- Account receivables;
- Bank guarantees;
- Guarantee of a reliable third party;
- Insurance;
- Real estate properties; and
- Movable assets (machinery, equipment, breeding stock).

To determine the realisable value of a collateral, the Bank uses external expert appraisals or internal assessments made by the Collateral Management department of the Risk Division, which is a department operating independently of the Bank's sales departments. The ultimate realisable value of the collateral is then set by applying collateral acceptance ratios reflecting the Bank's ability to realise the collateral in case of default. Maximum values of collateral acceptance ratios are approved by the CRCO.

42.3.4 Allowances Calculation

Allowances are determined in accordance with IFRS.

To calculate allowances, the portfolio is divided into non-impaired receivables and impaired receivables, which are further segmented into commercial and retail exposures by product.

The calculation of allowances for the non-impaired portfolio is based on statistical models. These models are used for calculation of probability of default (PD), loss given default (LGD) and the cure rate (CR). The PD, LGD and CR are calculated directly from statistical models. For some receivables discounted anticipated cash flows from collection (effective interest rate is used as the discount rate) are used to derive the LGD.

Allowances for the impaired part of the portfolio are split into individual and portfolio allowances. Individual allowances are determined for impaired commercial individually managed exposures by calculating the discounted future cash flows. Portfolio allowances based on the LGD statistical approach are determined for remaining portfolios. For these, the LGD is adjusted to correspond to remaining anticipated cash flows. Since 2017, the expected discounted external collection costs are also included in the LGD.

A provision is recognised for irrevocable loan commitments using CCF (credit conversion factor) coefficients that determine which part of the loan commitment is brought onto the balance sheet until the receivable impairment moment.

Back testing is performed no less than annually; it assesses the adequacy of the volume of recognised allowances given the actual losses in the portfolio.

42.3.5 Credit Concentration Risk

As part of managing credit risk, the Bank regularly monitors and actively manages the credit concentration risk through the limits to countries, counterparties, collateral providers and economic sectors. Regional concentration is not relevant as most income is generated within the territory of the Czech Republic (see note 41).

The main collateral providers (via guarantees) are Českomoravská záruční a rozvojová banka, a.s. and European Investment Fund.

a) The exposures to top 10 groups of customers

CZK m	31 Dec 2017	31 Dec 2016
Top 10 exposures*	6,348	5,245

*Exposure includes gross loans and receivables, unused commitments including credit lines, and guarantees.

b) The structure of the Bank's commercial credit portfolio by economic sectors

Sector	CZK m*	%
31 Dec 2017		
1 Agriculture	19,343	41%
2 Mining	15	0%
3 Food industry	1,637	3%
4 Textile industry	357	1%
5 Wood processing industry	362	1%
6 Chemical industry	926	2%
7 Metal processing industry	1,703	4%
8 Electric and optical equipment	78	0%
9 Manufacturing of equipment, including transportation	1,743	4%
10 Construction industry and construction modifications	1,709	4%
11 Wholesale	3,984	8%
12 Retail sale	1,631	3%
13 Transport and telecommunication	589	1%
14 Finance	587	1%
15 Services	10,676	23%
16 Public sector	34	0%
17 Health industry	583	1%
18 Power sector	1,363	3%
Total	**47,320**	**100%**

Sector	CZK m*	%
31 Dec 2016		
1 Agriculture	18,310	43%
2 Mining	20	0%
3 Food industry	1,555	4%
4 Textile industry	221	1%
5 Wood processing industry	363	1%
6 Chemical industry	935	2%
7 Metal processing industry	1,579	4%
8 Electric and optical equipment	97	0%
9 Manufacturing of equipment, including transportation	1,332	3%
10 Construction industry and construction modifications	1,619	4%
11 Wholesale	3,364	8%
12 Retail sale	1,858	4%
13 Transport and telecommunication	639	1%
14 Finance	458	1%
15 Services	8,114	19%
16 Public sector	38	0%
17 Health industry	611	1%
18 Power sector	1,575	4%
Total	**42,688**	**100%**

*The amounts represent the relevant gross loans and receivables to customers excluding the exposures to Bank's subsidiaries. Exposures of Other loans are excluded.

c) Maximum credit risk exposure

CZK m	Statement of financial position	Off-balance sheet	Total credit risk exposure	Available collateral*
31 Dec 2017				
Cash and balances with the central bank	**7,126**	**0**	**7,126**	**0**
Financial assets at fair value through profit or loss	**48**	**0**	**48**	**28**
Financial assets available for sale	**57**	**0**	**57**	**0**
Treasury and corporate bonds	0	0	0	0
Equity investments	57	0	57	0
Financial assets held to maturity	**11,723**	**0**	**11,723**	**0**
Treasury and corporate bonds	11,723	0	11,723	0
Hedging derivatives with positive fair values	**4**	**0**	**4**	**0**
Interest rate swaps	4	0	4	0
Change in fair value of items hedged on portfolio basis	**(6)**	**0**	**(6)**	**0**
Loans and receivables to banks	**53,367**	**0**	**53,367**	**52,033**
Current accounts at banks	157	0	157	0
Term deposits at banks payable within 3 months	0	0	0	0
Receivables arising from reverse repo agreements	53,107	0	53,107	52,033
Cash collaterals provided	86	0	86	0
Other	17	0	17	0
Loans and receivables to customers	**117,035**	**19,683**	**136,718**	**44,437**
Consumer authorized overdrafts and credit cards	3,945	5,039	8,984	0
Consumer loans	34,969	910	35,879	0
Mortgages	20,338	3,775	24,113	20,207
Commercial loans	57,783	9,959	67,742	24,230
Other loans	0	0	0	0
Commercial	0	0	0	0
Retail	0	0	0	0
Issued guarantees and credit limits on guarantees	**0**	**3,410**	**3,410**	**160**
Issued letter of credit	**0**	**1**	**1**	**1**
Other assets	**8,057**	**0**	**8,057**	**0**

CZK m	Statement of financial position	Off-balance sheet	Total credit risk exposure	Available collateral*
31 Dec 2016				
Cash and balances with the central bank	**20,235**	**0**	**20,235**	**0**
Financial assets at fair value through profit or loss	**26**	**0**	**26**	**0**
Financial assets available for sale	**13,749**	**0**	**13,749**	**0**
Treasury and corporate bonds	13,700	0	13,700	0
Equity investments	49	0	49	0
Financial assets held to maturity	**0**	**0**	**0**	**0**
Treasury and corporate bonds	0	0	0	0
Hedging derivatives with positive fair values	**0**	**0**	**0**	**0**
Interest rate swaps	0	0	0	0
Change in fair value of items hedged on portfolio basis	**0**	**0**	**0**	**0**
Loans and receivables to banks	**163**	**0**	**163**	**0**
Current accounts at banks	128	0	128	0
Term deposits at banks payable within 3 months	35	0	35	0
Receivables arising from reverse repo agreements	0	0	0	0
Cash collaterals provided	0	0	0	0
Other	0	0	0	0
Loans and receivables to customers	**107,353**	**15,369**	**122,722**	**37,501**
Consumer authorized overdrafts and credit cards	4,551	5,489	10,040	0
Consumer loans	32,281	460	32,741	0
Mortgages	15,571	1,056	16,627	15,513
Commercial loans	54,933	8,364	63,297	21,988
Other loans	17	0	17	0
Commercial	0	0	0	0
Retail	17	0	17	0
Issued guarantees and credit limits on guarantees	**0**	**1,512**	**1,512**	**133**
Issued letter of credit	**0**	**2**	**2**	**2**
Other assets	**8,746**	**0**	**8,746**	**0**

*Available collateral represents realisable value of collateral relevant for each exposure. The realisable value of collateral for Loans and receivables is capped up to the gross loans and receivables exposures on loan-by-loan basis for the purpose of the presentation in these breakdowns. The realisable value of collateral for guarantees and letter of credits is capped up to the exposure presented in the column "Off-balance sheet".

42.3.6 Credit Portfolio and its Quality

a) Loans and receivables to banks and customers according the categorisation

Loans and receivables to banks and customers according the categorisation can be summarised as follows:

CZK m	31 Dec 2017			31 Dec 2016		
	Receivables to banks	Loans and receivables to clients	Total	Receivables to banks	Loans and receivables to clients	Total
Non-impaired before due date	53,367	113,561	166,928	163	103,587	103,750
Non-impaired past due date	0	2,430	2,430	0	2,565	2,565
Total non-impaired	53,367	115,991	169,358	163	106,152	106,315
Total impaired	0	4,556	4,556	0	6,718	6,718
Gross loans and receivables	**53,367**	**120,547**	**173,914**	**163**	**112,870**	**113,033**
Allowances	0	(3,512)	(3,512)	-	(5,517)	(5,517)
Net loans and receivables	**53,367**	**117,035**	**170,402**	**163**	**107,353**	**107,516**
Individual allowances	0	(371)	(371)	0	(377)	(377)
Portfolio allowances	0	(3,141)	(3,141)	0	(5,140)	(5,140)
Total allowances	**0**	**(3,512)**	**(3,512)**	**0**	**(5,517)**	**(5,517)**

b) Gross loans and receivables to customers that are not impaired according to the probability of default

The quality of the credit portfolio in respect of gross loans and receivables that are not impaired, can be analysed according to the probability of default* as follows:

CZK m		Retail				Commercial		
Credit quality	Probability of default	Authorized overdrafts & credit cards	Consumer loans	Mortgages	Other loans	Commercial loans	Other loans	Total
31 Dec 2017								
	1 (PD<=1.3%)	2,836	20,020	19,622	0	37,578	0	80,056
	2 (1.3%<PD<=3.2%)	651	10,528	193	0	6,451	0	17,823
	3 (3.2%<PD<=7.7%)	190	1,484	142	0	1,683	0	3,499
	4 (7.7%<PD<=15.8%)	94	1,031	63	0	596	0	1,784
	5 (PD>15.8%)	152	1,378	116	0	59	2	1,707
	unrated	0	0	0	18	11,104	0	11,122
Total loans and receivables		**3,923**	**34,441**	**20,136**	**18**	**57,471**	**2**	**115,991**

CZK m		Retail				Commercial		
Credit quality	Probability of default	Authorized overdrafts & credit cards	Consumer loans	Mortgages	Other loans	Commercial loans	Other loans	Total
31 Dec 2016								
	1 (PD<=1.3%)	2,696	10,828	14,476	0	33,001	0	61,001
	2 (1.3%<PD<=3.2%)	862	13,740	304	0	6,646	0	21,552
	3 (3.2%<PD<=7.7%)	485	4,659	205	0	1,142	0	6,491
	4 (7.7%<PD<=15.8%)	242	1,335	128	0	803	0	2,508
	5 (PD>15.8%)	236	1,028	175	0	0	3	1,442
	unrated	3	6	16	22	13,111	0	13,158
Total loans and receivables		**4,524**	**31,596**	**15,304**	**22**	**54,703**	**3**	**106,152**

*Probability of default is defined as a probability that a customer will default (mostly by being more than 90 days past due with repayments) in the following 12 months.

c) Gross loans and receivables to customers that are not impaired according to due dates

As of 31 December 2017 and 31 December 2016, the Bank reported the following gross loans and receivables to customers with their due dates that are not individually impaired:

CZK m	Retail				Commercial		
	Authorized overdrafts and credit cards	Consumer loans	Mortgages	Other loans	Commercial loans	Other loans	Total
31 Dec 2017							
Not past due	3,766	32,749	19,813	0	57,233	0	113,561
1–30 days past due	129	1,424	281	1	197	0	2,032
31–60 days past due	19	184	30	1	30	0	264
61+ days past due	9	84	12	16	11	2	134
Total	**3,923**	**34,441**	**20,136**	**18**	**57,471**	**2**	**115,991**

CZK m	Retail				Commercial		
	Authorized overdrafts and credit cards	Consumer loans	Mortgages	Other loans	Commercial loans	Other loans	Total
31 Dec 2016							
Not past due	4,302	29,843	14,995	0	54,447	0	103,587
1–30 days past due	177	1,453	239	2	199	0	2,070
31–60 days past due	29	208	48	1	34	0	320
61+ days past due	16	93	23	19	21	2	175
Total	**4,525**	**31,597**	**15,305**	**22**	**54,701**	**2**	**106,152**

d) Loans and receivables to customers that are individually impaired

As of 31 December 2017 and 31 December 2016, the Bank reported the following amounts of loans and receivables to customers that are individually impaired and to which individual allowances are created (commercial individually managed loans):

CZK m	31 Dec 2017	31 Dec 2016
Gross individually impaired loans and receivables, to which an individual loss allowances are created	801	699
Individual allowances	(371)	(377)
Net individually impaired loans and receivables to which an individual loss allowances are created	430	322

42.3.7 Forborne Receivables

Forborne receivables are receivables for which the Bank provided the debtor with relief as it assessed that it would likely incur a loss if it did not do so. For economic or legal reasons associated with the debtor's financial position, the Bank granted it relief that it would not otherwise have granted. These primarily include the reworking of the repayment plan, decrease in the interest rate, waiver of default interest, deferral of principal or accrued interest repayments. Forborne receivables do not include receivables arising from the roll-over of a short-term loan for current assets if the debtor met all of its payment and non-payment obligations arising from the loan contract.

The forbearance is reflected in the categorisation of receivables in accordance with the receivables categorisation rules (see note 42.3.2). As categorisation rules also trigger impairment, allowances for forborne receivables are calculated accordingly. For commercial and mortgage receivables, the same methods as for receivables without forbearance are used. For other retail receivables, forborne receivables with impairment allowances are created up to the value of an estimated life time loss.

The Bank applies the following general principles for the forbearance:

- Customer demonstrably lost ability to repay loan according to original loan contract,
- Customer demonstrates willingness and ability to pay his debts,
- Specific product/customer criteria must be met,
- Loan was not restructured more than once in last 12 months and more than twice during last 5 years.

For commercial loans and mortgages only instalments not past due are subject to rescheduling. The customer is obliged to repay all past due payments in full and delinquency status is calculated according the oldest unpaid instalment.

For retail products, the Bank offers the customer a new loan contract. The customer´s original (delinquent) loans are, by signature of this new contract, repaid and closed and a new (restructured) loan with different monthly instalments, interest rate and maturity is opened as non-delinquent (current).

As impairment is driven by categorisation, in compliance with categorisation rules (see note 42.3.2), forborne receivables become non-impaired if their categorisation improves to watch or standard.

a) All gross loans and receivables with forbearance

CZK m	Mortgage loans	Consumer loans	Commercial loans	Total
31 Dec 2017				
Forborne receivables	74	274	83	431
Total	**74**	**274**	**83**	**431**

CZK m	Mortgage loans	Consumer loans	Commercial loans	Total
31 Dec 2016				
Forborne receivables	88	462	111	661
Total	**88**	**462**	**111**	**661**

b) Impaired loans out of all gross loans and receivables with forbearance

CZK m	Mortgage loans	Consumer loans	Commercial loans	Total
31 Dec 2017				
Forborne receivables	24	84	77	185
Total	**24**	**84**	**77**	**185**

CZK m	Mortgage loans	Consumer loans	Commercial loans	Total
31 Dec 2016				
Forborne receivables	34	179	94	307
Total	**34**	**179**	**94**	**307**

c) Loans and receivables to customers forborne within the reporting year

	Mortgage loans	Consumer loans	Commercial loans
2017			
Number of incrementally forborne receivables within the reporting year	0	55	5
Balance of the incrementally forborne gross receivables within the reporting year measured at the end of the reporting year (CZK m)	0	11	18

	Mortgage loans	Consumer loans	Commercial loans
2016			
Number of incrementally forborne receivables within the reporting year	0	195	8
Balance of the incrementally forborne gross receivables within the reporting year measured at the end of the reporting year (CZK m)	0	41	37

42.4 RISK OF CONCENTRATION

The risk of concentration means the risk arising from the concentration of exposures with respect to a person, an economically-related group of persons, sector (see note 42.3.5), region (see note 41), activity or commodity. The Bank manages the risk of concentration within individual risks, primarily the credit risk (see note 42.3.5) and liquidity risk (see note 42.7). Activity and commodity concentrations are not relevant.

42.5 INTEREST RATE RISK

Interest rate risk is the risk of a loss arising from changes in interest rates on financial markets. The Bank is exposed to interest rate risk as interest-bearing assets and liabilities have different maturity periods or interest rate readjustment periods.

The Bank strives to minimise interest rate risk by setting limits and keeping positions within these limits. The interest rate risk management activities are aimed at reducing the risk of losses.

To monitor and measure interest rate risk, a model of interest rate sensitivity is used which serves to determine the sensitivity of the Bank to changes in the market interest rates. The model is based on the inclusion of interest-sensitive assets and liabilities into relevant time bands. The Bank prefers to use behavioural features of cash flows rather than those that are purely contractual. All behavioural assumptions are approved by the ALCO. The model works with 1-month time bands up to a 10 year period and a time band exceeding 10 years.

Simultaneously, the Bank carries out stress testing based on the parallel shift of the yield curve by 200 basis points for all currencies that account for more than 5% of the Bank's assets or liabilities. In 2016 and 2017, only the portfolios denominated in Czech Koruna and Euro exceeded 5% share of the Bank's assets/liabilities.

To manage the interest rate risk, the Bank uses a limit for the impact of the stress test on the total capital and annual net interest income. The results of stress testing are presented to ALCO on a monthly basis. To manage the discrepancy between the interest sensitivity of assets and liabilities, interest rate derivatives may be used. In October 2017, ALCO approved the interest rate hedging strategy for hedge accounting and the Bank started to use interest rate swaps as hedging instruments.

The below tables show sensitivity of the Bank to changes in interest rates.

CZK

% change in annual net interest income	31 Dec 2017	31 Dec 2016
Impact of the interest rate movement +200 basis points	3.49%	1.42%
Impact of the interest rate movement -200 basis points	(1.08)%	(0.10)%

Change in economic value of equity as a % of capital	31 Dec 2017	31 Dec 2016
Impact of the interest rate movement +200 basis points	(2.15)%	(3.93)%
Impact of the interest rate movement -200 basis points	1.96%	0.72%

EUR

% change in annual net interest income	31 Dec 2017	31 Dec 2016
Impact of the interest rate movement +200 basis points	(1.32)%	(0.98)%
Impact of the interest rate movement -200 basis points	(0.25)%	(0.18)%

Change in economic value of equity as a % of capital	31 Dec 2017	31 Dec 2016
Impact of the interest rate movement +200 basis points	(0.42)%	(0.77)%
Impact of the interest rate movement -200 basis points	0.06%	(0.01)%

The percentage change in annual net interest income shows the impact of interest rate movement on net interest income in 12-month horizon. The change in economic value of equity shows the impact of interest rate movement on the difference between the present value of assets and liabilities (i.e. the value of equity), so this metric works with a long-term horizon. Given the mentioned differences between the two metrics, the two kinds of impact can have different signs and follow different trends. Interest rates are floored at 0% for the purpose of calculation of these metrics.

The below table summarises the Bank's exposure to interest rate risk. Balances are allocated to the buckets based on the following parameters: for assets the next repricing date or principal payment dates, whichever occurs earlier, for non-maturity deposits the expected maturity/repricing behaviour and for term deposits the maturity date.

CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified*	Total
31 Dec 2017							
Cash and balances with the central bank	2,453	0	0	0	0	4,673	7,126
Financial assets at fair value through profit or loss	0	0	0	0	0	48	48
Financial assets available for sale	0	0	0	0	0	57	57
Financial assets held to maturity	0	0	1,110	910	9,848	(145)	11,723
Loans and receivables to banks	53,211	0	0	0	0	156	53,367
Loans and receivables to customers	29,675	6,117	22,376	55,442	5,065	(1,640)	117,035
Other assets	0	0	0	0	0	8,055	8,055
Total assets	**85,339**	**6,117**	**23,486**	**56,352**	**14,913**	**11,204**	**197,411**
Due to banks	23,682	220	567	2,154	14	6	26,643
Due to customers	59,506	4,906	23,125	40,075	13,913	131	141,656
Financial liabilities through profit or loss	0	0	0	0	0	68	68
Other liabilities (without equity)	567	0	0	0	0	1,631	2,198
Total liabilities	**83,755**	**5,126**	**23,692**	**42,229**	**13,927**	**1,836**	**170,565**
Interest Rate Swaps assets*	486	5,494	0	0	0	0	5,980
Interest Rate Swaps liabilities*	0	0	0	5,568	412	0	5,980
Net interest rate exposure	**2,070**	**6,485**	**(206)**	**(8,555)**	**574**	**9,368**	**26,846**

*In case of interest rate swaps, the individual cash flows are used instead of accounting balances.

CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified*	Total
31 Dec 2016							
Cash and balances with the central bank	20,124	0	0	0	0	111	20,235
Financial assets at fair value through profit or loss	0	0	0	0	0	26	26
Financial assets available for sale	50	0	1,680	6,180	4,250	1,589	13,749
Loans and receivables to banks	70	0	0	0	0	93	163
Loans and receivables to customers	31,170	2,547	14,846	47,453	9,068	2,269	107,353
Other assets	0	0	0	0	0	8,746	8,746
Total assets	**51,414**	**2,547**	**16,526**	**53,633**	**13,318**	**12,834**	**150,272**
Due to banks	2,261	278	27	56	15	20	2,657
Due to customers	44,658	5,366	16,338	36,390	12,476	1,121	116,349
Financial liabilities through profit or loss	0	0	0	0	0	7	7
Other liabilities (without equity)	794	0	0	0	0	1,851	2,645
Total liabilities	**47,713**	**5,644**	**16,365**	**36,446**	**12,491**	**2,999**	**121,658**
Net interest rate exposure	**3,701**	**(3,097)**	**161**	**17,187**	**827**	**9,835**	**28,614**

The data for the individual time buckets except of 'Unspecified' column follows the interest rate gap from the model of interest rate sensitivity. In case of interest rate swaps notional amounts are used instead of accounting balances.

42.6 FOREIGN EXCHANGE RISK

Foreign exchange risk covers the risk of a loss due to changes in exchange rates. The Bank is exposed to the foreign exchange risk primarily due to the provision of foreign exchange loan products to commercial borrowers and foreign exchange deposits.

The Bank strives to minimise the foreign exchange risk. For this purpose, the Bank maintains a balance of assets and liabilities in foreign currencies (by using a mix of FX spots, forwards and swaps transactions).

To measure the foreign exchange risk the Bank calculates, on a daily basis, net currency positions and an FX Value at Risk. The Bank uses the following limits:

- Ratio of the absolute value of the net currency position to capital for each foreign currency;
- Ratio of the absolute value of the net currency position in Czech Koruna to capital;
- Ratio of the absolute value of the total net currency position to capital;
- Absolute value of the net currency position for each foreign currency; and
- FX VaR (maximum expected loss per business day at the 99% confidence level) for the foreign currency portfolio.

a) VaR of currency instruments

CZK ths	31 Dec 2017	Average of daily values in 2017	31 Dec 2016	Average of daily values in 2016
FX VaR	124	45	15	13

b) The exposure of the Bank to foreign exchange risk

CZK m	CZK	EUR	USD	Other currencies	Total CZK
31 Dec 2017					
Cash and balances with the central bank	6,812	211	43	60	7,126
Financial assets at fair value through profit or loss	48	0	0	0	48
Financial assets available for sale	0	10	47	0	57
Financial assets – held to maturity	11,723	0	0	0	11,723
Hedging derivatives with positive fair values	4	0	0	0	4
Change in fair value of items hedged on portfolio basis	(6)	0	0	0	(6)
Loans and receivables to banks	53,125	192	30	20	53,367
Loans and receivables to customers	110,164	6,863	8	0	117,035
Other assets	7,919	137	1	0	8,057
Total assets	**189,789**	**7,413**	**129**	**80**	**197,411**
Due to banks	20,065	6,567	11	0	26,643
Due to customers	138,165	2,946	491	54	141,656
Financial liabilities at fair value through profit or loss	68	0	0	0	68
Hedging derivatives with negative fair values	4	0	0	0	4
Other liabilities (including equity)	28,966	75	6	(7)	29,040
Total liabilities	**187,268**	**9,588**	**508**	**47**	**197,411**
Net exchange rate balance sheet position	**2,521**	**(2,175)**	**(379)**	**33**	**0**
Receivables from spot and derivatives	2,064	4,129	404	4	6,601
Liabilities from spot and derivatives	4,613	1,958	27	25	6,623
Net exchange rate off-balance sheet position	**(2,549)**	**2,171**	**377**	**(21)**	**(22)**
Net exchange rate position	**(28)**	**(4)**	**(2)**	**12**	**(22)**

CZK m	CZK	EUR	USD	Other currencies	Total CZK
31 Dec 2016					
Cash and balances with the central bank	19,926	201	45	63	20,235
Financial assets at fair value through profit or loss	26	0	0	0	26
Financial assets available for sale	13,443	11	295	0	13,749
Loans and receivables to banks	0	105	26	32	163
Loans and receivables to customers	101,042	6,311	0	0	107,353
Other assets	8,722	23	1	0	8,746
Total assets	**143,159**	**6,651**	**367**	**95**	**150,272**
Due to banks	184	2,452	21	0	2,657
Due to customers	110,703	4,950	629	67	116,349
Financial liabilities at fair value through profit or loss	7	0	0	0	7
Other liabilities (incl. equity)	31,230	32	5	(8)	31,259
Total liabilities	**142,124**	**7,434**	**655**	**59**	**150,272**
Net exchange rate balance sheet position	1,035	(783)	(288)	36	0
Receivables from spot and derivatives	796	1,775	368	14	2,953
Liabilities from spot and derivatives	1,819	987	79	49	2,934
Net exchange rate off-balance sheet position	**(1,023)**	**788**	**289**	**(35)**	**19**
Net exchange rate position	**12**	**5**	**1**	**1**	**19**

42.7 LIQUIDITY RISK

Liquidity risk represents the risk of inability to meet financial liabilities when due or to finance assets.

The new Basel III framework for liquidity risk measurement, standards and monitoring was introduced into EU and Czech law by Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended and by Commission Delegated Regulation (EU) 2015/61 of 10 October 2014, to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions, which specifies the Liquidity Coverage Ratio (LCR) requirement.

The LCR addresses the liquidity risk of banks over a 30-day period and aims to ensure that banks have a sufficient buffer of high quality liquid assets available to meet short-term liquidity needs in a given stress scenario. The LCR became effective as a binding regulatory requirement in October 2015. The minimum required level for LCR is implemented progressively in accordance with the following schedule: 60% from 1 October 2015, 70% from 1 January 2016, 80% from 1 January 2017 and 100% from 1 January 2018. The Bank maintains an LCR well in excess of the requirement of 100% that needs to be achieved in 2018 (31 December 2017: 183%, 31 December 2016: 161%).

The second liquidity ratio introduced by the Basel III framework is Net Stable Funding Ratio (NSFR), which will establish the criteria for a minimum amount of stable funding to support a bank's assets and activities in the medium term (i.e. over one year). The binding minimum standards for NSFR have not yet been adopted by the EU and are not expected to come into effect not earlier than in 2018. Nevertheless, the Bank already monitors its NSFR for internal purposes, calculating the metric based on the existing Basel methodology.

The daily measurement of liquidity risk includes:
- Calculation of the liquidity position based on the liquidity gap model, which measures net cash flows in set time bands;
- Calculation of the Liquidity Coverage Ratio; and
- Calculation of Early Warnings Indicators.

The monthly measurement of liquidity risk includes:
- Assessment of the impact of liquidity management stress scenarios on the Bank's liquidity position;
- Measurement of concentration in deposits;
- Calculation of Interbank borrowing to Total Assets Ratio; and
- Calculation of Net Stable Funding Ratio.

To manage liquidity risk, the Bank applies a system of the following limits:
- Liquidity positions in selected time buckets;
- Liquidity Coverage Ratio;
- Net Stable Funding Ratio;
- Liquidity buffer (based on liquidity stress tests);
- Structure of the portfolio for liquidity management;
- Concentration in deposits; and
- Interbank borrowing to Total Assets Ratio and monitors a chosen set of Early Warning Indicators.

The Bank has access to diversified sources of financing, which include deposits, loans taken, as well as the Bank's equity. In 2017, the Bank obtained 3-year unsecured EUR funding from the European Investment Bank with an option of drawing additional secured EUR funding. The bond and money markets are used to further diversify sources of liquidity and to deposit excess cash. In January 2017, the Bank obtained a rating of "BBB/A-2" (long- and short-term rating) with a stable outlook from the international rating agency Standard & Poor's[1] and a rating of "Baa2/P-2" (long- and short-term deposit rating) with a stable outlook from the international rating agency Moody's[1]. Based on that and in line with a funding strategy which aim to diversify long-term funding sources, the Bank set up its bond programme (Base Prospectus approved by the Czech National Bank in 2017). Under this bond programme, the Bank may issue bonds that are governed by Czech law, in particular senior unsecured bonds, mortgage covered bonds and subordinated bonds. None of them was issued in 2017.

For the purpose of liquidity management under extraordinary circumstances, the Bank has a contingency plan containing measures for recovering liquidity. The Treasury regularly reviews the contingency plan and forwards it to the ALCO for approval.

a) The below table summarises the remaining maturity of carrying amounts of assets, liabilities and equity according to their contractual maturity.

CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
31 Dec 2017							
Cash and balances with the central bank	7,126	0	0	0	0	0	7,126
Financial assets at fair value through profit or loss	6	12	22	8	0	0	48
Financial assets available for sale	0	0	0	0	0	57	57
Financial assets held to maturity	0	12	600	954	10,157	0	11,723
Hedging derivatives with positive fair values	0	0	0	3	1	0	4
Change in fair value of items hedged on portfolio basis	0	0	0	0	0	(6)	(6)
Loans and receivables to banks	53,281	0	0	0	0	86	53,367
Loans and receivables to customers *	9,894	2,562	14,168	52,906	34,897	2,608	117,035
Investments in subsidiaries and associates	0	0	0	0	0	4,554	4,554
Current tax assets	0	0	0	0	0	286	286
Deferred tax assets	0	0	0	0	0	388	388
Other assets	223	0	0	0	0	2,606	2,829
Total Assets	**70,530**	**2,586**	**14,790**	**53,871**	**45,055**	**10,579**	**197,411**
Due to banks	23,856	204	511	2,043	0	29	26,643
Due to customers	135,499	272	5,386	79	311	109	141,656
Financial liabilities at fair value through profit or loss	25	16	20	7	0	0	68
Hedging derivatives with negative fair values	0	0	0	4	0	0	4
Provisions	0	0	325	0	0	0	325
Other liabilities	1,685	0	0	11	0	173	1,869
Equity	0	0	0	0	0	26,846	26,846
Total liabilities and equity	**161,065**	**492**	**6,242**	**2,144**	**311**	**27,157**	**197,411**
Net liquidity position of assets and liabilities and equity**	**(90,535)**	**2,094**	**8,548**	**51,727**	**44,744**	**(16,578)**	**0**
Issued guarantees and credit limits on guarantees	**3,410**	**0**	**0**	**0**	**0**	**0**	**3,410**
Loan commitments***	**6,415**	**0**	**0**	**0**	**0**	**0**	**6,415**

[1] Each of Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd. is established in the European Union and registered according to the Regulation (EC) No. 1060/2009 on credit rating agencies as amended by Regulation (EU) No. 513/2011 of the European Parliament and of the Council and Regulation (EU) No. 462/2013 of the European Parliament and of the Council (the "CRA Regulation"). As such each of Standard & Poor's Credit Market Services Europe Limited and Moody's Investors Service Ltd. is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website (www.esma.europa.eu/supervision/credit-rating-agencies/risk) in accordance with the CRA Regulation. In choosing rating agencies, the Bank proceeded according to the obligations laid down by the Article 8d of the above mentioned regulation. The market share of each of the aforementioned rating agencies exceeds 10% on the European Union market.

CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
31 Dec 2016							
Cash and balances with the central bank	20,235	0	0	0	0	0	20,235
Financial assets at fair value through profit or loss	11	11	4	0	0	0	26
Financial assets available for sale	128	12	3,266	4,887	5,407	49	13,749
Loans and receivables to banks	163	0	0	0	0	0	163
Loans and receivables to customers*	10,548	2,407	13,709	48,000	29,719	2,970	107,353
Investments in subsidiaries and associates	0	0	0	0	0	5,840	5,840
Current tax assets	0	0	0	0	0	248	248
Deferred tax assets	0	0	0	0	0	765	765
Other assets	156	0	0	0	0	1,737	1,893
Total Assets	**31,241**	**2,430**	**16,979**	**52,887**	**35,126**	**11,609**	**150,272**
Due to banks	2,387	270	0	0	0	0	2,657
Due to customers	114,477	1,194	204	171	102	201	116,349
Financial liabilities at fair value through profit or loss	1	2	4	0	0	0	7
Provisions	0	0	401	0	0	0	401
Other liabilities	1,949	0	0	0	0	295	2,244
Equity	0	0	0	0	0	28,614	28,614
Total liabilities and equity	**118,814**	**1,466**	**609**	**171**	**102**	**29,110**	**150,272**
Net liquidity position of assets and liabilities and equity**	**(87,573)**	**964**	**16,370**	**52,716**	**35,024**	**(17,501)**	**0**
Issued guarantees and credit limits on guarantees	**1,512**	**0**	**0**	**0**	**0**	**0**	**1,512**
Loan commitments***	**2,965**	**0**	**0**	**0**	**0**	**0**	**2,965**

* Loans and receivables to customers presented under "Unspecified" category as at 31 December 2017 at CZK 2,608 million (31 December 2016: CZK 2,970 million) represent loans and receivables that are overdue more than 1 month.

** Net liquidity position of assets and liabilities and equity within 1 month as at 31 December 2017 at CZK (90,535) million (31 December 2016: CZK (87,573million) is primarily due to the fact that contractual maturity of current accounts falls within 1 month.

*** The loan commitments represent irrevocable loan commitments only relating to commercial investment loans and mortgages. Total undrawn commitments on credit cards are not included in the table above as, historically, average limit usage is below 100% and this behaviour is expected to continue.

b) The below table shows the remaining contractual maturity of non-derivative financial liabilities and issued financial guarantees and loan commitments held for the Bank's liquidity management purposes. The presented amounts include contractual non-discounted cash flows.

CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
31 Dec 2017							
Due to banks	23,850	204	511	2,049	0	29	26,643
Due to customers	135,497	272	5,387	80	311	109	141,656
Provisions	0	0	325	0	0	0	325
Other liabilities	1,685	0	0	11	0	173	1,869
Total non-derivative financial liabilities	**161,032**	**476**	**6,223**	**2,140**	**311**	**311**	**170,493**
Issued guarantees and credit limits on guarantees	**3,410**	**0**	**0**	**0**	**0**	**0**	**3,410**
Loan commitments*	**6,415**	**0**	**0**	**0**	**0**	**0**	**6,415**

CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
31 Dec 2016							
Due to banks	2,387	270	0	0	0	0	2,657
Due to customers	114,477	1,194	204	171	103	201	116,350
Provisions	0	0	401	0	0	0	401
Other liabilities	1,949	0	0	0	0	295	2,244
Total non-derivative financial liabilities	**118,813**	**1,464**	**605**	**171**	**103**	**496**	**121,652**
Issued guarantees and credit limits on guarantees	**1,512**	**0**	**0**	**0**	**0**	**0**	**1,512**
Loan commitments*	**2,965**	**0**	**0**	**0**	**0**	**0**	**2,965**

*The loan commitments represent irrevocable loan commitments only relating to commercial investment loans and mortgages.

c) The below table shows the remaining contractual maturity of liabilities from financial derivatives:

CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Total
31 Dec 2017						
Held for trading derivatives						
Currency swaps	21	4	0	0	0	25
Currency forwards	4	12	20	7	0	43
Hedging derivatives						
Interest rate swaps	0	0	0	4	0	4
Total financial derivatives	**25**	**16**	**20**	**11**	**0**	**72**

CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Total
31 Dec 2016						
Held for trading derivatives						
Currency swaps	1	1	0	0	0	2
Currency forwards	0	1	4	0	0	5
Hedging derivatives						
Interest rate swaps	0	0	0	0	0	0
Total financial derivatives	**1**	**2**	**4**	**0**	**0**	**7**

d) The below table shows the remaining expected maturity of assets and liabilities as follows:

CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
31 Dec 2017							
Cash and balances with the central bank	7,126	0	0	0	0	0	7,126
Financial assets at fair value through profit or loss	5	12	23	8	0	0	48
Financial assets available for sale	0	0	0	0	0	57	57
Financial assets – held to maturity	0	12	600	954	10,157	0	11,723
Inflows from hedging derivatives*	0	8	29	141	14	0	192
Change in fair value of items hedged on portfolio basis	0	0	0	0	0	(6)	(6)
Loans and receivables to banks	53,281	0	0	0	0	86	53,367
Loans and receivables to customers	9,894	2,562	14,168	52,906	34,897	2,608	117,035
Investments in subsidiaries and associates	0	0	0	0	0	4,554	4,554
Current tax assets	0	0	0	0	0	286	286
Deferred tax assets	0	0	0	0	0	388	388
Other assets	223	0	0	0	0	2,606	2,829
Total assets	**70,529**	**2,594**	**14,820**	**54,009**	**45,068**	**10,579**	**197,599**
Due to banks	23,673	222	573	2,164	15	(4)	26,643
Due to customers**	36,447	7,413	31,273	51,299	15,196	28	141,656
Financial liabilities at fair value through profit or loss	25	16	20	7	0	0	68
Outflows from hedging derivatives*	0	5	51	357	36	0	449
Provisions	0	0	325	0	0	0	325
Other liabilities	1,685	0	0	11	0	173	1,869
Equity	0	0	0	0	0	26,846	26,846
Total liabilities and equity	**61,830**	**7,656**	**32,242**	**53,838**	**15,247**	**27,043**	**197,856**
Net liquidity position	**8,699**	**(5,062)**	**(17,422)**	**171**	**29,821**	**(16,464)**	**(257)**

CZK m	Within 1 month	1–3 months	3–12 months	1–5 years	More than 5 years	Unspecified	Total
31 Dec 2016							
Cash and balances with the central bank	20,235	0	0	0	0	0	20,235
Financial assets at fair value through profit or loss	11	11	4	0	0	0	26
Financial assets available for sale	128	12	3,266	4,887	5,407	49	13,749
Loans and receivables to banks	163	0	0	0	0	0	163
Loans and receivables to customers	10,548	2,407	13,709	48,000	29,719	2,970	107,353
Investments in subsidiaries and associates	0	0	0	0	0	5,840	5,840
Current tax assets	0	0	0	0	0	248	248
Deferred tax assets	0	0	0	0	0	765	765
Other assets	156	0	0	0	0	1,737	1,893
Total assets	**31,241**	**2,430**	**16,979**	**52,887**	**35,126**	**11,609**	**150,272**
Due to banks	2,224	284	48	85	16	0	2,657
Due to customers**	22,868	7,949	24,723	47,868	12,786	155	116,349
Financial liabilities at fair value through profit or loss	1	2	4	0	0	0	7
Provisions	0	0	401	0	0	0	401
Other liabilities	1,949	0	0	0	0	295	2,244
Equity	0	0	0	0	0	28,614	28,614
Total liabilities and equity	**27,042**	**8,235**	**25,176**	**47,953**	**12,802**	**29,064**	**150,272**
Net liquidity position	**4,199**	**(5,805)**	**(8,197)**	**4,934**	**22,324**	**(17,455)**	**0**

* In case of interest rate swaps, the individual cash flows are used instead of accounting balances.
**Balances are allocated to the buckets based on expected maturity of non-maturity deposits and contractual maturity date of term deposits. Expected maturity of non-maturity deposits is a function of deposits' volatility and average life of the non-volatile part.

42.8 OPERATIONAL RISK

Operational risk represents the risk of a loss resulting from inadequate or failed internal processes, people or systems, or from external events, including the risk of loss due to a breach of or failure to comply with a legal or regulatory requirement or a threat to the Bank's reputation. It also includes legal and outsourcing risk.

The Bank implemented standard tools and processes for operational risk management, including Risk & Control Self-Assessment (RCSA), Loss Data Collection of actual internal operational risk losses, monitoring of external risk events, Key Risk Indicators, and Issue management that is used to record, monitor and report identified risks and issues. The Issue management system is also used for monitoring of the relevant action plans, if applicable, and is closely linked to RCSA process.

To mitigate operational risk, the Bank produces and maintains business continuity plans for critical situations and operations recovery with the aim of ensuring business activities at a backup workplace and IT disaster recovery plans for key IT applications.

The Bank also uses the following methods for mitigation of operational risk:

- Decrease of risk by means of process improvements, organization changes, introduction of limits, Key Risk Indicators or controls, or use of technologies;
- Transfer of risk via outsourcing;
- Decrease of risk impact via insurance (in particular for high severity and low frequency operational risk events); and
- Avoidance of risk by terminating risk-inducing activities.

The Management Board specifically approves the operational risk governance structure and framework, and the Bank's objectives for operational risk management.

The ERMC oversees Bank's operational risk management process and approves methods, limits and Key Risk Indicators; monitors adherence to approved limits and Key Risk Indicators; and approves principal changes in the insurance programme and remedial measures.

The ERM department especially develops and maintains the operational risk methodology for RCSA, Loss Data Collection, Key Risk Indicators, outsourcing and insurance, provides measurement of operational risk using the Loss Data Collection process and Key Risk Indicators and reporting to ERMC.

Individual organisational units have operational risk coordinators who provide employees with methodological support for operational risk management and cooperate with the ERM department in operational risk management matters.

Other important parts of operational risk (compliance, information security, business continuity and legal risk) are managed by other organizational units as described below.

42.8.1 Compliance Risk

Compliance risk represents the risk of legal or regulatory sanctions, material financial loss or loss to reputation as a result of a failure to comply with laws, regulations, and relevant self-regulatory organizations' standards and codes of conducts applicable to banking activities.

The Compliance Division is an independent control function responsible for monitoring compliance with laws, regulations and internal policies. It oversees the implementation of applicable laws and regulations and provides compliance training to the Banks's employees. The Compliance Division is headed by the Chief Compliance Officer, who functionally reports to the Management Board and organizationally directly to the Chief Executive Officer.

The Bank manages compliance risk by requiring business activities to adhere to the various compliance policies which it has established and by monitoring compliance with these standards.

The Bank also has an issue management system in place to monitor and resolve any compliance issues as they arise.

The key areas of responsibility of the Compliance Division include:

- Managing day-to-day regulatory interactions and management and follow-up of regulatory examination issues;
- Ensuring awareness of the Bank of the latest legislative and regulatory news through the compliance early warning system process, including initiating the necessary implementation of the changes;
- Ensuring compliance of the Banks´s internal policies with applicable legal and regulatory provisions as well as the compliance with all other internal regulations;
- Covering the Integrity agenda: Anti-Bribery (Improper payments) and Corruption programme, Competitor Programme & Competitor Contacts database;
- Running the centralised anti-money laundering team, focusing on money laundering and terrorist financing prevention, detection, reporting and strategy;
- Running the anti-fraud risk management programme by the centralised anti-fraud team, covering all internal and external areas of fraud;
- Overseeing the data privacy and personal data protection agenda; and
- Verifying compliance with laws and regulatory requirements by implementing compliance monitoring and controls.

In the area of regulatory compliance, the Compliance Division acts as a single point of contact for communication to and from all regulatory bodies. Furthermore, it continues to work with other departments in the preparation for the implementation of the EU Markets in Financial Instruments Directive (MiFID II), the EU Payments Services Directive II (PSD II) and General Data Protection Regulation (GDPR) as these are transcribed into Czech legislation.

42.8.2 Information Security

The main objective of Information Security is to protect and maintain information assets by maintaining the confidentiality, integrity, availability and credibility of information. The Bank understands the significance of well designed and implemented Information Security and regards it as one of its key priorities. Information Security is applied via a variety of security tools and processes ranging from antivirus software to user awareness. The aim is to ensure maximum risk coverage and protection of the Bank information, including client data.

In April 2017, responsibility for information security management was transferred from Information Technologies Division to Risk Division to enhance independency of information security management from IT delivery functions.

During 2017 the Bank focused on security enhancements, such as the implementation of real-time security monitoring and modernisation of perimeter security elements. Together with Compliance and Product units, new security challenges driven by GDPR and PSD II are being addressed. The Bank successfully passed a Cyber Security test organised by the Czech Banking Association in June 2017.

During 2017 the Bank sought to inform and educate clients via different channels to increase their security awareness. The Bank participated again in the Czech Banking Association awareness for schools focused on Cyber security to help even the younger part of population understand the risks of cyber world, including as these relate to online banking services.

42.8.3 Business Continuity

The main goal of the business continuity management is to ensure the lowest possible impact on the Bank's business continuity in the case of an extraordinary situation with regard to employee security or health, while maintaining duties prescribed by legal and regulatory requirements.

The regular business continuity management process includes Risk Assessment – decisions about critical and noncritical processes, Business Impact Analysis and Business Continuity Plans for critical processes, Trainings, and Tests. The Bank has developed Business Continuity Plans for all critical processes. The Bank regularly tests Business Continuity Plans and reviews and assesses their adequacy.

During the past four years, the Bank has experienced no material interruption in its business operations.

42.8.4 Legal Risk

Dealing with legal risk and managing it means minimizing uncertainty associated with enforcement and interpretation of applicable law, contracts and regulations. In addition to standard legal functions in the various areas such as contract, banking and corporate law, the main tasks of the Bank's lawyers during 2017 consisted in keeping both the retail and commercial contractual documentation aligned with both the business strategy and various needs of the business departments of the Bank and new regulations. Significant changes were made to the processes and contractual documentation on distribution of investment funds in connection with the implementation of MiFID II as well as preparatory works on PSD II. All these actions were taken in due time in order to fully comply with the new regulations.

42.9 MODEL RISK

Model risk refers to the possibility of adverse consequences or other negative impact emerging from decisions based on the results of a flawed model or the incorrect use of model outputs and/or reports (linked to errors in the development, implementation or use of the models).

The Bank manages the model risk mainly by actively managing individual phases of the model life cycle, among others by imposing requirements and standards on:

- Model Tiering;
- Model development documentation;
- Model validation;
- Model approvals;
- Model performance monitoring.

Model Tier reflects the influence, complexity and other aspects of models and triggers mainly the depth of model documentation, validation, and approval requirements.

The ERMC is responsible for the general setup of the model risk management process in the Bank and its specific authorities cover notably approval of the Tiering framework and approval of model use for the most influential models. The ERMC also reviews quarterly reports on model risk management and decides on potential remedial measures.

The Model Risk Oversight Committee established by the CRO mainly:

- Approves model documentation and validation standards and templates;
- Approves low influential models and their changes;
- Pre-approves the most influential models and support ERMC with recommendations;

- Monitors model performance on a regular basis, ensures that the model performance is in compliance with model complexity and importance, escalates potential issues to the ERMC; and
- Submits quarterly a holistic report on model risk management to the ERMC.

43. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The following table shows the carrying values and fair values of financial assets and liabilities that are not presented at fair values in the Bank's statement of financial position. The fair value includes anticipated future losses while the carrying value (amortised cost and related impairment) includes only losses arising at the end of the reporting period.

The Bank uses the following inputs and techniques to estimate the fair value:

- **Cash and balances with the central bank**
  The carrying value of cash and balances with the central bank approximates their fair value.

- **Financial assets held to maturity**
  Difference between fair value and carrying value of financial assets held to maturity is mainly driven by different market and effective interest rates of government bonds comprised in this portfolio.

- **Loan and receivables to banks**
  The carrying value of receivables to banks approximates their fair values due to the short maturity of those receivables.

- **Loans and receivables to customers**
  Fair values of loans are estimated on the basis of discounted future expected cash flows using the interest rate common for loans with similar credit risk and interest risk conditions profile and maturity dates (discounted rate technique according to IFRS 13). For impaired loans the present value of future expected cash flows including the expected proceeds from a collateral foreclosure, if any.

- **Due to banks**
  The carrying value of due to banks in principle approximates their fair values due to the short maturity of those deposits.

- **Due to customers**
  Fair values of deposits repayable on demand at request and term deposits bearing a variable interest rate are equal to their carrying value as of the balance sheet date. Fair values of term deposits with a fixed interest rate are estimated on the basis of discounted cash flows using the market interest rates.

CZK m	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	Carrying value		Fair value	
FINANCIAL ASSETS				
Cash and balances with the central bank	7,126	20,235	7,126	20,235
Financial assets – held to maturity	11,723	0	11,238	0
Loans and receivables to banks	53,367	163	53,367	163
Loans and receivables to customers	117,035	107,353	119,120	110,987
FINANCIAL LIABILITIES				
Due to banks	26,643	2,657	26,638	2,657
Due to customers	141,656	116,349	141,656	116,349

Financial assets held to maturity are classified as level 1 because fair value is based on quoted prices on active market. Cash and balances with the central bank, Loans and receivables to banks and Due to banks are classified as level 2 and all other fair values presented above are classified as level 3 as the data used for the estimation of the discount rate are not based on the data from the active market. There are assumptions applied for the estimation of the cash flows used for discounting taking into account expected repayment profile of the particular pool or product. The discount rates used for discounting are based on the rates of the major competitors or other benchmark rates for similar type of assets.

The following table summarises the hierarchy of fair values of financial assets and financial liabilities that are carried at fair value in the statement of financial position:

CZK m	31 Dec 2017			31 Dec 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
FINANCIAL ASSETS						
Financial assets at fair value through profit or loss	0	48	0	0	26	0
Financial assets – available for sale	0	0	57	13,444	256	49
Hedging derivatives with positive fair values	0	4	0	0	0	0
Change in fair value of items hedged on portfolio basis	0	0	(6)	0	0	0
FINANCIAL LIABILITIES						
Financial liabilities – designated at fair value through profit or loss	0	68	0	0	7	0
Hedging derivatives with negative fair values	0	4	0	0	0	0

There were no transfers between level 1 and 2 during the year 2017 nor 2016.

The Bank uses the following inputs and techniques to determine the fair value under level 2 and level 3:

The level 2 assets include mainly financial derivatives, corporate bonds and treasury bills. For derivative exposures the fair value is estimated using the present value of the cash flows resulting from the transactions taking into account market inputs like FX spot and forwards rates, benchmark interest rates, swap rates, etc. The fair value of corporate bonds, treasury bills is calculated as the present value of cash flows using the benchmark interest rates.

The level 3 assets include equity instruments not traded on the market where the fair value is calculated using the valuation techniques including expert appraisals.

Movement analysis of level 3 financial assets and liabilities:

CZK m	As at 1 Jan 2017	Purchases/Sales in the period	Total gains and losses in the period recognise in the income statement	Total gains and losses in the period recognised in OCI	As at 31 Dec 2017
Available for sale					
Equity investments	49	0	0	8	57

CZK m	As at 1 Jan 2016	Purchases/Sales in the period	Total gains and losses in the period recognise in the income statement	Total gains and losses in the period recognised in OCI	As at 31 Dec 2016
Available for sale					
Equity investments	135	(248)	162	0	49

44. MANDATORY PUBLISHED INFORMATION

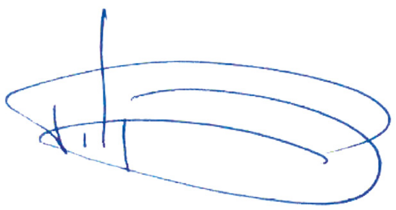
The Bank publishes the mandatory information according to Part 8 of Regulation of the European Parliament and the Council (EU) No. 575/2013 of 26 June 2013 on its website in the section Mandatory information at the following address: **www.moneta.cz/o-nas/informacni-povinnost**.

45. SUBSEQUENT EVENTS

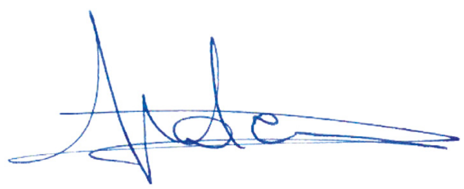
In accordance with already communicated strategy to reduce legacy portfolio of non-performing loans, the Bank entered on 17th January 2018 into an agreement for sale of a part of retail unsecured non-performing loans portfolio in the total nominal value of CZK 2.2 billion (balance sheet IFRS gross value of CZK 125 million and off-balance sheet value of CZK 2.1 billion). The Bank will realise as a result of this transaction a gain of approximately CZK 428 million in January 2018.

On 7 February 2018 the Management Board announced the intention to propose to the shareholders of the Bank dividend payment of CZK 8.0 per share.

Signature of statutory representatives
In Prague, 20 March 2018



Tomáš Spurný
Chairman of the Management Board



Philip Holemans
Vice Chairman of the Management Board

10. ADDITIONAL DISCLOSURES

10.1 GOVERNING LAW

The activities of the Group are, among others, subject to the following law and regulation:

- EU Regulation No. 575/2013 on prudential requirements for credit institutions and investment firms;
- Act No. 21/1992 Coll., on Banks;
- CNB Decree No. 163/2014 Coll. on the performance of the activity of banks;
- Act No. 256/2004 Coll., on Conducting Business in Capital Markets;
- EU Regulation 596/2014 on Market Abuse (market abuse regulation);
- Act No. 90/2012 Coll., on Business Corporations and Co operatives;
- Act No. 257/2016 Coll., on Consumer Credit (new Consumer Credit Act);
- Act No. 370/2017 Coll., the Payment Systems Act;
- Act No. 38/2004 Coll., on Insurance Intermediaries and Independent Loss Adjusters and on Amending the Trade Licensing Act;
- Act No. 253/2008 Coll., on Certain Measures against the Legalization of Proceeds from Criminal Activity and the Financing of Terrorism;
- Act No. 563/1991 Coll., on Accounting;
- Act No. 101/2000 Coll., on Personal Data Protection;
- EU Regulation 2016/679 on protection of natural persons with regard to the processing of personal data and on the free movement of such data;
- Act No. 143/2001 Coll., on Protection of Economic Competition;
- Act No. 136/2011 Coll., on the Circulation of Banknotes and Coins;
- Act No. 190/2004 Coll., on Bonds;
- Act No. 240/2013 Coll., on Investment Companies and Investment Funds;
- Act No. 89/2012 Coll., Civil Code;
- Act No. 277/2013, on Foreign Exchange Activities; and
- Act No. 634/1992 Coll., on Consumer Protection.

10.2 SIGNIFICANT ONGOING INVESTMENTS

10.2.1 IT separation

During 2017, MONETA completed IT separation from its previous sole owner. IT separation activities for majority of services were completed in-line with transition ambition of 12 months from the IPO. The scope was focused on final delivery of GE systems replacement as for example finance procurement & general ledger solution or common collaboration platform. GE services provided for card management systems were split into two parts. The first, core IT separation, were critical services provided by GE, which have been localized within 12 months from the IPO, with two ancillary services transitioned by the end of Q2 2017. The second, independent on GE and focused to consolidate card management eco-system into single integrated platform is planned for 2018 and 2019.

The transition service agreement with the previous owner was terminated in the second quarter of 2017.

Moneta spent in 2017 CZK 85 million on the IT serparation and new services set-up. These expenses were financed from own sources of MONETA.

10.2.2 Digitalization

In 2017, MONETA Money Bank's digital investment reached level of CZK 243 million. These expenses were financed from own sources of MONETA. Major areas of focus were introduction of fully online current account and launching digital pre-approved unsecured consumer and entrepreneur loans available via mobile and internet banking. Additionally, the Bank introduced mobile payments for Google Pay and enhanced Smart Banka platform capabilities.

10.2.3 Branches and ATMs

The main investments in the Bank's branch Network in 2017 focused on:

- New branches in new design, reconstructions and relocations,
- Technological upgrades throughout the branch network,
- Branch network maintenance,
- Local adjustments for Cash operations and Small Business.

As part of Moneta's Strategy to become the Czech Banking Digital Leader, supported by a strong branch network, bank invested in 2017 into the full reconstruction of 16 branch offices and Technological upgrades throughout the branch network. These expenses were financed from own sources of MONETA.

10.3 TRADEMARKS, LICENCES AND SUB-LICENCES

In 2017, the Bank used trademarks for labelling its products and services in the Czech Republic. The trademarks used were registered with a Czech Intellectual Property Office in the Czech Republic.

With the Czech Intellectual Property Office, the Bank registered a total number of 111 trademarks. A registration process is currently underway for a further 3 trademarks. In some cases, the Bank is also a licensee and sub-licensee, typically from providers of IT services.

10.4 EXPENSES ON RESEARCH AND DEVELOPMENT

In 2017, the Group incurred CZK 30 million for research and development (2016: CZK 33 million). These expenses were financed from own sources of MONETA. Most of these costs were for development studies and implementation of individual projects, particularly in the area of information technologies and systems, including development of internet applications.

10.5 INTELLECTUAL PROPERTY

The Group has procured number of SW and IT technology licences which are needed to run its banking and financial business in the area of primary banking, treasury, IFRS calculation, statistics and analytics for risk, AML and CRM management, card payment management, accounting etc.

The Group uses and owns and relies on the right to the MONETA name, brand and logo.

10.6 DESCRIPTION OF REAL ESTATE OWNED AND LEASED BY GROUP

Description of property owned by the Bank is described in Notes to Consolidated Financial Statements (Note 5.11 Property and Equipment).

The Group leases the four headquarters premises set out in the table below:

Leasee	Location
Bank	BBC HQ, Prague 4, Vyskočilova 1422/1a, 140 28
Bank	Prague 4, V Parku 2294/2, 148 00
Bank	Ostrava, CTPark Ostrava — AXIS A and B including parking, Na rovince 871
MONETA Leasing	Brno, Holandská 10, 639 00

The Group also leases its 227 branches (as at 31 December 2017) throughout the Czech Republic.

The Bank is not aware of any significant environmental issues or other constraints that would materially impact the intended use of Group's facilities.

10.7 INDUSTRY AND OTHER ASSOCIATIONS MEMBERSHIP

The Bank or other entities from the Group are members of the following industry or other associations:

- Czech Banking Association (CBA),
- Czech Leasing and Financial Association (CLFA),
- Czech Capital Market Association (AKAT CR).

The entities from the Group adopted following codexes:

CLFA Memorandum on consumer protection in providing consumer loans, Financial market Ethical Code, Code of conduct of CLFA Members - All Czech Leasing and Financial Association.

10.8 RIGHTS ATTACHED TO SHARES IN BANK

The shares in the Bank are fully fungible and rank pari passu in all respects. Under the Czech Companies Act and the Bank's Articles of Association, each of the Bank's shareholders has, inter alia, the following rights:

1. pre-emptive right to subscribe to a pro rata portion of the shares in the Bank if the registered share capital of the Bank is increased by cash contributions into the Bank unless that pre-emptive right is restricted or limited by a General Meeting resolution;

2. pre-emptive right to subscribe to a pro rata portion of any preference or convertible bonds unless that pre-emptive right is restricted or limited by a General Meeting resolution;

3. right to participate in the Bank's profit and liquidation balance to the extent approved at a General Meeting;

4. right to attend and vote at a General Meeting;

5. right to receive information on matter related to the Bank or its subsidiaries from the Bank at a General Meeting if such information is necessary to assess items on the agenda of the General Meeting or to exercise shareholder rights (and in particular, voting rights);

6. right to make proposals and counter-proposals in relation to items on the agenda of a General Meeting;

7. within three months following the date of the relevant General Meeting, the right to challenge the validity of resolutions of the General Meeting in a court action against the Bank; and

8. right to request a copy of the General Meeting minutes from the Management Board.

10.9 SIGNIFICANT AGREEMENTS

In 2017 the Bank didn't enter into any significant agreements, which were outside the ordinary course of business.

10.10 DOCUMENTS INCORPORATED BY REFERENCE

The following information has been incorporated into this Annual Report by reference to the documents that are available on the Bank's website www.moneta.cz by selecting Investor relation / Current information / Financial results section. The names of the relevant documents and its page numbers are indicated in the table below.

Information	Document	Page
Compensation paid to the members of the Management Board	Group's consolidated annual report for the year ended 31 December 2016	71–72

11. ALTERNATIVE PERFORMANCE MEASURES AND RECONCILIATION

In this report, certain financial data and measures are presented which are not calculated pursuant to any accounting standard and which are therefore non-IFRS measures and alternative performance measure as defined in the European Securities and Markets Authority Guidelines on Alternative performance measures. These financial data and measures are attrition / loan balance attrition, cost of funds/cost of funding, digital sales, net interest margin, net non-interest income, online sales, return on average assets, reported return on tangible equity, yield on net customer loans / loan portfolio yield, cost to income ratio, tangible equity, adjusted return on tangible equity, adjusted tangible equity, adjustment for cost of funds, excess capital, core cost of risk, cost of risk, risk adjusted yield on net customer loans, risk adjusted operating income, loan to deposit ratio, regulatory capital, CET1, CET1 Ratio, , LCR, total NPL coverage, NPL / Non-performing loans, core NPL coverage, NPL ratio, risk weighted assets, RWA density, new production / new volume. All alternative performance measures included in this document are calculated for specified period.

These alternative performance measures are included to (i) extend the financial disclosure also to metrics which are used, along with IFRS measures, by the management for evaluation of the Group's performance, and (ii) provide to investors further basis, along with IFRS measures, for measuring of the Group's performance. Because of the discretion that the Group has in defining these measures and calculating the reported amounts, care should be taken in comparing these various measures with similar measures used by other companies. These measures should not be used as a substitute for evaluating the performance of the Group based on the Consolidated Financial Statements of the Group. Non-IFRS measures have limitations as analytical tools, and investors should not consider them in isolation, or as a substitute for analysis of the Group's results as reported under IFRS and set out in the Consolidated Financial Statements of the Group, and investors should not place any undue reliance on non-IFRS measures. Non-IFRS measures presented in this report should not be considered as measures of discretionary cash available to the Group to invest in the growth of the business, or as measures of cash that will be available to the Group to meet its obligations. Investors should rely primarily on the Group's IFRS results and use the non-IFRS measures only as supplemental means for evaluating the performance of the Group.

The following table shows the Group's adjusted return on tangible equity, adjusted at management target CET1 Ratio currently 15.5%, for the years ended 31 December 2017 and 31 December 2016:

CZK million (unless otherwise indicated)	31 December 2017	31 December 2016
Reported Profit after tax (A)	3,923	4,054
Excess Capital (B=H-(G×J))	2,278	5,478
Cost of funds% (C)	0.2%	0.2%
Tax Rate (D)	19%	19%
Adjustment for cost of funds (E = B × C × (1-D))	(3)	(7)
Adjusted Profit after tax (F)	3,920	4,047
Reported Total Risk Weighted Assets (G)	118,547	109,301
Regulatory Capital (H)	20,653	22,420
Reported CET1 % (I = H / G)	17.4%	20.5%
Target CET1 % (J)	15.5%	15.5%
Excess Capital (B = H – (G × J))	2,278	5,478
Equity (K)	25,763	27,268
Intangible Assets and Goodwill (L)	1,301	848
Tangible Equity (M = K - L)	24,462	26,420
Excess Capital (B = H – (G × J))	2,278	5,478
Adjusted Tangible Equity (N = M – B)	22,184	20,942
Reported Return on Tangible Equity (A / M)	16.0%	15.3%
Adjusted Return on Tangible Equity (F / N)	17.7%	19.3%

The reported return on tangible equity is based on actual financial figures for the respective period as calculated in the above tables. Adjusted return on tangible equity is based on a management target CET1 Ratio of 15.5%. Capital Adequacy Ratio including 14.0% regulatory required capital (total SREP capital ratio of 11% and 2.5% capital conservation buffer and 0.5% countercyclical buffer).. In addition to a capital rebase to 15.5%. CET1, net profit was adjusted for substitution of capital with funding via deposit assuming cost of funding of the period (0.2% in the year ended 31 December 2017 and in 0.2% in the year ended 31 December 2016) and 19.0% corporate tax rate. Profit after tax was not adjusted for potential liquidity constraints.

Adjusted tangible equity reflects the tangible equity adjusted for the capital exceeding a management target CET1 Ratio currently 15.5%.

Definition of other alternative performance measures is provided in the Glossary below.

12. INFORMATION ABOUT CAPITAL AND CAPITAL REQUIREMENTS

Information according to Annex 14 of the Decree No. 163/2014 Coll.,on the Performance of the Activities of Banks, Credit Unions and Investment Firms.

Information about Capital and Capital Requirements pursuant to Article 437 (1) (a) of Regulation (EU) 575/2013

Capital

CZK m	31. 12. 2017 the Group	31. 12. 2017 MMB	31. 12. 2016 the Group	31. 12. 2016 MMB
Capital	20,653	22,027	22,420	20,663
Tier 1 (T1) Capital	20,653	22,027	22,420	20,663
Common Equity Tier 1 Capital	20,653	22,027	22,420	20,663
Instruments eligible as CET1 Capital*	5,539	5,539	5,539	5,539
Subscribed share capital*	511	511	511	511
Share premium*	5,028	5,028	5,028	5,028
Retained earnings	16,258	17,604	17,212	15,343
Retained earnings from previous periods	16,258	17,604	17,212	15,343
Other reserve funds*	102	102	102	102
Available for sale reserve*	(57)	(57)	363	363
Items deductible from Tier 1 Capital	(1,189)	(1,161)	(796)	(684)
- CET 1 capital adjustments due to the application of prudential filters	(0)	(0)	(14)	(14)
(-) Value adjustments due to the requirements for prudent valuation	(0)	(0)	(14)	(14)
(-) Goodwill*	-	-	(104)	0
(-) Goodwill included in the valuation of significant investments*	-	-	(104)	0
(-) Other intangible assets	(1,189)	(1,161)	(678)	(670)
(-) Other intangible assets - net amount*	(1,301)	(1,273)	(744)	(736)
Deferred tax liabilities associated to other intangible assets	112	112	66	66

*Items reconciled to the Statement of financial position.

Information about Capital and Capital Requirements pursuant to Article 438 (c) to (f) of Regulation (EU) 575/2013.

Pursuant to the assessment of the Bank's report on the internal capital adequacy assessment process submitted in 2017, the Czech National Bank informed the Bank (in November 2017) about a new additional Pillar II capital requirement of 3% applicable from 1 January 2018 (i.e., the final required capital adequacy ratio remains at 14%).

Risk exposures

CZK m	31. 12. 2017 the Group 8%*	31. 12. 2017 the Group 14%**	31. 12. 2017 MMB 8%*	31. 12. 2017 MMB 10.5%**	31. 12. 2016 the Group 8%*	31. 12. 2016 the Group 14%**	31. 12. 2016 MMB 8%*	31. 12. 2016 MMB 10.5%**
Total risk exposure amount	9,484	16,597	9,696	12,726	8,744	15,302	9,107	11,953
Risk weighted exposure amount for credit, counterparty credit and dilution risks and free deliveries	8,254	14,445	8,647	11,349	7,520	13,160	8,062	10,582
Standardised approach (SA)	8,254	14,445	8,647	11,349	7,520	13,160	8,062	10,582
SA exposure classes excluding securitisation positions	8,254	14,445	8,647	11,349	7,520	13,160	8,062	10,582
Exposures to regional governments or local authorities	0	1	0	0	1	1	1	1
Exposures to institutions	64	113	64	85	14	24	14	18
Exposures to corporates	2,896	5,069	3,695	4,850	2,545	4,454	3,391	4,451
Retail exposures	4,144	7,252	3,441	4,516	3,835	6,712	3,149	4,133
Exposures to public sector entities	3	6	2	3	6	10	4	5
Exposures in default	324	567	276	362	391	684	333	437
Items associated with particular high risk	0	0	0	0	0	0	0	0
Equity exposures	7	13	368	483	7	12	470	617
Other items	291	509	275	361	323	566	302	397
Exposures secured by mortgages on immovable property	524	917	524	688	398	697	398	523
Total risk exposure amount for operational risk (OpR)	1,223	2,141	1,043	1,369	1,223	2,141	1,043	1,369
OpR Standardised / Alternative Standardised approaches	1,223	2,141	1,043	1,369	1,223	2,141	1,043	1,369
Total risk exposure for credit valuation adjustment risk	6	11	6	8	1	1	1	1
Credit valuation adjustment Standardised approach	6	11	6	8	1	1	1	1

*Based on the Annex 14 to the Decree 163/2014 Coll (referencing to article 438 point c) of Capital Requirement Regulation).
**Based on Czech National Bank requirement (see note 42.2. in the Consolidated Financial Statements and note 41.2. in the Separate Financial Statements

Capital ratios

CZK m	31. 12. 2017 the Group 8%*	31. 12. 2017 the Group 14%**	31. 12. 2017 MMB 8%*	31. 12. 2017 MMB 10.5%**	31. 12. 2016 the Group 8%*	31. 12. 2016 the Group 14%**	31. 12. 2016 MMB 8%*	31. 12. 2016 MMB 10.5%**
CET1 Capital Ratio	17.4%	17.4%	18.2%	18.2%	20.5%	20.5%	18.2%	18.2%
Surplus (+)/deficit (-) of CET1 Capital (CZK m)	15,318	15,318	16,573	16,573	17,503	17,503	15,542	15,542
Tier 1 Capital Ratio	17.4%	17.4%	18.2%	18.2%	20.5%	20.5%	18.2%	18.2%
Surplus (+)/deficit (-) of Tier 1 Capital (CZK m)	13,540	13,540	14,755	14,755	15,863	15,863	13,834	13,834
Total Capital Ratio	17.4%	17.4%	18.2%	18.2%	20.5%	20.5%	18.2%	18.2%
Surplus (+)/deficit (-) of Total Capital (CZK m)	11,169	4,056	12,331	9,301	13,677	7,119	11,557	8,711

*Based on the Annex 14 to the Decree 163/2014 Coll (referencing to article 438 point c) of Capital Requirement Regulation)
**Based on Czech National Bank requirement (see note 42.2. in the Consolidated Financial Statements and note 41.2. in the Separate Financial Statements)

CZK m	31. 12. 2017 the Group	31. 12. 2017 MMB	31. 12. 2016 the Group	31. 12. 2016 MMB
ROAE*	18.2%	17.1%	18.1%	34.9%
ROAA	2.2%	2.1%	2.8%	5.0%
Total operating expanses per employee ('000)	1,316	1,343	1,364	1,390
Total assets per employee ('000)	60,452	65,346	47,970	52,950
Net profit per employee ('000)	1,187	1,211	1,302	2,561
Number of employees**	3,304	3,021	3,114	2,838

*Calculated as an average of regulatory capital as of 31 Dec 2017 and 31 Dec 2016 (see note 41.2.1. in the Notes to Separate Financial Statements and note 42.2.1. in the Notes to Consolidated Financial Statements).
**Average recalculated number of employees (see note 12 in the Notes to the Separate Financial Statements and Notes the the Consolidated Financial Statements).

13. FORWARD-LOOKING STATEMENTS

This report may contain projections, estimates, forecasts, targets, opinions, prospects, results, returns and forward-looking statements with respect to the 2017 financial guidance, profitability, costs, assets, capital position, financial condition, results of operations, dividend and business of the Group (together, "forward-looking statements").

Any forward-looking statements involve material assumptions and subjective judgements which may or may not prove to be correct and there can be no assurance that any of the matters set out in forward-looking statements will actually occur or will be realized or are complete or accurate. The assumptions may prove to be incorrect and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside the control of the Group. Actual achievements, results, performance or other future events or conditions may differ materially from those stated, implied and/or reflected in any forward-looking statements due to a variety of risks, uncertainties and other factors. Any forward-looking statement contained in this report is made as at the date of this report. The Bank does not assume, and hereby disclaims, any obligation or duty to update forward-looking statements if circumstances or management's assumptions beliefs, expectations or opinions should change, unless it would be required to do so under applicable law or regulation. For these reasons, recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements.

MATERIAL ASSUMPTIONS FOR FORWARD-LOOKING STATEMENTS

A number of economic, market, operational and regulatory assumptions were made by the Group in preparing forward looking guidance

- Positive macroeconomic outlook will persist in medium term:
- 3M PRIBOR assumed to gradually increase and reach 2.8%[1] in 4Q'19
- Consumer loan market portfolio yield expected to bottom out at around 8%
- 2018 effective tax rate to be reduced by the impact of IFRS9 one-time charge
- Cost of risk assumptions:
  - 15–20% higher allowance level under IFRS9
  - 2018 supported by significant gain from legacy NPL monetization
  - Contingency for potential large commercial default
  - Cost of Risk likely to bottom out during 2018
  - Flat operating cost impacted by 10%–15% productivity improvement over next 3 years, offset by increased Depreciation and Amortization charges of additional investments

[1] Source: CNB forecast from 4Q 2017 (http://www.cnb.cz/cs/menova_politika/zpravy_o_inflaci/2017/2017_IV/download/ZOI_IV_2017_T_1_Makroindikatory.xlsx)

GLOSSARY

Additional Tier 1 capital	Capital which mainly consists of share capital, to the extent not included in CET1 Capital, and certain unsecured subordinated debt instruments without a maturity date (calculated pursuant to CRR)
Adjusted RoTE or adjusted return on tangible equity (at 15.5% CET1 capital ratio)	Return on Adjusted tangible equity as calculated in chapter Alternative performance measures and reconciliation
Adjusted profit after tax	Profit after tax adjusted for Adjustment for cost of funds. Used for Adjusted RoTE calculation, see chapter Alternative Performance Measures and Reconciliation
Adjusted tangible equity	Tangible equity adjusted for excess capital above management target CET1 Ratio of 15.5% which is an anticipated 14.5% required Regulatory capital (including a 0.5% countercyclical buffer) and a 1% management buffer
Adjustment for cost of funds	Impact on profit for the period after tax that would arise if funding through the Excess (regulatory) capital were replaced with deposits (at the cost of funds for the period). Used for the calculation of the Adjusted return on tangible equity, see chapter Alternative Performance Measures and Reconciliation
ALCO	Asset & Liability Committee
AML	Anti-Money Laundering
ASA	Alternative standardised approach for calculation of regulatory capital requirement for operational risk
Average balance of deposits from banks and due to customers	Two-point average of the beginning and ending balances of Deposits from banks and Due to customers for the period
Average balance of net interest earning assets	Two-point average of the beginning and ending balances of Net Interest Earning Assets for the period
Average balance of net loans to customers	Two-point average of the beginning and ending balances of Loans and receivables to customers for the period
Average balance of total assets	Two-point average of the beginning and ending balances of Total Assets to customers for the period
Back-to-back repo operations	Repo transactions with counterparties which are closed on back-to-back basis by reverse repo transactions with CNB
Bank	MONETA Money Bank, a.s.
Basel III	The package of capital and liquidity requirements published by the Basel Committee intended to establish minimum liquidity requirements for credit institutions
bps	Basis points
bn	Billion
CAPCO	Capital Committee
CEO	Chief Executive Officer and Chairman of the Management Board
CET1 or CET1 Capital	Common equity tier 1 capital represents regulatory capital which mainly consists of paid-up registered share capital, share premium, retained profits, disclosed reserves and reserves for general banking risks, which must be netted off against accumulated losses, certain deferred tax assets, certain intangible assets and shares held by the Bank in itself (calculated pursuant to CRR)
CET1 Capital Ratio or CET1 ratio	CET1 capital as a percentage of RWA (calculated pursuant to CRR)
CFO	Chief Financial Officer and Vice-chairman of the Management Board
CMMC	Credit Monitoring and Management Committee
CNB	Czech National Bank
CNB Decree No. 163/2014 Coll.	CNB Decree No. 163/2014 Coll. on the performance of the activity of banks, credit unions and investment firms, as amended
Control employees	Employees in control functions, mainly in Compliance, Internal audit and Risk management, excluding collections
Cost of Funds (% Avg Deposits)	Interest expense and similar charges for the period divided by Average balance of deposits from banks and due to customers
CoR or Cost of Risk (% Avg Net Customer Loans)	Net impairment of loans and receivables for the period divided by Average balance of net loans to customers
Cost to Income Ratio	Ratio (expressed as a percentage) of total operating expenses for the period to total operating income for the period
Core NPL Coverage	Ratio (expressed as a percentage) of Allowances to NPL Receivables to total NPL
CR	Cure rate
CRCO	Credit Committee
CRO	Chief Risk Officer and Member of Management Board

CRD IV	Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, as amended
CRR	Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012, as amended
Customer deposits	Due to customers excluding repo operations
Digital sales	Aggregate of loan principal disbursed in the period for non-revolving loans originated online or fully online
EC	European Commission
ECAP	Model for calculation of internal capital requirement
Enabling employees	Employees in roles other than front-end or control
Encumbered assets	Assets owned by the Group on which external parties reserve the right to make a valid claim.
ERMC	The Enterprise Risk Management Committee
ETF	Exchange-traded funds
EU	European Union
EURO STOXX 600	An index published by STOXX Limited that is derived from the STOXX Europe Total Market Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom
EURO STOXX Banks	One of the industry indices published by STOXX Limited following the market standard ICB Industry Classification Benchmark
EVIP	Executive Variable Incentive Plan
Excess capital	Capital exceeding the management target CET1 capital ratio of 15.5%.
Excess liquidity	Liquidity above the LCR regulatory requirement of at least 100 effective from 1 January 2018.
Forborne receivables	Forborne receivables are receivables for which the Group provided the debtor with relief as it assessed that it would likely incur a loss if it did not do so
Front end employees	Predominately employees whose variable compensation is sales-driven together with their immediate managers, and employees responsible for collection
FX interventions	Foreign exchange interventions performed by Czech National Bank
GDP	Gross domestic product
GDPR	Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation)
GE	General Electric group
GRI	Global Reporting Initiative Sustainability Standards - International Framework for Sustainability Reporting
Group	Bank and its consolidated subsidiaries
H	Half-year
ICAAP	The Internal Capital Adequacy Assessment Process
ICAAP report	The Bank's report on the internal capital adequacy assessment process
IFRS	International Financial Reporting Standards
Interest (and similar) income from loans to customers	Interest and similar income from loans to customers per note 6 to the Consolidated Financial Statements
IPO	Offering of shares in the Bank to institutional investors by GE completed on 6 May 2016
k	Thousands
KPI	Key performance indicator
LCR	Liquidity Coverage Ratio measures the ratio (expressed as a percentage) of a bank's buffer of high quality liquid assets to its projected net liquidity outflows over a 30-day stress period, as calculated in accordance with CRR and EU Regulation 61/2015
Legacy NPL	Historically accumulated aged nonperforming receivables
LGD	Loss given default
Liquid Assets	Liquid assets comprise of cash and balances with central banks, financial assets at fair value through profit or loss, financial assets available for sale and receivables to banks
Liquidity buffer	Liquid assets that the Bank holds in compliance with Title II of Commission Delegated Regulation (EU) 2015/61
Loan to Deposit Ratio or L/D Ratio	Loan to deposit ratio calculated as net loans and receivables to customers divided by customer deposits
LTM	Last twelve months
LTV	Loan to Value
m	Millions

Material Risk Takers	Staff Members with Highly Material Influence and Material Influence on Overall Risk Profile of MONETA Group
MiFID II	Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU Text with EEA relevance
MMB Share Price Begin	The average daily closing price of the Bank's shares on the PSE for the first 20 trading days in January of the performance year
MMB Share Price End	The average daily closing price of the Bank's shares on the PSE for the first 20 trading days in January of performance year + 1 up to performance year + 4
MONETA	Bank and its consolidated subsidiaries
MONETA Auto	MONETA Auto, s.r.o.
MONETA Leasing	MONETA Leasing, s.r.o.
MONETA Money Bank	MONETA Money Bank, a.s.
MSA	Master Service Agreements concluded with GE companies
MSCI Czech Republic	The MSCI Czech Republic Index is designed to measure the performance of the large and mid cap segments of the Czech Republic market. With 4 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Czech Republic
MROC	Model Risk Oversight Committee
Net Income or Profit after Tax or Net profit	Profit for the period after tax, on consolidated basis unless this report states otherwise
Net Interest Earning Assets	Cash and balances with the central bank, financial assets at fair value through profit and loss, financial assets available for sale, loans and receivables to banks and loans and receivables to customers
Net Interest Margin or NIM (% Avg Int Earning Assets)	Net interest income divided by Average balance of net interest earning assets
Net Non-Interest Income	Total operating income less Net interest income
New Consumer Credit Act	Act No 257/2016 Coll., on Consumer Credit
New (business) volume	Aggregate of loan principal disbursed in the period for non-revolving loans (including internal loan consolidations and repriced loans)
No.	Number
Number of employees	The average recalculated number of employees during the period is an average of the figures reported to Czech Statistical Authority (CSA) on a monthly basis in accordance with Article 15 of Czech Act No. 518/2004. The figures reported to CSA equal to quotient of the following nominator and the following denominator. The nominator is defined as all hours worked by all employees, their related leaves/holidays and their related sickdays. The denominator represents a standard working hour per an employee and a month.
NPIC	The New Product Introduction Council
NPL	Nonperforming Receivables as determined in accordance with the Bank's loan receivables categorization rules (Substandard, Doubtful, Loss) and pursuant to the CNB Decree No. 163/2014 Coll.
NPL Coverage or Total NPL Coverage	Ratio (expressed as a percentage) of Loss allowances for loans and advances to customers to NPL
NPL Ratio or Non-performing Loan Ratio	Ratio (expressed as a percentage) of NPL to Gross loans and receivables to customers
NRC	Nomination and remuneration committee
NSFR	Net Stable Funding Ratio calculated pursuant to 'Basel III: the net stable funding ratio' published by Basel Committee on Banking Supervision in October 2014
Online / Fully online volume or sales	Online represents volume / sales from leads initiated through digital channels and disbursed either through digital channels or branches; fully online volume / sales = volume from leads both initiated and disbursed in digital channels; online initiated = volume from leads initiated in digital channels but disbursed at branch
OPEX	Total operating expenses
PD	Probability of default
Performing receivables	Performing Receivables as determined in accordance with the Bank's loan receivables categorization rules (Standard, Watched) and pursuant to the CNB Decree No. 163/2014 Coll.
Phantom Plan	Programme for the deferred part of the variable compensation for the Identified Staff according to CRD IV
PLC	Problem Loan Committee
Prospectus	Prospectus dated 22 April 2016 and approved by the CNB in connection with the listing of all 511,000,000 existing ordinary registered book-entry shares of GE Money Bank, a.s. (now MONETA Money Bank, a.s.) on the Prime Market of the Prague Stock Exchange
PSD II	Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC
PSE	Prague Stock Exchange
PX Index	The PX index is the official price index of the Prague Stock Exchange. It is a free float weighted price index made up of the most liquid stocks.
Q	Quarter
RCSA	Risk & Control Self-Assessment

Reported RoTE or RoTE	Consolidated profit after tax divided by tangible equity
Retail unsecured instalment loans/ Consumer loans/Unsecured consumer loans	Non-purpose, unsecured and non-revolving loan to retail clients
Return on Average Assets or RoAA	Return on average assets calculated as profit after tax for the year divided by Average balance of total assets
Regulatory Capital	CET1 (calculated pursuant to CRR)
Reported Profit after tax	Profit for the period after tax, on consolidated basis unless this report states otherwise
Risk Adjusted Operating Income or Risk Adjusted OI	Calculated as total operating income less net impairment of loans and receivables and net impairment of other receivables
Risk Adjusted Yield or Risk Adjusted Yield (% Avg Net Customer Loans)	Interest and similar income from loans to customers less net impairment of loans and receivables divided by Average balance of net loans to customers
RWA or risk exposure	Risk weighted assets (calculated pursuant to CRR)
RWA density	Ratio of RWA to total assets
SME	An enterprise with an annual turnover of up to CZK 200 million
Spontaneous awareness	A percentage of people who express knowledge of a brand or product without prompting
STA	Standardised approach for calculation of regulatory capital requirement for credit risk
Tangible Equity	Calculated as total equity less intangible assets and goodwill
Target CET1 Ratio	CET1 ratio target set by the management, currently at 15.5% (consist of an anticipated 14.5% required Regulatory capital – including a 0.5% countercyclical buffer and a 1% management buffer)
Tier 1 Capital	The aggregate of CET1 capital and Additional Tier 1 capital
Tier 1 Capital Ratio	Tier 1 capital as a percentage of RWA
Ths	Thousands
Tier 2 Capital	Regulatory capital which consists of certain unsecured subordinated debt obligations with payment restrictions (calculated pursuant to CRR)
Total Capital Ratio or Capital adequacy ratio	Tier 1 Capital and Tier 2 Capital as a percentage of RWA
Total Customer deposits	Due to customers including repo operations
Total NPL Coverage	Ratio (expressed as a percentage) of Loss allowances for loans and advances to customers to NPL
TSA	Transitional Services Agreements concluded with GE companies
Turn of the Consumer loans	Ratio of average net balance of unsecured consumer loans (two-point) over average monthly new volume of unsecured consumer loans for the period
VaR	Value at Risk
Yield (% Avg Net Customer Loans)	Interest and similar income from loans to customer divided by Average balance of net loans to customers

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