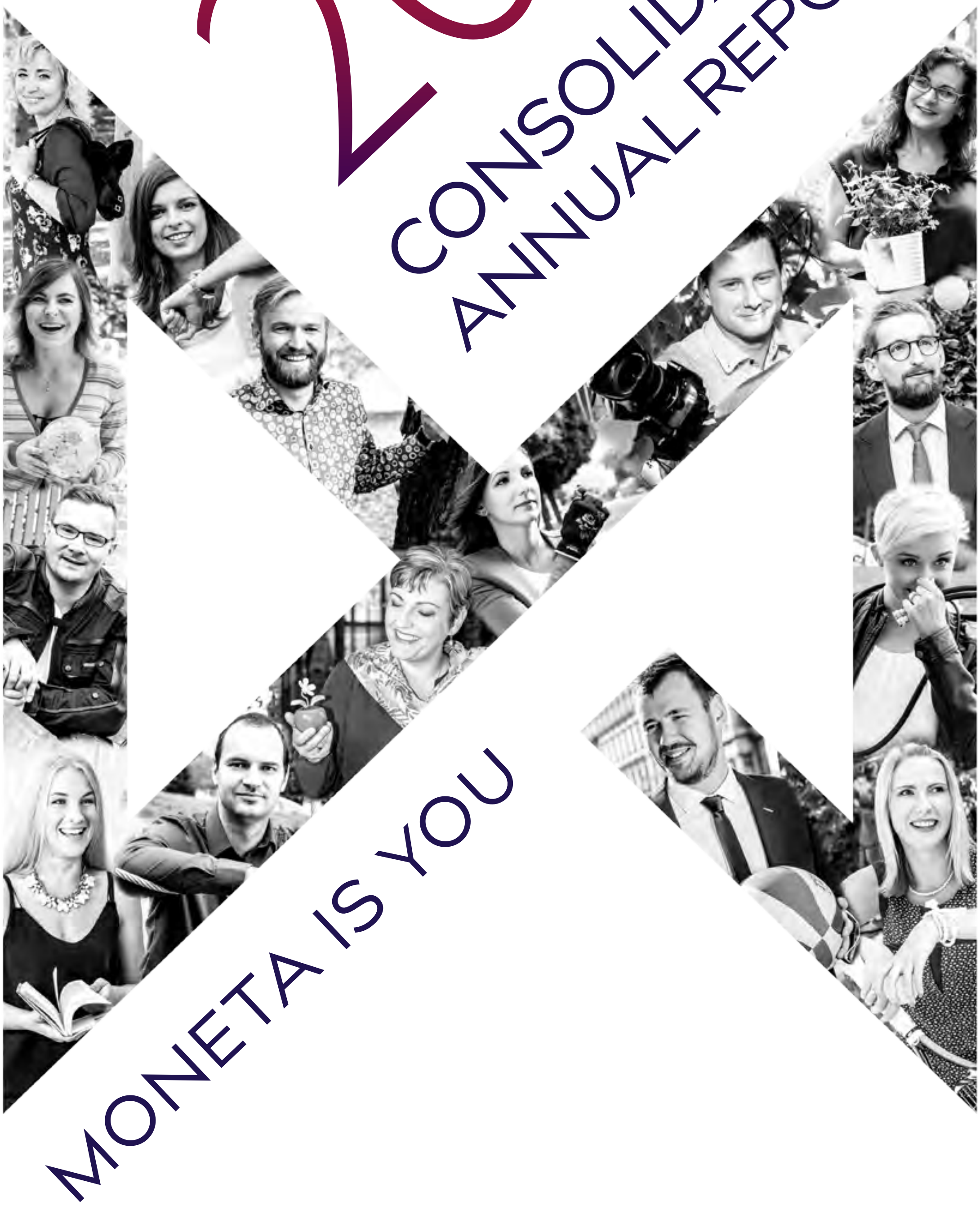
2016 CONSOLIDATED ANNUAL REPORT



MONETA IS YOU

MONETA | MONEY BANK

MONETA IS IVA

You will notice that magical smile right away. And is this "weapon" good for fighting your opponent on a badminton court? That's not possible, says Iva as this sport is hard work and the smile comes back after the match.

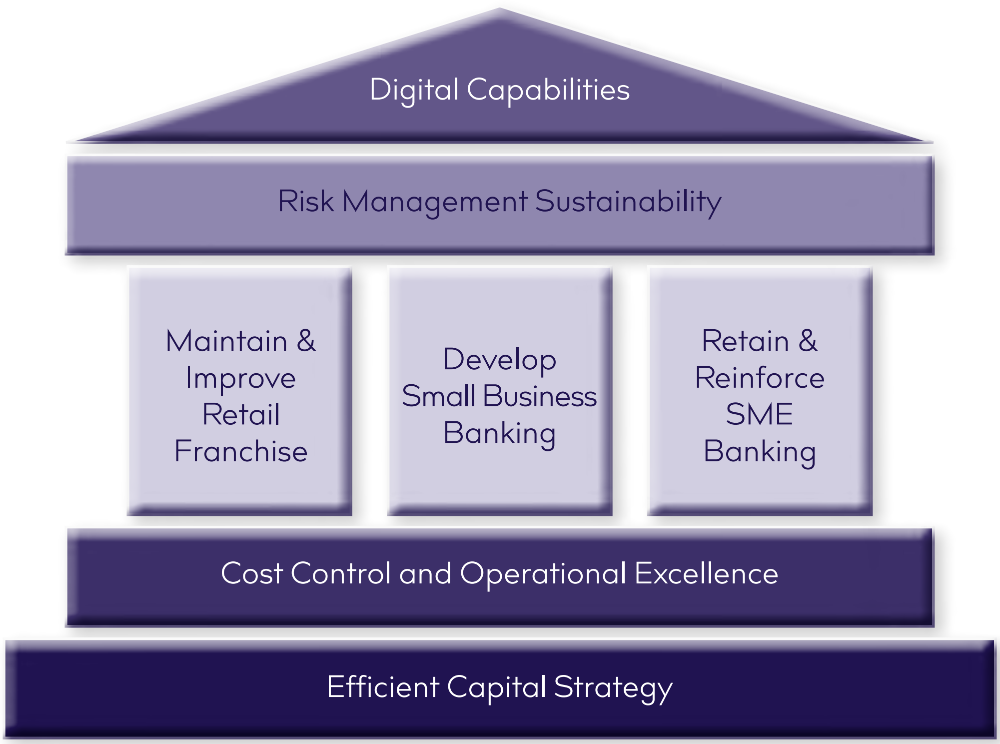
Iva admits she takes her work home with her. She's not a workaholic, but the needs of her clients are important to her. "When you're helping a client with their personal finance needs and they confide their problems to you, you wish for everything to work out for them," she explains and you can see in her face that she's not exaggerating.

You can count on Iva.

HIGHLIGHTS

Group Strategy

✓	Continue to focus on maintaining and further developing its retail banking franchise while also 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 and broadening its offering of third party products, namely insurance and asset management.
✓	In the commercial segment, the Group intends to further capitalise on cross selling opportunities 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.
✓	Significantly increase 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 with access to value-based payment, liquidity management and financing solutions.



Key achievements in 2016

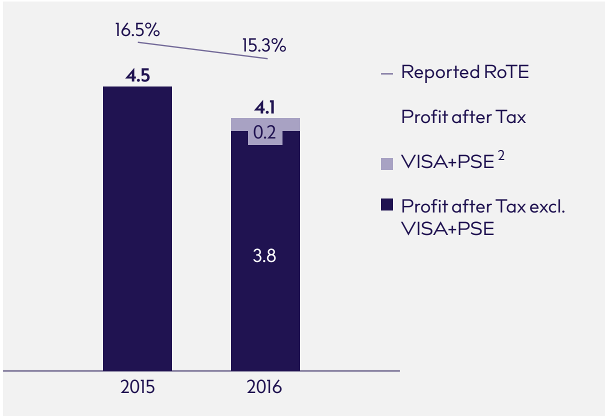
Loan Growth 4.1%	▪ Overall gross performing loan portfolio (gross loans and receivables to customers without impairment) up 4.1% YoY, delivering on promise of return to growth ▪ Consumer loan book growth of 5.7% YoY, acquisition of approx. 20%[1] market share during 2016 ▪ Turnaround in mortgage franchise[2] (1.2% YoY, 3.1% in last 6 months), strong pipeline in place for 2017 ▪ Turnaround in high yielding small business new volumes (up 47% YoY), with balances up 4.6% YoY ▪ Commercial investment loan growth (mainly SME and RE) with balances up 16% YoY
Operating Income (9%)	▪ Delivered CZK 11.1bn of operating income, down 9% YoY ▪ NIM of 5.9%, broadly in line with expectations, albeit pricing pressure continues across all segments
Opex (8%)	▪ Continued reduction of cost base (total operating expenses) by CZK 449m (down 8% YoY) ▪ Cost to income ratio at 46.0%, ahead of guidance ▪ One-off costs related to IT separation, IPO and rebranding of CZK 299m and investment into digital of CZK 66m
Cost of Risk 84bps	▪ Incurred low CoR of 84bps (retail 1.38%, commercial 0.32%), comfortably met guidance of 100 bps ▪ NPL ratio at 6.3% from 11.7% at the end of 2015, significantly outperforming the guidance ▪ Total NPL coverage at 82.5%
Reported RoTE 15.3%	▪ Generated CZK 4.1bn of net income ▪ Tangible equity at CZK 26.4bn, with total equity of CZK 27.3bn ▪ Reported RoTE of 15.3%, Adjusted RoTE of 19.3% (at 15.5% CET1 ratio)
CET 1 20.5%	▪ Capital adequacy improved to 20.5%[3] (CZK 5.5bn above the management target of 15.5% CET1 ratio[4]) ▪ RWA optimization completed, freeing up CZK 2.8bn[5] capital and resulting in RWA density of 73.2% ▪ Capital initiatives completed 12 months ahead of time
Digital	▪ Digital transformation underway – successful launch of mobile banking app achieving 123k downloads, with strong underlying transactional volumes
Rating	▪ Achieved rating BBB from S&P / Baa2 from Moody's, both with stable outlook[6], seeking to diversify sources of funding, including issuance of bonds
Customers	▪ Customer Net Promoter Score (NPS) stable and improving, spontaneous brand awareness of 29% (against 49%[7] for GE Money)

Unless stated otherwise, any financial figures disclosed in this Annual Report are consolidated figures of MONETA Money Bank and its subsidiaries.

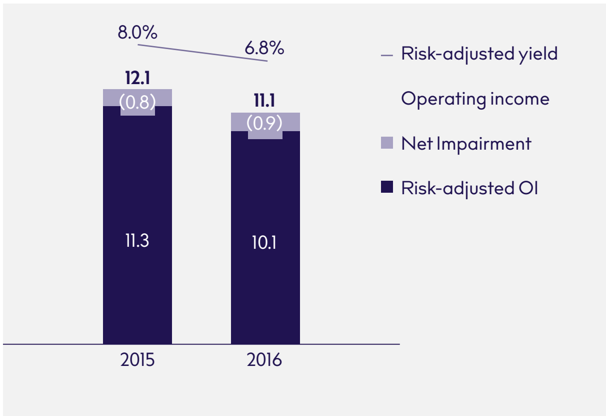
[1] Source: CNB ARAD, banking sector without building societies. All data according to CNB definitions, gross loans excluding Non-residents and loans in foreign currency. Consumer loans represent Non-purposed and purposed consumer loans, Debt consolidations and American mortgages.
[2] Mortgage book includes American mortgages.
[3] Doesn't include net income for the year 2016.
[4] Management target of 15.5% CET1 consists of (a) 14% regulatory expectation, (b) 0.5% countercyclical buffer and (c) 1% management buffer.
[5] Consists of 3Q 2016 impact of first initiative of CZK 905m and 4Q 2016 impact of remaining two initiatives.
[6] See chapter Basic information.
[7] Score in 1H 2016 preceding rebranding.

Key metrics
(in CZK bn)

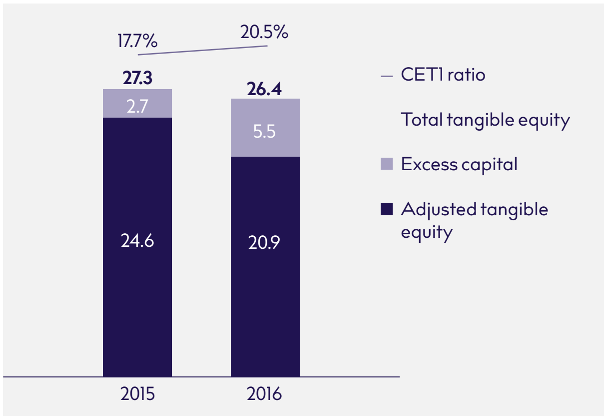
Delivered solid ROTE[1]



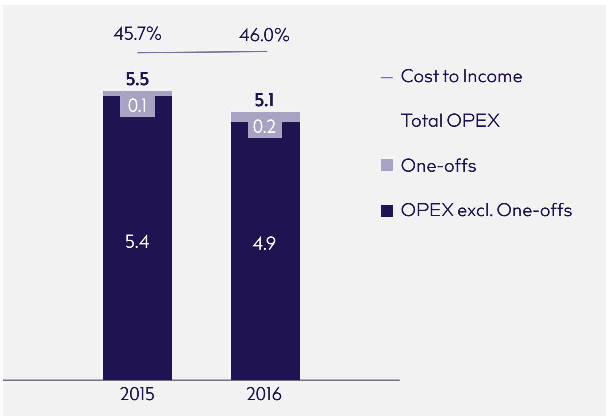
despite pressure on margin[1]



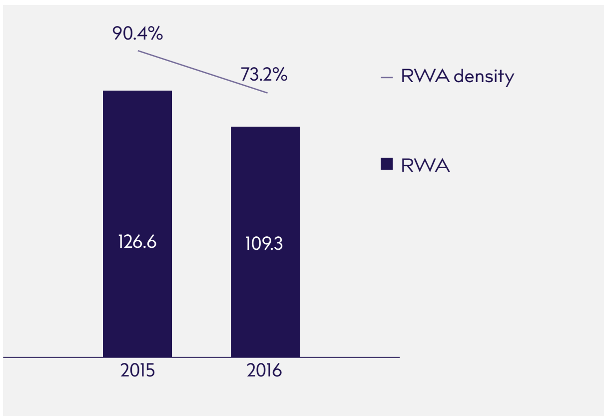
and freeing up capital



by managing cost base



through RWA initiatives



[1] Figures in the charts may not add up to total due to rounding differences.
[2] Gain on sale of share in Visa and PSE after tax.

Delivering return to shareholders

- In the period from 6 May 2016 to 30 December 2016, the market price of shares in MONETA increased by almost 22%[1]
- Attractive 12% dividend yield attributable to shares in MONETA[2]
- The market capitalization of MONETA equal to CZK 42.3 billion as at 30 December 2016[3]
- In the period from 6 May 2016 to 30 December 2016, the average daily volume of trading in shares in MONETA on the Prime Market of Prague Stock Exchange reached 2.1 million of shares per trading day and therefore shares in MONETA was one of the most liquid security listed on the Prime Market of the Prague Stock Exchange[4]
- MONETA's stock was added to MSCI Czech Republic index with effect from 1 December 2016

Outlook 2017

Profitability	▪ Consolidated profit after tax > CZK 3.4bn ▪ Reported RoTE of ~ 14% / Adjusted RoTE (at 15.5% CET1) > 15.5% ▪ Operating Income at > CZK 10.3bn
Efficiency	▪ Maintaining Cost to income ratio in upper mid 40s ▪ Cost base < CZK 4.9bn
Asset Quality	▪ NPL ratio < 6% with total coverage of ~ 80% ▪ Cost of risk (CoR) of 100-110 bps
Capital	▪ Fully loaded CET1 Capital Ratio > 17%[5] ▪ Dividend policy target at minimum 70% of consolidated profit after tax[6]

See section “Forward-Looking Statements” beginnning on page 265.

[1] Source: Bloomberg.
[2] 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 82.8 as at 30 December 2016 (Source: Bloomberg). Subject to the approval of CZK 5 billion dividend (Proposed by the Management Board) by the Annual General Meeting to be held in April.
[3] Calculated on the basis of the share price of CZK 82.8 as at 30 December 2016 (Source: Bloomberg).
[4] Source: Bloomberg.
[5] Estimate as at 31 December 2017. Based on the assumption that no extraordinary interim dividend will be paid by MONETA to shareholders in 2017, other than the CZK 5 billion dividend proposed by the Management Board for approval by the Annual General Meeting to be held in April 2017.
[6] Subject to legal and regulatory limitations.

MONETA IS ROMAN

A mountain bike, a helmet and off for a long ride. That's how Roman relaxes best in the summer and recharges his batteries. But you won't meet him on the roads. He prefers the countryside, in particular, the woods around Rumburk. He spends his long winter evenings by building plastic models.

Roman works best in a friendly environment with nice people. As he himself puts it "There's always a good mood in our team and that's very important for me."

You can count on Roman.

FINANCIAL STATEMENTS AND KPI'S

Statement of Financial Position

CZK m	Dec 2016	Dec 2015	% Change
Cash and balances with the central bank	20,235	15,475	30.8%
Financial assets at fair value through profit or loss	26	7	271.4%
Financial assets available for sale	13,749	13,255	3.7%
Loans and receivables to banks	189	139	36.0%
Loans and receivables to customers	111,860	108,437	3.2%
Intangible assets	744	429	73.4%
Property and equipment	649	485	33.8%
Non current assets held for sale	0	22	(100.0%)
Goodwill	104	104	0.0%
Investments in associates	2	2	0.0%
Current tax assets	267	172	55.2%
Deferred tax assets	805	944	(14.7%)
Other assets	749	566	32.3%
Total Assets	**149,379**	**140,037**	**6.7%**
Deposits from banks	2,657	289	819.4%
Due to customers	116,252	108,698	6.9%
Financial liabilities at fair value through profit or loss	7	8	(12.5%)
Provision	416	543	(23.4%)
Current tax liabilities	29	1	2800.0%
Deferred tax liabilities	280	220	27.3%
Other liabilities	2,470	2,439	1.3%
Total Liabilities	**122,111**	**112,198**	**8.8%**
Share capital	511	511	0.0%
Share premium	5,028	5,028	0.0%
Legal and statutory reserve	102	167	(38.9%)
Available for sale reserve	363	482	(24.7%)
Share based payment reserve	(2)	(2)	0.0%
Retained earnings	21,266	21,653	(1.8%)
Total Equity	**27,268**	**27,839**	**(2.1%)**
Total Liabilities & Equity	**149,379**	**140,037**	**6.7%**

Statement of Comprehensive Income

CZK m	2016	2015 Restated	% Change	2015 As reported
Interest and similar income	8,494	9,522	(10.8%)	9,522
Interest expense and similar charges	(189)	(212)	(10.8%)	(212)
Net interest income	**8,305**	**9,310**	**(10.8%)**	**9,310**
Fee and commission income	2,267	2,631	(13.8%)	2,631
Fee and commission expense	(306)	(295)	3.7%	(295)
Net fee and commission income	**1,961**	**2,336**	**(16.1%)**	**2,336**
Dividend income	26	9	188.9%	9
Net income from financial operations	598	324	84.6%	324
Other operating income	168	123	36.6%	123
Total operating income	**11,058**	**12,102**	**(8.6%)**	**12,102**
Personnel expenses	(2,263)	(2,243)	0.9%	(2,243)
Administrative expenses	(2,022)	(1,969)	2.7%	(1,792)
Depreciation and amortisation	(310)	(520)	(40.4%)	(520)
Other operating expenses	(489)	(801)	(39.0%)	(978)
Total operating expenses	**(5,084)**	**(5,533)**	**(8.1%)**	**(5,533)**
Profit for the period before tax and net impairment of loans, receivables and financial assets available for sale	**5,974**	**6,569**	**(9.1%)**	**6,569**
Net impairment of loans and receivables	(927)	(849)	9.2%	(849)
Profit for the period before tax	**5,047**	**5,720**	**(11.8%)**	**5,720**
Taxes on income	(993)	(1,214)	(18.2%)	(1,214)
Profit for the period after tax	**4,054**	**4,506**	**(10.0%)**	**4,506**
Change in fair value of AFS investments recognised in OCI	132	165	(20.0%)	165
Change in fair value of AFS investments recognised in P&L	(279)	(13)	2,046.2%	(13)
Deferred tax	28	(29)	(196.6%)	(29)
Other comprehensive income, net of tax	**(119)**	**123**	**(196.7%)**	**123**
Total comprehensive income attributable to the equity holders	**3,935**	**4,629**	**(15.0%)**	**4,629**

Key Performance Ratios

	2016	2015	Change in bps
Profitability			
Yield (% Avg. Net Customer Loans)	7.6%	8.7%	(110)
Cost of Funds (% Avg Deposits)	0.17%	0.21%	(4)
NIM (% Avg Int Earning Assets)	5.9%	6.7%	(80)
Cost of Risk (% Avg Net Customer Loans)	0.84%	0.79%	5
Risk-adj. yield (% Avg Net Customer Loans)	6.8%	8.0%	(120)
Net Fee & Commission Income / Operating Income (%)	17.7%	19.3%	(160)
Net Non-Interest Income / Operating Income (%)	24.9%	23.1%	180
Cost to Income Ratio	46.0%	45.7%	30
Reported RoTE	15.3%	16.5%	(120)
Adj. RoTE @ 15.5% CET1 Ratio	19.3%	18.3%	100
RoAA	2.8%	3.2%	(40)
Liquidity / Leverage			
Net Loan to Deposit ratio	96.2%	99.8%	(360)
Total Equity / Total Assets	18.3%	19.9%	(160)
Liquid Assets / Total Assets	22.9%	20.6%	230
Capital Adequacy			
RWA / Total Assets	73.2%	90.4%	(1,720)
CET1 ratio (%)	20.5%	17.7%	280
Tier 1 ratio (%)	20.5%	17.7%	280
Total Capital Ratio (%)	20.5%	17.7%	280
Asset Quality			
Non Performing Loan Ratio (%)	6.3%	11.7%	(540)
Core NPL Coverage (%)	70.9%	77.4%	(650)
Total NPL Coverage (%)	82.5%	84.0%	(150)

MONETA IS JAKUB

A few lunges, kicks and the odd bruise are a guarantee for reviving your body and mind. 'Krav maga' brings all that and much more. Jakub has been doing this defensive martial art for two years. His head switches off and the body follows his intuition. For him, it is important to be able to respond to any situation and adapt to whoever stands in front of you – regardless of their age or profession.

It is the same situation for Jakub at work with his clients. He often visits places that he normally wouldn't see. "I really enjoy when a client shows me, for example, around their bakery and tells me some stories from their profession."

You can count on Jakub.

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MONETA IS MÍŠA

Míša likes chatting with people and many of her clients take advantage of that – in a good way. They know she will listen to them, make no judgements, and then offer good advice. After a long day full of speaking, in the evening she enjoys a few quiet moments and relaxes with a good book. Stories that make her think are those that she likes the most.

And what is, in her opinion, the perfect end to a meeting with a client? "When the person thanks you honestly and shakes your hand so hard it nearly falls off, you know you've done something right." Míša smiles. There's no need to say anything more.

You can count on Míša.

LETTER FROM THE CHAIRMAN OF THE SUPERVISORY BOARD

I am very pleased to be giving my first annual statement as Chairman of the Supervisory Board of MONETA Money Bank. 2016 has been arguably the most significant year for the Bank since it was created; having transformed from a Czech subsidiary of a US bank to a proudly Czech, fully listed bank via a change of name, a brand re-design and a successful IPO. We have in place a strong and re-invigorated management team with its own strategy and a desire to deliver first and foremost for our customers, shareholders and employees. It is a very exciting time to be the Chairman of the Supervisory Board of the Bank.

During 2016, the Group has exceeded its commitments to the market. It has made great progress on its separation from GE Capital via a successful IPO and subsequent share sell-downs, achieving along the way inclusion in the MSCI Czech Republic index. The team successfully executed a full rebrand of the business to MONETA Money Bank; a brand that truly reflects the Czech characteristics of the Bank. This was achieved ahead of time and, importantly, on budget. Work continues on the full separation project.

These, amongst other highlights, have set MONETA off to a robust start as a publicly listed company. Over the period, the Group delivered a solid financial performance that sets the base for its future growth.

MONETA aims to return to growth while at the same time delivering attractive and sustainable returns for its investors. The Bank's dividend policy targets the distribution of, at a minimum, 70% of consolidated profit after tax, plus a portion of the excess capital (above the Group's CET1 Capital Ratio target of 15.5%) not to be used for growth and for the investments related to IFRS 9. In 2016, the Group has strengthened its capital position and improved its CET1 Capital Ratio by 280 bps to reach a CET1 of 20.5%. On the back of this achievement, I am pleased to announce that the Management Board has recommended a 2016 dividend of CZK 5 billion, equating to a dividend yield close to 12%. This is 123% of our consolidated profit after tax for the year, significantly above our published dividend policy target pay out of at least 70% of consolidated profit after tax.

Czech economy remains robust

While the health of the global economy remains uncertain and markets highly susceptible to macro and political risks, the Czech economy continues to show resilience, with low unemployment, low inflation, and robust economic growth. The Czech Republic recorded 4.6% GDP growth in 2015, and GDP has grown by 2.3% in 2016[1].

Within the context of a stable economy, the Czech banking sector continues to be well capitalised and supported by strong liquidity. Returns on average assets across the sector are amongst the highest and most resilient in the EU, at an average of 118 bps for the period from 2011 to 2015[2]. However, in a low interest rate environment, with intense competition, the sector has had its challenges: strong growth in market liquidity has driven headwinds on pricing, whilst profitability across the sector continues to be impacted by lower revenues and rising personnel costs.

Despite these challenges, MONETA is well positioned to deliver on its strategy to return to growth and to generate attractive and sustainable returns for its investors.

Separation process on track

The transition of MONETA Money Bank, formerly GE Money Bank, from a wholly owned subsidiary of GE Capital to an independent Czech bank took place following its successful Initial Public Offering on the Prague Stock Exchange in May 2016. The separation and IPO were part of a wider programme of asset sales announced by General Electric in April 2015 to reduce its financial services business and to focus on its industrial businesses. GE Capital completed the sell-down of its stake in the Bank via two further share sales in September and November 2016 as part of this exit strategy. These sales saw substantial investor demand; attracting a mix of new and existing blue-chip international investors to supplement the strong institutional base established at the time of the IPO. The Bank now has over 5,000 Czech and international shareholders.

The separation project, with the aim of being fully independent of GE Capital operationally, is ahead of schedule, on budget and already delivering good results.

[1] Source: The Czech Statistical Office, the GDP resources and uses - 4. quarter of 2016 report.
[2] Source: Statistical Datawarehouse, European Central Bank

Rebranding complete; new strategy underway

One element of the separation, which has already been successfully completed, is the extensive rebranding programme which was launched shortly after the IPO. This programme, comprises a brand new name and logo as well as a revamped look and feel to our branches, ATMs and digital platforms. It aims to adapt the Bank's visual identity to reflect the separation from GE Capital; balancing the Group's heritage with its future as a leading independent Czech bank. The rebranding programme reached its conclusion in September 2016; being finished on time and on budget.

It is a testament to the strength and commitment of the MONETA team that, even as the Group has navigated such a period of significant change, great progress has been made on developing and executing a new strategy that aims to position us as the leading retail and SME bank in the Czech Republic. Within this strategic shift is the digitisation of the business; firstly, in terms of expanding and developing our digital banking platforms, and secondly in the simplification, automation, and digitisation of internal processes.

Corporate culture, customers, and communities

Underpinning our transformation is an exciting cultural shift. This is manifesting itself at all levels within the organisation as employees and management consider MONETA's purpose and vision as an independent Czech bank and how this shapes the way they interact with customers: namely, adopting a more personal, customer-centric approach driven by a clearer sense of how we can serve, impact and support local people and businesses within the wider Czech economy.

This cultural shift is also widely reflected internally, where management are dedicated to promoting a healthy, vibrant and open corporate culture based on mutual cooperation, recognition and transparency. Examples of this include supporting the HEALTH AHEAD initiative, Volunteers program and flexible office. Hand in hand with this objective lies a wider commitment to attracting top talent and new skillsets to the Group to ensure we are maximising our expertise; leading on innovation and servicing customers to the best of our abilities. We have embarked on a path of refocusing our employee structure more towards customer-facing roles, and during 2016 we have hired more people to serve small businesses, commercial and retail customers and are targeting a shift in the employee structure even more towards front end resources.

Supporting and engaging with communities across the country has always been, and will continue to be, a key priority. As a bank serving customers from all walks of life around the Czech Republic, it is our responsibility to work closely with local businesses, schools and community projects to invest more broadly in the long-term future of the country. In 2016, we have supported 41 organizations taking care of disadvantaged people in our local communities, be it children, the disabled or elderly. Our volunteers have donated close to 8,000 hours to the community.

Post-IPO Supervisory Board and our strong focus on corporate governance

Whilst we are well positioned to meet our objective of delivering sustainable returns to MONETA's shareholders, as a publicly traded company, we are equally committed to adhering to the highest standards of corporate governance. The principal objective of the Supervisory Board lies in exercising adequate and independent oversight over the Management Board and senior management, whilst adding value through shaping its strategic direction and enabling its successful execution. In this respect, we have shaped and sought to reinforce MONETA's governance since the IPO through several important initiatives.

On strategy, during August 2016, we held workshops with senior management to review the direction and content of MONETA's digital transformation and reviewed other important aspects of our business model. With the help of an international consulting firm, we have also performed a 360-degree review of our corporate governance standards, processes, and internal rules and have approved the implementation of a number of recommendations to further strengthen our internal standards as a newly publicly listed company. Thirdly, and perhaps most importantly, in order to increase the scope of professional input and domain expertise into its discussions and decisions, I have proposed and obtained a commitment from fellow Supervisory Board members to expand the Management Board from five to seven members and to change the Supervisory Board committee structure accordingly. These changes shall be proposed to our shareholders during our first Annual General Meeting as a fully listed entity and I trust will assist us in enabling MONETA's further success into the future.

I would also like to underline my appreciation to my fellow Supervisory Board members for their strong commitment and effort during 2016 in making the Supervisory Board and its committees operational. Such an endeavour has required a significant commitment of time and effort on our journey in transforming MONETA from a wholly owned subsidiary into a solid, publicly listed bank. Our efforts will continue into 2017 and beyond, as we are determined to establish best-in-class corporate governance standards to fully meet the expectations of the capital markets, regulators, and all stakeholders in MONETA.

Turning to the next phase

With 2016 having drawn to a close, I would like to extend my thanks to all MONETA's staff across the country, whose tireless commitment to serving customers and managing internal systems and processes has positioned the Group strongly to navigate the opportunities and challenges posed in 2017. I would also like to thank the management team for their incredible hard work in leading the Group successfully through an exciting but demanding period of change and transformation. As we turn to the next stage in the MONETA's story, I have full confidence that the team will successfully execute and deliver on the Group strategy, maintain profitability, and generate sustainable returns for its shareholders.

Christopher Chambers
Chairman of the Supervisory Board
of MONETA Money Bank, a.s.

MONETA IS IVA

Her company car serves daily as Iva's office. On her way to her clients, she manages to deal with her tasks and still has time to enjoy the beauty of East Bohemia. "I like my work because it isn't stereotypical. Something new comes up every day."

Back at home, her large garden is full of roses of different kinds and varieties. Iva looks after them with the same conscientiousness as she looks after her clients and organizes her time to meet everyone's needs as best as she can.

You can count on Iva.

LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD

2016 was a landmark year for MONETA Money Bank. Our successful IPO opened the path to pursue a growth strategy and fulfil our ambition to become a local Czech champion. Our strategy focuses on further strengthening our leading franchise in retail banking whilst building and reinforcing our position in the SME segment of the market, namely becoming the bank of choice for self-employed professionals and small businesses. The strategy is further underlined by our aspiration to maintain superior profitability; deliver sustainable growth and provide solid capital returns to our shareholders. The capital return aspiration is further reinforced through our commitment to a transparent and reliable dividend policy and our focus on shareholder-responsive governance.

I am pleased to report that our performance during 2016 has achieved significant milestones; both from a commercial as well as a financial perspective. The past year has been noteworthy due to our commitment to return MONETA Money Bank to growth. We have delivered gross performing loan portfolio growth of 4.1%, significantly above our commitment to growth at least equivalent to Czech GDP expansion. Through various initiatives, we have significantly improved our turnaround activity in key sectors; namely in retail mortgage lending, unsecured consumer lending and providing financing to SMEs. Overall, our commercial and financial commitments were met despite strong competitive headwinds and distractions caused by the post-IPO separation from the previous owner of the Bank. Additionally, and equally important, we have achieved significant progress in capital management and in improvements to the overall balance sheet quality, both underlined by solid external credit ratings from S&P and Moody’s received in January 2017.

For 2016, the Group delivered solid RoTE of 15.3% on the basis of consolidated net profit of CZK 4.1 billion. This performance was delivered despite elevated cost levels linked to the IPO, rebranding and separation from GE Capital. Within the context of 2016, the Group successfully met its commitments. I would also like to extend my sincere appreciation to our staff and management for meeting our market as well as our internal targets, and in many cases out-performing against such.

In our retail franchise, we have successfully maintained a strong 20% new volume market share position in unsecured consumer lending. Our efforts further translated into our ability to grow our performing loan balances by 3%. This growth came as a result of increasing our consumer loans’ new production by more than 20% against 2015 levels. Additionally, we have turned around our performance and standing in the retail mortgage market. Our mortgage production, focusing on primary residential lending, has increased by 68% and our portfolio balance has returned to growth. Equally important, our retail auto financing volumes grew by 26%. These commercial achievements are also underlined by our stable client satisfaction scores where MONETA maintains a strong position relative to its peers.

Our Commercial banking franchise has delivered correspondingly strong performance and reached the highest balance of performing loans in our history. Our focus and commitment to become a local champion in supporting Czech SMEs is starting to deliver tangible results. This is evident namely in small business lending where our volumes grew by 46.6%, supporting our investment into building a strong sales & service organization focused on meeting the needs of small businesses and the self-employed. In SMEs, we have also succeeded in expanding our support to the investment needs of our client base. Our net investment loan portfolio increased by 16.1%, namely in the agricultural sub-segment, registering growth of over 10%. Additionally, while MONETA Leasing was facing headwinds, our balances of MONETA Auto loans and leases grew by 6.6%. Overall, 2016 was a successful year, with MONETA gaining ground and momentum in its key commercial sub-segments.

Apart from focusing on improving our market footprint across the retail and commercial segments, the Group has focused on reinforcing and sustaining its risk management capabilities. Over time, we have reduced NPL balances by 47%, significantly improving the quality of our post-IPO balance sheet. Our NPL ratio has been reduced from 11.7% to 6.3%, whilst we have preserved robust and prudent NPL coverage of 82.5%. The overall cost of risk remained benign at 84 bps, below our guidance. Throughout the year, the Group continued to apply conservative underwriting policies and focused on high quality monitoring of underlying risks across the various segments and respective asset classes, in line with our commitment to a sustainable risk profile.

Within the context of the operating environment in the Czech Republic, we have also focused our attention on cost management. The Group delivered a cost-to-income ratio of 46% thanks to an overall cost base reduction of over 8%. This improvement was achieved despite one-off expenditures related to the separation from the former owner and increased investment into MONETA's digital platform. Within such a context, we have also invested into the recruitment and training of additional staff focusing on small business and mortgage business opportunities. Additionally, the Bank has deployed resources into both base and variable compensation, namely in the retail network to enhance performance and to reduce staff turnover.

On the capital front, we ended 2016 as one of the best capitalized financial institutions in the Czech banking sector. The Group achieved an increase of its CET1 Capital Ratio from 17.7% to 20.5% due to the successful implementation of its internal capital management program. This program resulted in an RWA density decrease from 90.4% to 73.2%, matching its management commitment. Additionally, the capital management program delivered an increase of CZK 2.8 billion in capital available for potential distribution, resulting in total excess capital of CZK 5.5 billion. This excess capital will be utilized to cover future growth needs, the impact of IFRS 9, support investments as well as strengthen dividend distribution over the medium term. The Group maintains its medium term target of a CET1 Capital Ratio of 15.5%, subject to potential future regulatory limitations.

Post-IPO, in May 2016, the Group embarked on rebranding itself, defining its new identity as MONETA. We are proud to have successfully delivered the initiative on time and on budget. We are also proud of having managed this change whilst experiencing growth in both our lending and deposit-taking activities. Additionally, customer and brand research indicate wide acceptance of the new brand and a recognition of our efforts during the transition into becoming a Czech champion for households and small business banking customers.

I am also proud to report that our efforts to fully separate from our former owner are proceeding well and are ahead of schedule. We expect to complete the separation process in mid-2017 and to deliver additional savings through the early termination of the 'Transitional Service Agreement' with the GE Corporation.

The separation process is on track and is being executed to meet our overall budget of CZK 1 billion, including rebranding, localization of licenses, services and replacement/upgrade of both IT hardware and application solutions.

Apart from completing the separation process, MONETA is making progress on the digital front. During July 2016, the Bank introduced a new smart phone banking concept, called Smart Banka, and has since received strong positive client feedback and passed 70,000 activations. In parallel with the Smart Banka launch, MONETA embarked on its digital transformation program, seeking to build a fully on-line current account value proposition and throughout 2017 to develop its credit distribution capacity to existing clients. We are committed to investing into our digital platform and plan to do this through the gradual redevelopment of our business model to suit the needs and preferences of our retail and small business clients.

I would also like to underline our effort and commitment to the most important element of our business model – our human capital. We want to reinforce our organization so as to improve its agility, cooperation and its ability to deliver and successfully surmount market challenges. In such a context, we are seeking to preserve the best of our legacy culture whilst improving those elements required for a self-standing local franchise – namely entrepreneurship, transversal cooperation and initiative-taking. We are also mindful and aware of our special standing amongst Czech banks as the only fully publicly listed bank in the country. Thus we place significant focus on regulatory fitness and the strength of our reputational capital with our regulators. We are also committed to making a strong contribution to our country and in the communities where we operate.

We reflect on 2016 with pride, and we look towards 2017 with confidence. Our journey to become the Czech champion for households and small businesses has begun well and we are proud of our aspiration to succeed in this endeavour.

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

MONETA IS PAVEL

You need to be able to anticipate what is coming. Motorbike rider Pavel will confirm that. Pavel also enjoys relaxing on quieter routes, preferably without cars and with the chance of some sightseeing. Apart from this, he drives around the whole country for work – doing business with the largest car dealers.

"It's tough and hard work, but it's great. I like trading and I definitely can't say I'm bored. Especially since I am in contact with other people all the time."

You can count on Pavel.

1. BASIC INFORMATION

1.1 Basic information on MONETA Money Bank and subsidiaries

Company name	MONETA Money Bank, a.s.
Registered office	Vyskočilova 1422/1a, 140 28 Prague 4 – Michle, Czech Republic
Company ID no.	25672720
Legal form	Joint-stock company
Date of registration	9 June 1998
Registered share capital	CZK 511 milion
	Incorporated in the Commercial Register by the Municipal Court in Prague, Section B, Entry No. 5403
Paid-up registered share capital	100%
Type, call and form of issued shares and their nominal value	The company's registered share 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	230
Number of employees	3,114
Organization units abroad	None
Telephone	+420 224 441 111
Internet	www.moneta.cz

On 11 April 2016, as part of the preparation for the IPO, 511 ordinary registered book-entry shares in the Bank with a par value of CZK 1,000,000 each were subdivided into 511,000,000 fully paid ordinary registered book-entry shares with a par value of CZK 1.00 each.

Statutory bodies

Members of the Supervisory Board as at 31 December 2016:

Name	Role	Position held from
Christopher Chambers	Chairman	21 April 2016
Richard Alan Laxer	Vice-Chairman	21 April 2016 [1]
Clare Ronald Clarke	Member	21 April 2016
Michal Petrman	Member	21 April 2016
Denis Arthur Hall	Member	21 April 2016

Members of the Management Board as at 31 December 2016:

Name	Role	Position held from
Tomáš Spurný	Chairman	1 October 2015
Philip Holemans	Vice-Chairman	20 April 2016 [2]
Carl Normann Vökt	Member	25 January 2013 [3]
Jan Novotný	Member	16 December 2013

Subsidiaries and associates

Investments in subsidiaries and associates as at 31 December 2016:

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, s.r.o.	Holandská 1006/10, Štýřice, 639 00 Brno	Financing of loans and leasing	100%
MONETA Leasing Services, s.r.o.	Holandská 1006/10, Štýřice, 639 00 Brno	Lease and rental of movables	100%
CBCB - Czech Banking Credit Bureau, a.s.	Na Vítězné pláni 1719/4, 140 00 Prague 4	Banking Credit Register	20%

* Includes indirectly held share.

In December 2016, the Bank sold 17,388 shares (6.56%) in Burza cenných papírů Praha, a.s. (Prague Stock Exchange).

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 did not issue any securities convertible into shares or any securities with warrants.

With effect from 10 May 2016, all shares in the Bank are admitted to official trading and traded on the Prime Market of Prague Stock Exchange which is the regulated market within the meaning of Section 55 of Czech Act 256/2004 Coll., on conducting of business on capital markets, as amended. 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 on capital markets, as amended.), Munich Stock Exchange, Stuttgart Stock Exchange, Frankfurt Stock Exchange and 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	Prague Stock Exchange	6. 5. 2016 (conditional trading) 10. 5. 2016 (official trading)

[1] In January 2017 Mr. Laxer decided to step down from his office. He will stay in his function until the Annual General Meeting of the Bank which will be held in April 2017

[2] Between 17 July 2014 and 20 April 2016 member of the Management Board.

[3] 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.

Credit rating

The Bank had no credit rating in 2016. In January 2017, two agencies assigned credit rating to the Bank:

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	31 January 2017

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.

1.2 Shareholders

1.2.1 Majority shareholder's exit and IPO

Following the strategy announced by General Electric Company in April 2015 to sell most of its financial services businesses and focus on its industrial businesses, the sole shareholder of the Bank, GE Capital International Holdings Limited ("GE") offered in April and May 2016 51% of its shares in the Bank (the "Offering" or "IPO") to institutional investors and the Bank applied for the admission of all its shares to trading on the Prime Market of Prague Stock Exchange (the "Listing"). The Offering was completed on 10 May 2016. Conditional trading in the shares commenced on 6 May 2016 and the official trading in shares commenced on 10 May 2016. In addition, the Offering incorporated an overallotment option to the benefit of underwriters. This was exercisable within 30 days starting on the first day of conditional trading of up to 7.65% of the shares to cover overallotments or short positions incurred in connection with the Offering. The underwriters exercised the overallotment option with respect to 6.48% of shares in the Bank.

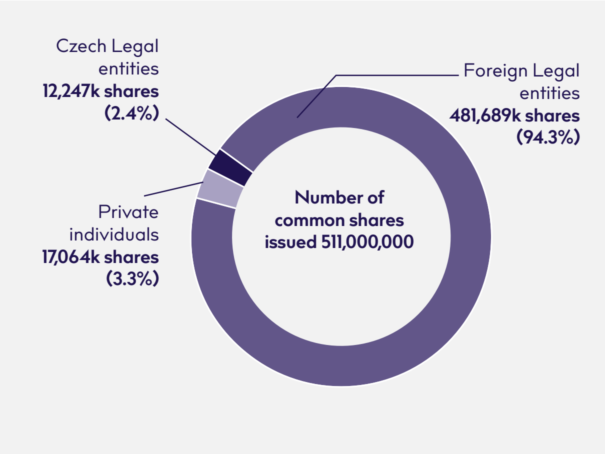
In October 2016, GE sold 125 million (24.5%) of shares in the Bank.

In November 2016, GE sold its remaining 92.2 million (18.05%) of shares in the Bank. Thereafter, GE ceased to be a shareholder of the Bank. MONETA Money Bank, a.s. is now a fully independent Czech bank.

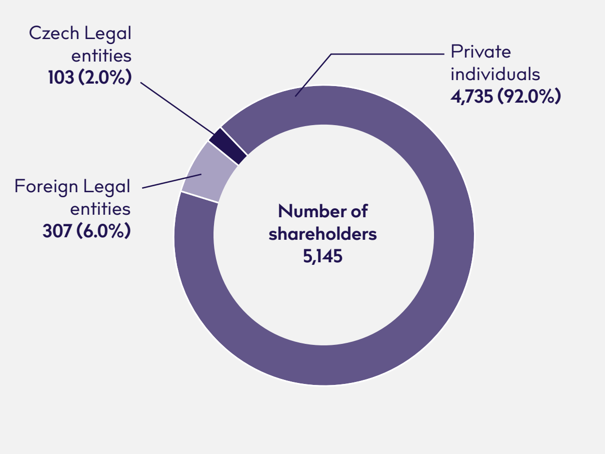
1.2.2 Shareholder structure

An overview of the shareholder structure of the Bank as at 31 December 2016 (per the extract from the issuers' register taken from the Central Securities Depository) is shown below:

Number of shares by type of shareholders



Number of shareholders by entity type



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 31 December 2016 and (ii) on shareholders who hold shares representing 1% or more of the registered share capital of the Bank according to information published by Czech National Bank as at 31 December 2016, refer to chapter 4.13 Other legal requirements.

1.3 Dividend Policy

Subject to regulatory and legal limitations, the Bank's target is to distribute Group's Excess capital above that required to meet the Group's internal target of the CET1 Capital Ratio, which is currently 15.5%. However, the internal CET1 Capital 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 profit after tax for the year, with such dividend increased if less capital is required to fund future loan growth, intangibles and IFRS 9. Profit after tax for the year will be adjusted to a sustainable level by excluding one-off, unusual or exceptional items. Each of the Bank's shareholders has the right to participate in the Banks's profits and to receive dividends from the Bank to the extent approved by a general meeting.

On 13 April 2016, the Bank paid to GE a gross dividend of CZK 8,818,003.91 (including withholding tax) on each of the 511 shares in the Bank with a par value of 1,000,000. This dividend comprised the Group's full consolidated profit after tax for the year ended 31 December 2015. When adjusted to the current number of shares in the Bank (511,000,000), the Bank paid on 13 April 2016 to GE a gross dividend of CZK 8.82 on each of the 511,000,000 shares in the Bank.

1.4 Aftermarket performance

The Bank's shares 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 30 December 2016)[1].

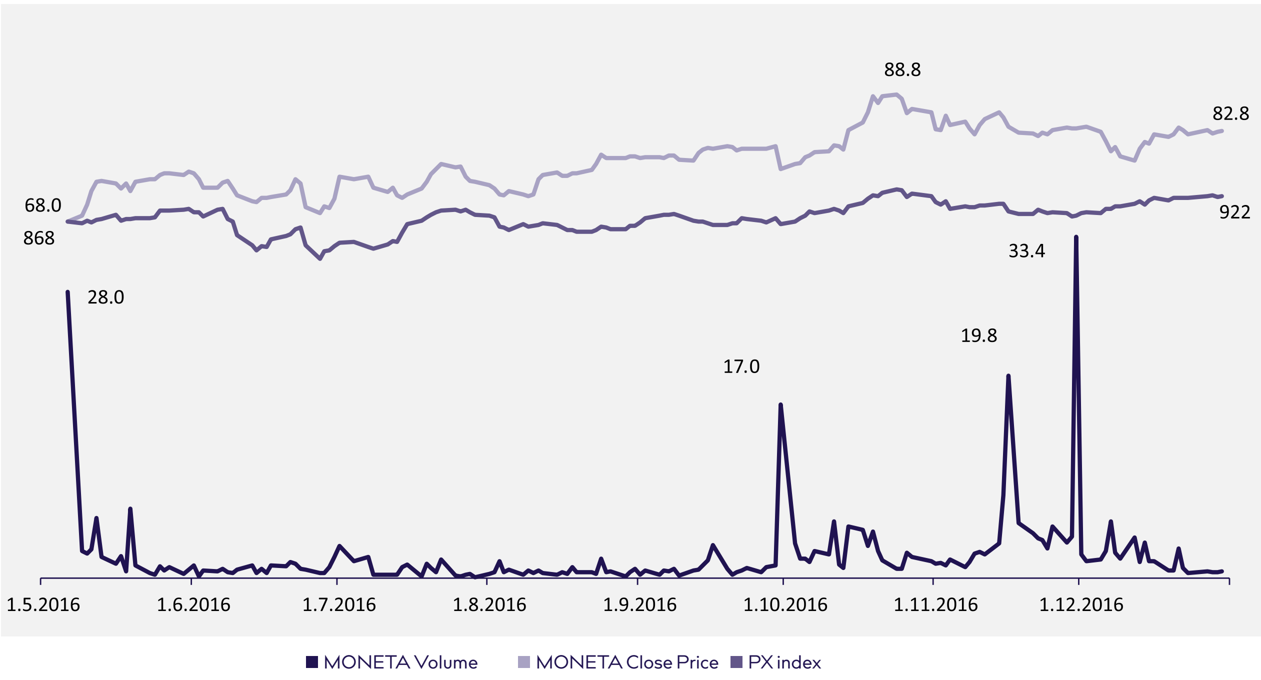
In the period from 6 May 2016 (commencement of the conditional trading) to 30 December 2016, the market price of shares in the Bank increased by almost 22%[2]. Shares in the Bank outperformed both the EURO STOXX 600 index that grew by 9% in the same period[2], as well as the EURO STOXX Banks index that grew by 18% over the same period[2].

The Bank's stock was included into MSCI Czech Republic index with effect from 1 December 2016. Inclusion in the MSCI's index opened the Bank's stocks to a wider pool of investors and funds investing in index funds or exchange-traded funds (ETF) that track index performances.

As at 31 December 2016, the market capitalization of the Bank amounted to CZK 42.3 billion[3] and the Bank ranked as number four in the PX index[2]. In the period from 6 May 2016 to 30 December 2016, the average daily volume of trading in shares in the Bank on the Prime Market of Prague Stock Exchange reached 2.1 million of shares (per trading day) and shares in the Bank were, therefore, one of the most liquid securities listed on the Prime Market of the Prague Stock Exchange[2].

When calculated on the basis of the share price of CZK 82.80[2] as at 30 December 2016 and subject to the approval of CZK 5 billion dividend (proposed by the Management Board) by the Annual General Meeting to be held in April 2017, the dividend yield attributable to shares in the Bank is 12%[4].

The following chart[2] shows the development to the stock price against the PX index and the volume traded.



[1] Calculated as percentage of the aggregate market capitalization of all companies included in the PX index (Source: Bloomberg).
[2] Source: Bloomberg.
[3] Calculated on the basis of the share price of CZK 82.80 as at 30 December 2016 (Source: Bloomberg).
[4] 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 82.80 as at 30 December 2016 (Source: Bloomberg). Subject to the approval of CZK 5 billion dividend (proposed by the Management Board) by the Annual General Meeting to be held in April 2017.

Information on MONETA shares as at 31 December 2016, unless otherwise indicated[1]:

Number of shares issued	511,000,000
Market capitalisation (CZK million)	42,311
Earnings per share (CZK)[2]	7.93
Book value per share (CZK)[3]	53.36
Share price (CZK)	
Closing	82.80
Maximum for the year 2016	89.80
Minimum for the year 2016	68.00

1.5 Outperforming guidance in 2016

In 2016, the Group successfully outperformed its published guidance for the year 2016.

In its 2016 guidance, the Group estimated that its loan book would grow in line with the GDP. The overall book (loan and receivables to customer) increased by 3.2% in the year ended 31 December 2016 and outperformed the GDP 2.3 % increase[4].

In 2016, the liquidation of the legacy NPL portfolio negatively impacted the development of net loan book (net loans and receivables to customers), as the gross performing loan portfolio (gross loans and receivables to customers without impairment) grew by 4.1% over the same period.

The Loan to Deposit Ratio amounted to 96.2% as at 31 December 2016 and remained within the 100% guidance for the year 2016.

In its 2016 guidance, the Group estimated that Risk Adjusted Yield would decline from 8% to 6% in the medium term. In 2016, Risk Adjusted Yield followed this guidance and stood at 6.8%. Pressure on margins were to continue in both segments, accelerated by the Bank's repricing of the consumer loan front book in November 2015, which was estimated to take 21 months to be fully reflected in the portfolio. The pricing pressure intensified and the yield declined from 8.7% to 7.6% in the year ended 31 December 2016. The turn of the consumer loan book accelerated from 21 to 18 months and made the impact more front-loaded.

Cost of risk was estimated to amount to 1% in 2016. The actual cost of risk amounted to 84 bps in 2016 and was better than expected.

The underlying cost base (operating expenses) was expected to remain flat in 2016 with additional costs incurred in the separation from GE and costs relating to the IPO and the Listing. The actual cost base declined by 8.1% in 2016 year-on-year despite costs related to separation and rebranding and cost to income ratio remained low at 46%.

The Group's published 2016 guidance included plan to initiate Risk-Weighted Assets (RWA) density reduction programmes to gradually reduce RWA density to approximately 75% by the end of the year 2017. The Group succeeded in delivering all three RWA optimisation initiatives as of 31 December 2016, i.e., one year ahead of plan, and thus the Bank freed up CZK 2.8 billion of capital and decreased the RWA density to 73.2%. Mainly because of this, the CET1 Capital Ratio further increased to 20.5% as at 31 December 2016.

In the course of IPO, the Group set a medium term goal to maintain adjusted return on tangible equity above 14%. The Group delivered a reported return on tangible equity of 15.3% and adjusted return on tangible equity of 19.3%, significantly above the target.

In line with early completion of the three key RWA optimisation measures and its dividend policy, management announced on 10 February 2017 that it intends to propose to shareholders for their approval a CZK 5 billion dividend, an equivalent of 123% of consolidated profit after tax for the year 2016. The dividend is subject to legal and regulatory limitations and approval by the Annual General Meeting to be held in April 2017 .

1.6 Outlook into 2017[5]

The economic outlook for 2017 remains broadly positive. The Czech National Bank in its February economic forecast predicts a 2.8% year-on-year GDP growth for the 2017, driven primarily by sustained consumer demand and growth in private investments. The timing of abandonment of the exchange rate commitment remains uncertain with a risk that FX interventions may be exited sooner than in mid-2017 as previously anticipated.

The growth of both loan and deposit markets is likely to decelerate in 2017[6], albeit still expected to outperform economic development in nominal terms. The attractiveness of mortgages will be lower due to higher residential real estate prices and new regulatory measures introduced by the Czech National Bank. The positive economic development will help keep solid growth of savings mirroring strong wage increase and low unemployment levels; however, both the outflow of the speculative liquidity and the transfer of public institutions' deposits to the Czech National Bank might be the partial cause of a slower banking deposit base increase versus what was recorded in 2016.

The Group is targeting to achieve the 2017 annual consolidated profit after tax of at least CZK 3.4 billion, reported return on tangible equity around 14% and adjusted return on tangible equity[7] at least 15.5% in 2017.

[1] Source: Bloomberg.
[2] Consolidated profit for the year after tax / Number of shares issued
[3] Consolidated total equity / Number of shares issued
[4] Source: Czech Statistical Office, the GDP resources and uses - 4. quarter of 2016 report.
[5] See chapter Forward-looking statements including material assumptions for the 2017 guidance.
[6] Source: CBA January Outlook.
[7] Adjusted to the medium-term management target CET1 Ratio of 15.5%.

Operating Income for 2017 is estimated to exceed CZK 10.3 billion. In 2017, the Group intends to maintain cost to income ratio of upper mid-40s and the overall cost base (operating expenses) below CZK 4.9 billion.

The Group intends to continue in 2017 to improve asset quality and targets an NPL ratio of less than 6% with NPL coverage of around 80%. Cost of risk is expected to range between 100 and 110 bps in 2017.

The Group expects the CET1 Capital Ratio to exceed 17% as at 31 December 2017, assuming no pay out of an extraordinary interim dividend.

Dividend policy continues to be a distribution at minimum 70% of consolidated profit after tax, subject to legal and regulatory limitations.

MONETA IS MARCELA

She has been working in the Bank for 21 years. If you've just held your breath, you can breathe out now. Marcela knows how to play the long game as her hobby is golf. "Golf reveals your true mentality. You may relax on the course but you also need to be able to focus. When you're feeling OK, you hit the drive" Marcela laughs.

And she makes sure her work recharges her batteries instead of draining them. She doesn't complain about increasingly demanding customers. "It pushes me forward. I dedicate my inner energy to the task and it gives me a boost in return," she adds.

You can count on Marcela.

2. STRATEGY AND RESULTS

2.1 Macroeconomic Environment

Throughout 2016 the macroeconomic environment remained highly positive. Although economic growth was weaker compared to 2015, driven mainly by a drop in investment, strong consumer confidence, shrinking unemployment and growing consumption and real wages confirmed that the Czech Republic remains economically strong.

GDP growth reached 2.3% for the full year[1], supported primarily by household consumption, which replaced private sector investment as the key driver. Strong improvement in household financial position was underpinned by accelerating wage growth (up 4.2% in nominal terms in the fourth quarter of 2016 year-on-year)[2], low inflation (average of 0.7% for the full year)[3] and a significant drop in unemployment (down 1 pp to 5.2% year-on-year in December 2016)[4]. All these factors were reflected in the strong performance of the retail trade, which grew by 3.0% year-on-year in December2016[5].

Together with strong consumption, the economy was supported by continued growth in industry (up 2.7% year-on-year in December2016)[6], which was particularly visible in the country's largest industrial sector, automotive production. On the other hand, a slower than expected disbursement of subsidies from the new European budgeting period 2014 – 2020 was significantly visible in construction, which recorded a drop in its activity by 7.6% in 2016 year-on-year[7].

Consumer price growth remained muted throughout most of the year; however, inflationary pressure increased in the last quarter of 2016 with inflation reaching the 2% Czech National Bank target earlier than generally expected. This was the result of the combined effect of the lower comparison level, driven largely by fuel prices, higher food prices and partly also due to the electronic registration of sales, introduced in the last quarter of 2016. Very low inflation during most of the year led the Czech National Bank to keep the base interest rate at 0.05% and to maintain the exchange rate commitment of holding Czech crown to the Euro at or close to 27[8].

2.2 Market development

Due to positive economic development in the country, the Czech banking sector keeps the growing trend in both loans and deposits, up 7% and 8% year-on-year in 2016[9]. Despite the growth in balances of mentioned categories, interest rates continued to decline because of a competitive pressure and an overliquid market.

The lending market continued steady growth in both retail (up 8% year-on-year) as well as commercial (up 6% year-on-year) segments[9]. The increase in retail loans was recorded in instalment loans, while revolving facilities continued to decrease. On the contrary, the progress of the commercial segment was broad-based and came from all subsegments.

The positive market development of deposits was supported by increasing retail segment (up 12% year-on-year)[9] followed by commercial (up 3% year-on-year)[9]. Deposits on demand continued to grow at the expense of term products.

Total industry operating income increased in the first three quarters by 7.2%[9] year-on-year driven mainly by the net non-interest income which grew by more than 20% year-on-year with the extraordinary sale of VISA Europe participations realized in Q2 2016 playing the key role[9]. Net interest income fell by 1.7% year-on-year reflecting intense competition and price pressure[9]. Market net earnings jumped by 12.1% year-on-year at an industry level keeping Return on regulatory capital[10] close to 20% level mirroring the above-mentioned higher operating income.

Overall banking sector balance sheets were strengthened due to favourable economic environment which led to decreasing NPL balances[9]. NPL balances dropped by 12.5%[9] year-on-year in Q3 whilst cost of risk increased 14% year-on-year driven by booking of provisions[9]. Industry wide NPL coverage was maintained around 47%[11].

Czech banks remain well capitalised with Tier 1 capital up 6.7%[9] year-on-year at CZK 393.7 billion in Q3. Overall banking system assets to Tier 1 Capital Ratio was close to 14 in Q3 (after 13 in Q4 2015), reflecting mainly non-loan assets stacked in the balance sheets.

[1] Source: The Czech Statistical Office, the GDP resources and uses - 4. quarter of 2016 report
[2] Source: The Czech Statistical Office, the Average wages - 4. quarter of 2016 report
[3] Source: The Czech Statistical Office, the Consumer price indices - inflation - December 2016 report
[4] Source: The Ministry of Labour and Social Affairs
[5] Source: The Czech Statistical Office, the Retail Trade - December 2016 report
[6] Source: The Czech Statistical Office, the Industry - December 2016 report
[7] Source: The Czech Statistical Office, the Construction - December 2016 report
[8] Source: The Czech National Bank
[9] Source: CNB ARAD, banking sector without building societies
[10] Profit after tax / Tier 1 Capital

2.3 Report on Business Activities

2.3.1 Overview

The Bank is a leading retail and expanding small business and SME bank in the Czech Republic. It has a well-established position in Czech household lending and a growing position in SME 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 Bank is headquartered in Prague, with a shared services centre in Ostrava and MONETA Leasing headquarters in Brno.

The Bank has been active in the Czech Republic since 1997, expanding through the acquisitions of Multiservis in 1997, a part of Agrobanka's banking business in 1998, IMP Leasing in 1998 and VB Leasing in 2014.

The Bank operates through a well dispersed network nationwide in the Czech Republic, comprising of 230 branches and 632 ATMs (as at 31 December 2016). It sustains a well-recognised presence in smaller cities and towns where populations are relatively underserved, as well as through alternative distribution channels; such as internet and mobile banking, call centre, almost 1,300 auto dealers, dozens of brokers and more than 4,000 leasing partners (as at 31 December 2016). As of the same date, the Group served approximately 1,064,000 retail and commercial customers, equating to approximately 10% of the Czech population.

The Group has two primary divisions: retail and commercial. These divisions are differentiated by their product and service offerings, as well as by type of sales channels and clients service.

The retail division served almost one million customers and comprised CZK 54.6 billion net receivables in total as at 31 December 2016, representing approximately 49% of the Group's total net receivables. Total operating income for the retail division was CZK 7,540 million for the year ended 31 December 2016.

The key products in the retail division are as follows:

- 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 over 93,000 customers and comprised CZK 57.3 billion net receivables in total as at 31 December 2016, representing 51% of the Group's total net receivables. Total operating income for the commercial division was CZK 2,788 million for the year ended 31 December 2016.

The key products in the commercial division are as follows:

- 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.

Total operating income for the Other/Treasury segment was CZK 730 million for the year ended 31 December 2016.

2.3.2 The MONETA segments and strategy

MONETA reports its primary retail and commercial segments as separate operating segments in its financial statements along with a third operating segment, "Other/ Treasury".

The retail segment provides banking services to individuals, with a focus on the mass market. The commercial segment provides banking services to both companies and other commercial entity counterparties, as well as to entrepreneurs. Customers are initially assigned to a segment based on whether they act as a natural person (retail) or an entrepreneur / legal entity (commercial).

The Bank's strategy is to continue to focus on maintaining and further developing its retail banking franchise while also significantly growing its presence within the SME and small business commercial segment. The Bank intends to gradually change the overall product mix, targeting diversification of revenue streams and building and achieving recognition as a leading small business bank in the Czech Republic.

2.3.3 Retail segment business performance

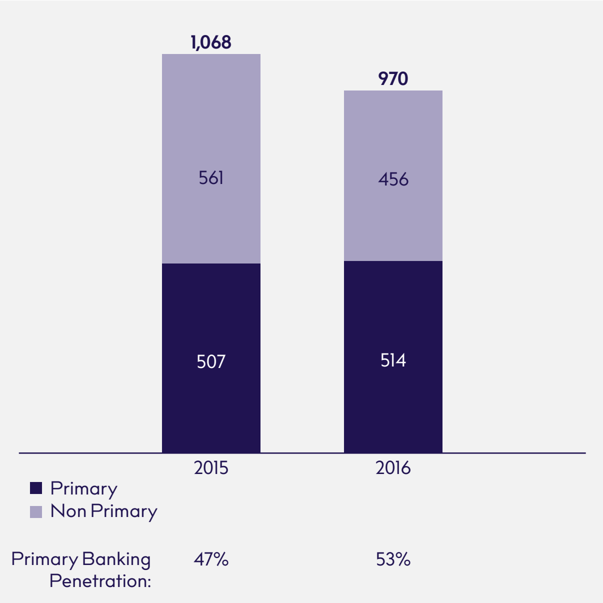
The Group provides a full suite of deposit, lending, investment and bancassurance products. In addition, the Group has a digital platform consisting of online and mobile activities. The Group has a retail market share of 19% in unsecured loans balances and 4% in current accounts across Czech Republic[1].

The Group successfully executed its key strategic priorities in 2016 and delivered strong results.

As at 31 December 2016, the Group was serving 970 thousand clients compared to 1,068 thousand clients at 31 December 2015. The total decline of 9% was driven by a write-off of 95 thousand customers records. From the total of 970 thousand retail customers, 825 thousand customers have current accounts and 514 thousand customers (53%) are primary banking clients with regular turnover in their current account. The primary banking client base grew marginally during 2016. The Bank's customer base is highly loyal with 59% of customers having a relationship with the Bank for longer than 8 years.

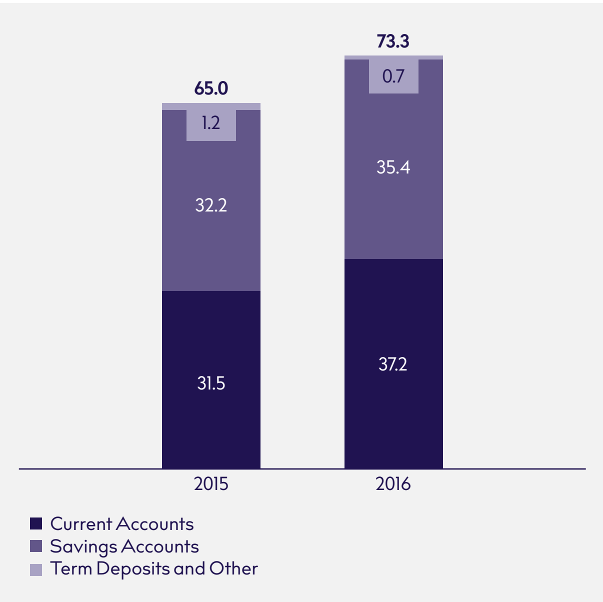
[1] Source: CNB ARAD, banking sector without building societies

Primary Retail Banking Portfolio Development ('000 clients)[1]



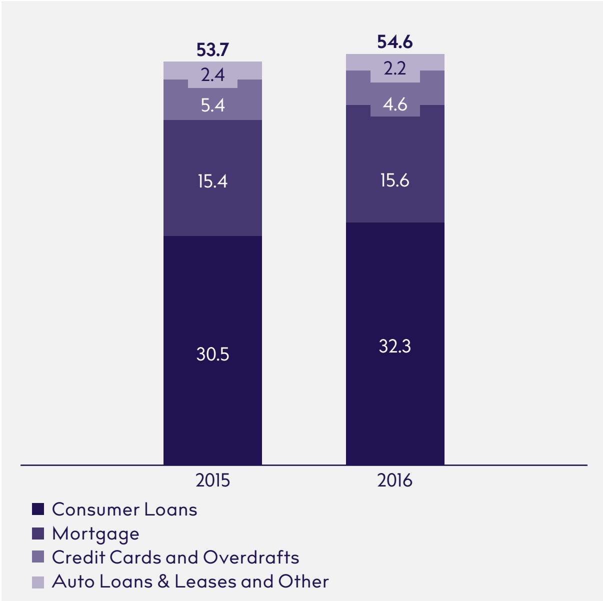
In 2016, the Bank's retail deposit balance grew by 13%, from CZK 65 billion as at 31 December 2015, to CZK 73.3 billion as at 31 December 2016. The growth was driven primarily by building balances on existing current accounts, and savings accounts. Cost of funds on retail deposits remained low at 21 bps in 2016, down 5 basis points compared to 2015.

Deposit balances, CZK bn[2]



The retail net lending portfolio grew by 1.7%, from CZK 53.7 billion as at 31 December 2015, to CZK 54.6 billion as at 31 December 2016. This was driven by consumer loans and mortgages. Consumer loans portfolio grew by 5.7% year-on-year as a result of strong new business development supported by competitive pricing, but partially off-set by continued early terminations. The mortgage book returned to growth after several years of shrinking following strong new business volume growth of 68%, supported by development of both the internal sales force and the mortgage broker channel. The growth in unsecured consumer loans and mortgages more than offset the decline in the credit card and overdraft portfolios.

Net Loan balances, CZK bn[2]



2.3.3.1 Strategic priorities delivery

MONETA Money Bank has built a strong and well-recognised national brand. The new brand introduced in April 2016 builds on trust, stability, innovation, fairness and transparency. It is developing well, reaching spontaneous brand awareness of 29% in second half of 2016 and a consideration rate of 38%. The brand scored highly on uniqueness, quality, innovation and popularity.

Results in the Retail Banking segment reflect the continued focus on the Group's strategic priorities throughout 2016:

- Further improvement of Retail Franchise
- Improvement of ATM service quality
- Digital transformation
- Loan portfolio growth
- Third party products distribution

[1] Primary banking client (PB) = client with credit income on current account more than 7 ths. CZK at least 2 times in last 3 months.
[2] Figures in the charts may not add up to total due to rounding differences.

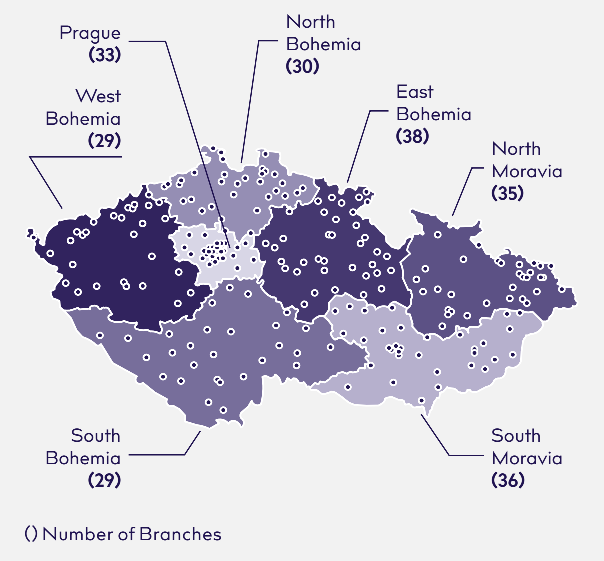
2.3.3.2 Further improvement of Retail Franchise

The Bank's retail segment serves close to 1 million customers through a network of 230 branches, a customer contact centre and strong online and mobile banking channels. In addition, brokers and auto dealers provide a scalable third party distribution capacity.

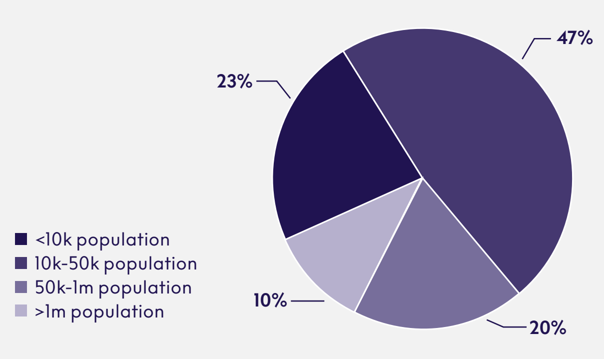
The branch network is organized into 7 regions, 69 sales teams and 7 mortgage teams. In addition, the Bank has a broad partnership with broker and leasing companies and distributes products and services through online channels.

Branch network is broadly balanced across the country, and penetrates areas where other banks may have less presence. 71% of branches are located in towns with populations of fewer than 50,000 inhabitants.

Branch network (230)



Distribution of branches by city population



The branch network remains the main base for building customer relationships. In 2016, the number of branches was maintained, while optimising their size, location and facility equipment. By the end of July 2016, all branches and ATMs were rebranded to support the new MONETA Money Bank brand.

The Bank is continuously improving its clients service model in order to support new brand positioning and ensure a high quality of client service; building on sales force expertise, outstanding service, friendly atmosphere and complete advisory on clients' financial needs. The Bank´s objective is to build primary banking relationship with its clients. The Bank focuses on building long-term relationship, as well as on acquisition of new clients.

In 2016, the Bank started a new systematic development program for its sales force to further increase the quality of service to clients. The Bank also extended its digital offering through several product launches and implemented new mobile banking services enabling clients to perform banking transactions efficiently anytime and anywhere. Moreover, at the end of 2016, MONETA Money Bank developed a new branch design concept that will be implemented starting 2017.

2.3.3.3 Improvement of ATM service quality

MONETA Money Bank's clients have at their disposal the 4th largest ATMs network in the Czech Republic comprising of 632 ATMs (as at 31 December 2016), processing on average over 1.7 million cash withdrawals per month. ATM locations are well-dispersed across the country with respect to branch location and population distribution. Moneta ATMs are located in all towns having above 8,500 inhabitants and many smaller towns.

In 2016, several relocations were undertaken to further increase ATM accessibility and focus on high traffic areas, taking into consideration network profitability. In September 2016, 7 new ATMs were located in the public area of Prague Airport.

The network was modernised to increase data and physical security, and enable new services such as contactless withdrawals. By end of 2016, there were 147 contactless ATMs in operation.

In 2017, further enhancements of contactless ATMs and increased presence in high traffic areas are planned, together with improving customer experience through innovative and fast services.

2.3.3.4 Digital Transformation

Besides optimising the branch and ATM network, the Bank continues to launch new online and mobile products and services to make its full product range available via digital channels. The Bank strives to offer banking transactions to clients through simple, quick and flexible self-service functionalities, building on strengths of its internet banking application "Internet Banka".

In 2016, the Bank maintained its position with top quartile internet banking penetration. 81% of the Bank´s retail clients are enrolled in internet banking, while 45% of retail clients are active banking users (69% of primary banking clients).

In July 2016, the Bank successfully launched a new mobile banking application, "Smart Banka". Smart Banka application is a key element of the digitisation strategy for the Bank´s clients. Clients can now perform their most frequent banking transactions related to all banking products via the mobile platform.

The Smart Banka application offers outstanding user experience based on a simple and smooth registration and application process, as well as a very user friendly and intuitive environment, while achieving high security standards. Within a few months of the launch the application was ranked 1st and 2nd in Google and Apple app stores respectively among Czech financial applications, a position which it has maintained since.

As at 31 December, 2016 the "Smart Banka" mobile banking application achieved 123 thousand downloads and 72 thousand activations. Since the Smart Banka launch, amount of transactions via the mobile banking application increased rapidly reaching 444 thousand by the end of December 2016.

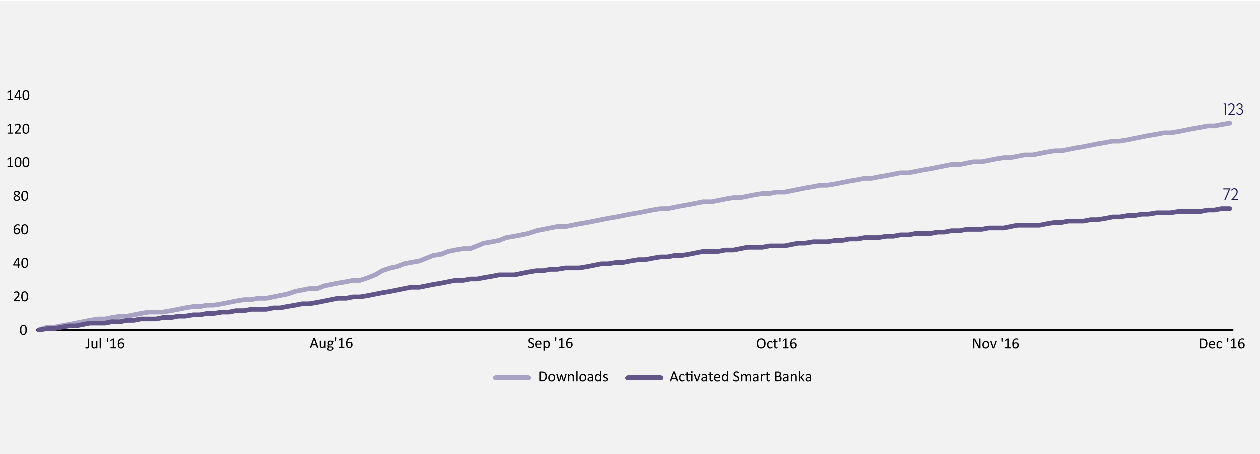
By end of the third quarter 2016 all external websites were rebranded and redesigned to the MONETA Money Bank brand. Along with a more contemporary design, changes have been made to the site-wide navigation to help applicants find the information they need faster. Traffic on the Bank´s primary site (moneta.cz) has been maintained despite rebranding reaching 2.8 million visitors in December 2016.

The Bank continues with the digitisation of its core products in building a strong position in online initiation of personal loans and loan consolidation. In 2016, 15% of the Bank´s personal loan applications and leads measured in gross volumes were initiated through the digital channels. A major overhaul of online loan origination process drove 35% year-on-year increase in Online originated sales of unsecured consumer loans.

Over the next year, the Bank will further focus on developing its digital capabilities with clear objective to be the leading digital bank in the Czech market. The Bank will continue to invest in further enhancement of its digital offerings including further improvement of the main websites and targeted online marketing activities and further development of the internet and mobile banking propositions.

The Bank will focus on development of new online product propositions together with simplified and convenient customer journeys, creating best-in-class digital sales and true omni-channel capabilities. The Bank´s digital transformation will be supported by agile development facilities and organisation structure. The Bank´s aspiration is to deliver a transformational and market-leading customer experience across all channels.

Smart Banka increasing penetration, ths.



2.3.3.5 Loan portfolio growth

In 2016, the Bank stabilised its strong position in the retail lending market. The net retail loan portfolio returned to growth of 1,7% year-on-year, standing at CZK 54.6 billion as at 31 December 2016.

Total growth was driven by a 5.7% year-on-year increase in the net consumer loans portfolio with a balance of CZK 32.3 billion, increase in net mortgage balances of 1.2% year-on-year, totalling balances of CZK 15.6 billion as at 31 December 2016.

This positive development was to a large extent a result of the continuing strong uplift in new volumes of consumer loans, which were up 21% year-on-year, driven by the new pricing introduced at the end of 2015 (50 to 100 bps above the market). New volumes also benefited from increased share of online originated loans and improved walk-in share based on cooperation with 3rd party sales channels.

In the mortgage market the Bank succeeded in gaining higher market share by increasing new volumes by 68% year-on-year. Strong development of the Bank´s mortgage business was driven by development of internal sales force (63 new mortgage bankers) and mortgage broker channel, as well as by enhancing product offering by flexible mortgage with off-set functionality that enables to further decrease clients´ effective interest rate. Re-pricing undertaken in November 2016 increased rates for higher LTV mortgages substantially in order to ensure delivery of new regulatory thresholds.

Consistent with recent periods, the Bank aims to maintain its strong market position in consumer lending in 2017. This is to be achieved through competitive pricing as well as through further enhancing and simplifying the Bank's online sales process.

The Bank has also strong ambition to increase its market share in mortgage market and improve its awareness as a mortgage provider. This objective will be supported by further enhancements of flexible mortgage product, customer process simplification and competitive pricing.

2.3.3.6 Third party products distribution

In 2016, the Bank focused on the expansion of its portfolio by new services in order to provide its clients a full range of financial services and generate future source of fee income. The Bank significantly extended its portfolio of insurance products and also focused on diversification of its investment funds product offering.

Retail insurance income increased by 3.6% year-on-year, standing at CZK 326 million as at 31 December 2016. A major part of the income was generated by payment protection insurance (PPI) income. The PPI penetration on new lending improved year-on-year, reaching 76% in 2016, while portfolio penetration remained relatively flat at 69% during 2016, due to higher insurance attrition on portfolio compared to 2015.

In 2016, the Bank enhanced its standalone insurance product offering by life and pension products. Moreover, the Bank enabled travel insurance selling via Smart Banka in fourth quarter 2016. The Bank is cooperating with the leading partners in the area such as Cardiff, MetLife, NN and Allianz.

In 2017, the Bank plans to further enhance and improve its insurance products portfolio delivering high-value, simple and customised products, while maintaining competitive pricing. On-line activation of insurance products will be also high priority in line with Bank´s digital transformation strategy.

In investment funds products offering, the Bank focused on delivering more choice and value to its clients in 2016. The Bank strived to become an independent investment funds distributor by diversifying its providers with the clear objective to grow assets under management. This is premised on providing simple, solid, best-in-class products for mass-market customers.

Balance invested in investment funds achieved CZK 10.3 billion as at 31 December 2016 and grew by 10% year-on-year. The number of unique clients who invested in investment funds distributed by the Bank reached 22 thousand as at 31 December 2016 and grew by 13% year-on-year.

In June 2016, the Bank became member of AKAT (Association for Capital Market Czech Republic). In November 2016, four additional funds with a diversified asset structure and investment strategies from NN and Generali were added to the portfolio offering.

In 2017, the Bank intends to grow further in investment volumes by giving better choice and more value to clients of various investment goals and risk appetite. The Bank will keep cooperating with more investment funds providers to mitigate potential risks, and it will implement the MIFID II directive in line with a new business model and online strategy.

2.3.4 Commercial segment business performance

Bank's commercial division provides full range of commercial products to clients from all segments of the market with focus on SME and small businesses. From the total of approximately 93,000 customers 72,000 of commercial customers have current accounts, with 42,000 also borrowing from the Group and 5,600 holding a savings or term deposit account. While the total number of customers declined year-on year as a result of customer records write offs, number of active clients remains rather stable at 68,000.

Bank's commercial division has national coverage, with commercial clients supported across the network of 230 retail branches with 102 dedicated small business segment bankers at 82 retail branches as at 31 December 2016. The division also has an experienced team of 142 relationship managers with expertise in serving SME customers, a dedicated team of Leasing sales representatives and smaller teams of bankers for corporate and real estate clients. Moneta Auto's products are distributed through wide network of car dealers.

Bank's commercial deposit balance totalled CZK 43 billion as at 31 December 2016 down from CZK 44 billion as at 31 December 2015. While standard SME balances were growing in 2016, year-end balance was adversely influenced by at least two factors. New regulation requiring some state controlled institutions to transfer funds to Czech National Bank already resulted in outflow of balances from such institutions and new fee imposed on balances exceeding CZK 100 million as at 31 December 2016.

The overall commercial portfolio comprised CZK 57 billion net receivables as at 31 December 2016 and 51% of Group's total net receivables from CZK 55 billion and 50% as at 31 December 2015. The growth was driven largely by strong performance in SME segment underpinned by performance in agricultural segment, real estate and also Moneta Auto performance, partially offset by performance of Moneta Leasing.

2.3.4.1 Strategic priorities delivery of commercial segment

MONETA Money Bank remained focused on growing its presence within the SME and small business commercial segment. While SME segment and agricultural industry in particular have been traditionally targeted by the Bank, in 2016 the Group additionally focused on developing its small business capabilities where it intends to leverage its existing clients base and explore cross-selling opportunities.

Strong focus on growing the Group's SME and small business segment is reflected in strategic priorities throughout 2016:
- Develop small business segment capabilities
- Grow SME lending portfolio
- Stabilize our Leasing franchise and build cross-selling capacity
- Keep strong agricultural segment presence

2.3.4.2 Develop small business segment capabilities

The Group keeps its focus on building capacity to become market leader in servicing small businesses nationwide. The capacity has been significantly strengthened in 2016 by number of changes in both distribution and product setup. Number of dedicated small business bankers has increased from 34 as at 31 December 2015 to 102 as at 31 December 2016. Changes also include work on prerequisites to enable digital transformation for commercial clients.

2016 results confirm significant potential of the segment to drive both customer acquisitions and profitable new volumes. New business volumes of the key unsecured lending product for the segment were up 47% year-on-year while number of newly opened current accounts grew by 44%. Sales of the automated overdraft facility are also growing, however its utilisation in the over liquid market is currently relatively low.

2.3.4.3 Grow SME lending portfolio

While the Group remains focused on building small business capabilities, keeping healthy growth in the SME segment remains vital to drive commercial performance. The Group wants to eliminate any adverse effect of strengthened small business segment focus on SME sales network and rather focus on synergies between small business network and SME network.

Strong results of Bank's commercial division were largely driven by the performance of the SME segment underpinned by excellent results in agriculture and real estate. Investment loan new business volumes were up almost 18% year-on-year and portfolio of the product grew by 16% (CZK 4.3 billion) year-on-year. Portfolio of working capital loans remained rather stable slightly below CZK 9 billion as at 31 December 2016 as utilization of approved limits decreased mainly due to strong liquidity in the market.

2.3.4.4 Stabilize our Leasing franchise and build cross-selling capacity

Moneta Leasing faced significant headwinds in 2016 negatively influencing its ability to generate new business volumes. Action of former Moneta Leasing employees lead to significant sales force attrition. Despite immediate stabilising measures that were put in place, the action resulted in weaker performance in 2016.

2016 full year results show a decline in new business volumes of 46% year-on-year. This is significantly below expectations mainly in trucks and machinery, however the second half of the year results show what we believe is a turnaround in the Leasing's performance trend. Rehiring of the sales force is almost finished, new business volumes were growing for five consecutive months and cross selling results in the fourth quarter confirm potential.

2.3.4.5 Keep strong agricultural segment presence

The Bank is recognised as a leading bank in agricultural financing on the Czech market. It is keeping a market share of over 30% in the industry (as per 31 December 2016 data by CRU, Czech National Bank) financing mainly investments, land and equipment. Maintaining strong agricultural base in our commercial portfolio remains a priority for the Group.

In 2016 the Bank has delivered excellent results in the segment in both new business volumes and portfolio performance. New business volumes were up approximately 25% year-on-year, traditionally supported by subsidies and strong trade fairs presence. Portfolio of loans to the industry remains healthy however it faces competitive pricing pressure.

2.3.5 Other/ Treasury

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 1.3 billion in the year ending 31 December 2016 up from CZK 1.0 billion in 2015. The Group does not engage in speculative trading.

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

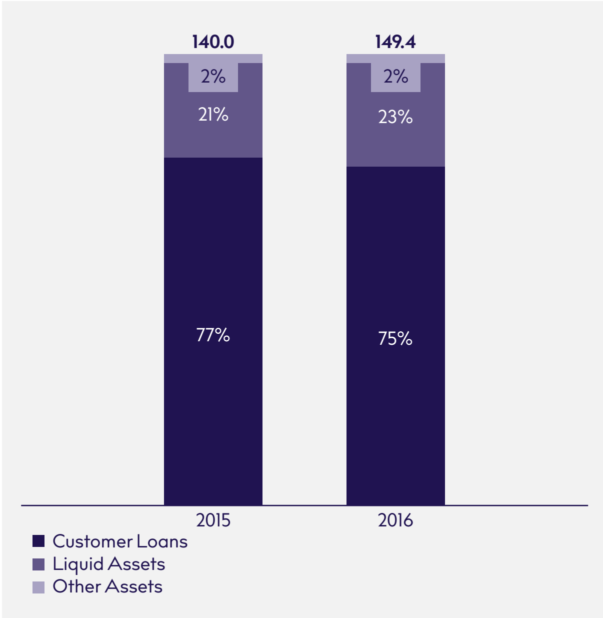
Net income from financial operations amounted to CZK 598 million in 2016 (CZK 324 million in 2015). The major driver of the increase was a gain of CZK 279 million on the VISA and Prague Stock Exchange shares transaction.

2.4 Group operating and financial review

2.4.1 Consolidated statement of financial position analysis

The Group maintains a strong, highly liquid, and conservative balance sheet. Total net assets amounted to CZK 149.4 billion as at 31 December 2016 representing an increase of CZK 9.3 billion, or 7%, compared to 31 December 2015. This is primarily due to an increase in the cash and balances kept with the Czech National Bank (up CZK 4.8 billion year-on-year) and growth in the customer loan portfolio (up CZK 3.4 billion year-on-year).

Total Assets (bn CZK)



Liquid assets

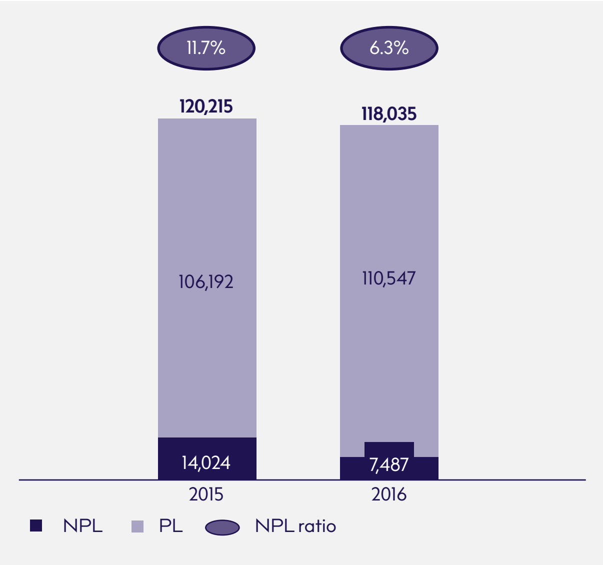
As evidenced by a liquidity coverage ratio (LCR) of 161%, the Bank maintains a highly liquid financial position – well above the regulatory requirement of 100% by 2018. Liquid assets of CZK 34.2 billion as at 31 December 2016 consist primarily of cash and investments in high quality Czech government bonds. Cash and balances with the central bank increased by 30.8% year-on-year and stood at CZK 20.2 billion. The majority of the balance (CZK 14.1 billion) is deposited with the Czech National Bank (other than mandatory minimum reserves).

Financial assets available for sale increased by 4% in 2016 to CZK 13.7 billion as at 31 December 2016. The key component of this item was the investment of CZK 13.4 billion in Czech government bonds.

Loan portfolio

The Group's overall portfolio of net customer loans grew by 3.2% to CZK 111.9 billion over the year, maintaining a balanced mix of commercial and retail loans. The gross loan portfolio was negatively impacted by a reduction in the legacy NPL. The net balance growth in the performing loan portfolio amounted to 4.2% during the same period.

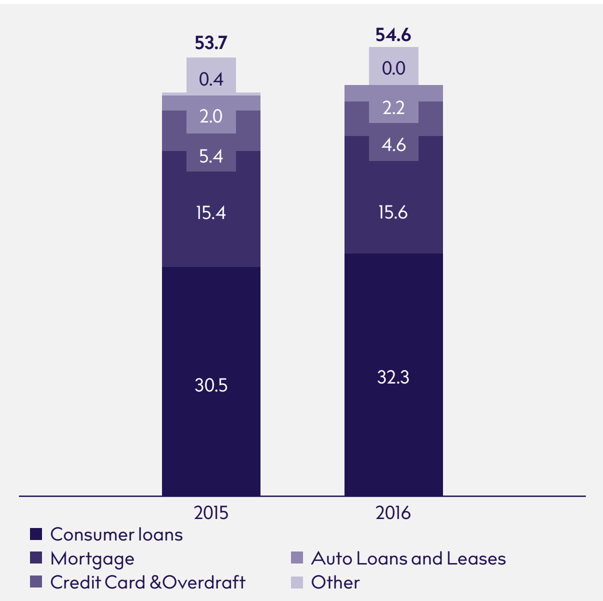
Gross receivables breakdown (bn CZK)[1]



The retail loan portfolio returned to growth during the period with a 1.7% increase in net balances to CZK 54.6 billion as at 31 December 2016. This growth was primarily attributable to the continued strong uplift in new consumer loans volumes, recording an increase of 21% year-on-year. Volume growth was largely driven by a repricing policy introduced in November 2015, driving a net consumer loan book growth of 5.7% in the year 2016.

The Bank continues to face pressure from early repayments in consumer loans due to loan consolidations prevalent in the market. Consequently, outstanding MONETA loans are being repaid from loans drawn by our customers in other banks as well as from new loans drawn at MONETA, which carry lower rates.

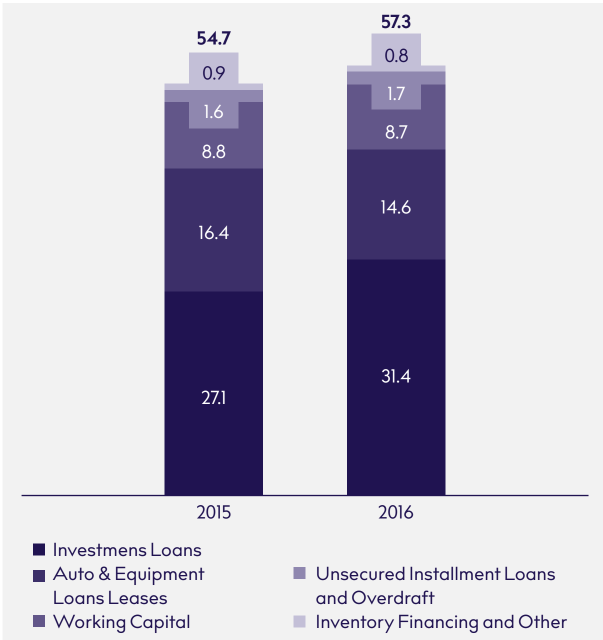
Net Retail Receivables (bn CZK)[1]



Retail growth was further supported by two main factors. Firstly, the net balance of auto loans and leases increased by 11.8% year-on-year in the year ended 31 December 2016. Secondly, the performance of mortgage products further supported the overall retail growth, with the mortgage book turning back to growth in the third quarter. The mortgage book recorded a 1.2% higher net balance compared to 31 December 2015. The increase in these major product classes was partially offset by a persistent decrease in outstanding net credit card and overdraft balances (down 15.8% over the same period).

The commercial portfolio stood at CZK 57.3 billion (net) as at 31 December 2016, an increase of 4.6% from the 31 December 2015 balance, achieved despite the headwinds in MONETA Leasing resulting from the recent sales force attrition. When measured ex-MONETA Leasing, the growth of the commercial book amounted to 11.0% in the year ended 31 December 2016.

Net Commercial Receivables (bn CZK)[1]



Investment loans were the major driver of success in the commercial loan balance, recording a 16% (CZK 4.3 billion) uplift, primarily in the strong SME and real estate sectors. Aforementioned headwinds in MONETA Leasing contributed to a drop in auto and equipment loan and lease balances, declining by 10.8% (CZK 1.8 billion) in 2016. Management has been working on a number of steps to mitigate this issue, including backfilling vacant positions crucial to reviving growth. As of 31 December 2016, approximately 80% of sales roles were refilled, and management expects the book to stabilize in mid-2017. However, while the MONETA Leasing business faced

[1] Figures in the charts may not add up to total due to rounding differences.

these challenges, the MONETA Auto balance grew by 6.6%[1] over the same period.

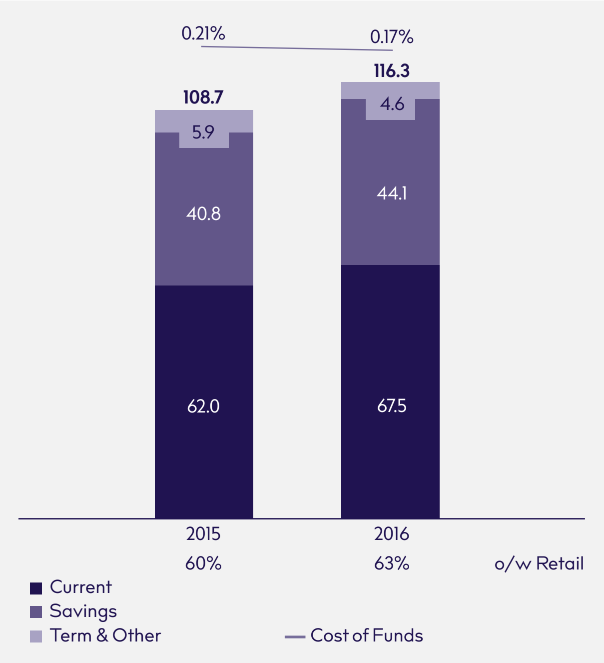
While the working capital limits increased by 5.3% in the year ended 31 December 2016, the uptake of the product dropped, due to the macro trend of liquidity on the market and the resulting customer preference towards closed-end loans. Thus, working capital balances remained largely flat in 2016.

The Group continued expanding its small business sales force, which resulted in a significant uplift in new volume of unsecured installment loans (up by 46.6% year-on-year). The unsecured instalment loan book expanded by 11.3% in the same period, while the loan book of unsecured business overdraft (a revolving product) dropped by 8.6%, again for reasons linked to shifting customer preference as a result of liquidity in the market.

Total Liabilites and Equity

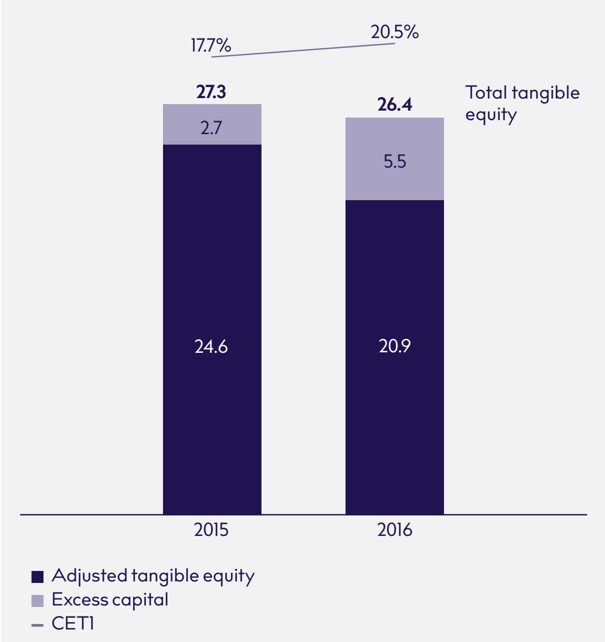
The Group's customer deposits continued to grow primarily in the retail segment and stood at CZK 116.3 billion as at 31 December 2016, increasing 7% compared to the CZK 108.7 billion total as at 31 December 2015. Retail current and savings accounts performed particularly well, with balance increases of 17.9% and 9.9% (CZK 5.7 billion and CZK 3.2 billion) respectively. This helped to keep the overall cost of funding at the record low levels of 17 bps in 2016. Commercial client deposits remained predominantly flat in the same period.

Customer Deposits[2] (bn CZK)



The loan to deposit ratio stood at 96.2%, in line with the Group's medium term target of less than 100%. The continued growth in deposits, primarily driven by an increasing average balance, further reinforces the self-funding capacity of the Group and its solid liquidity position.

CET1 ratio (%), Tangible equity (CZK bn)

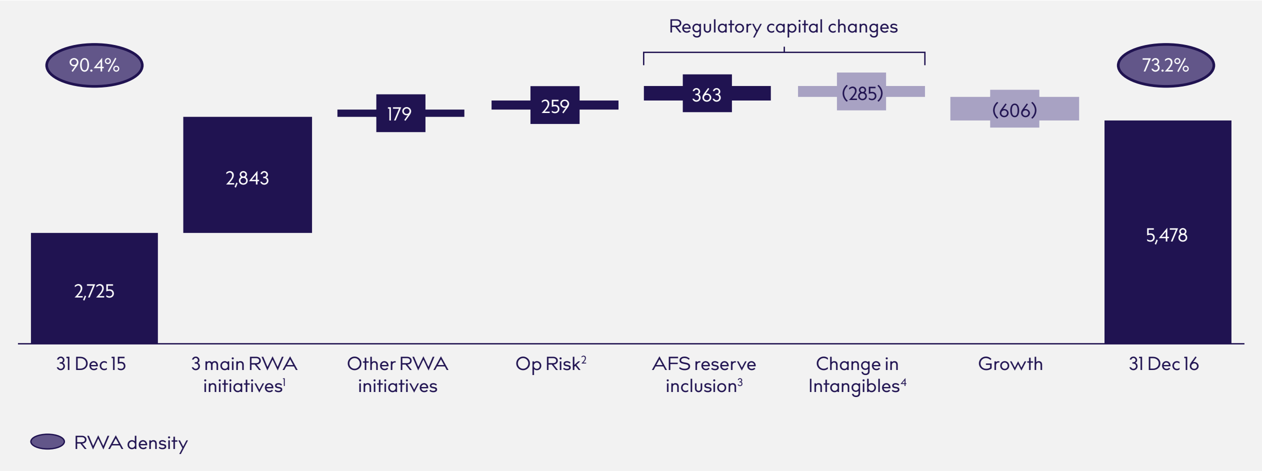


The Group continues to be one of the best-capitalised financial institutions in the Czech banking sector. It succeeded in freeing up CZK 2.8 billion of additional excess capital and reducing RWA density to 73.2% in 2016 in line with medium-term guidance. This was a result predominantly from three main RWA optimisations that were completed in the year, twelve months ahead of schedule. As at 31 December 2016, the CET1 Capital Ratio was 20.5%, reflecting an increase of 280 bps compared to the level as at 31 December 2015.

Excess capital[3] amounted to CZK 5.5 billion as at 31 December 2016. In the medium-term, this excess capital will be used for (1) anticipated loan book growth, (2) intangibles build up following investments into digital technology and localising of IT capabilities previously supplied by GE, and (3) a one-time IFRS 9 charge (expected to be recognized into equity in the first quarter of 2018). Capital not used for the above mentioned purposes would be paid out to shareholders in medium-term.

[1] Includes commercial auto & equipment loans and leases and excludes inventory financing. All balances net.
[2] Improved segmentation of deposits reporting implemented from third quarter of 2016.
[3] Excess capital against the medium-term management target CET1 ratio of 15.5%.

Excess capital development (m CZK)

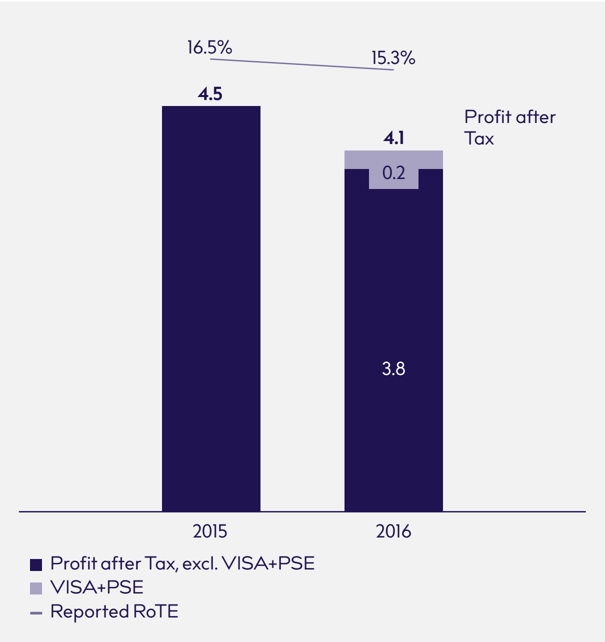


2.4.2 Consolidated Income statement

The Group generated profit after tax of CZK 4,054 million, above expectations, driven primarily by lower operating expenses and favourable cost of risk. In 2016, the Bank also benefited from non-recurring gain in the amount of CZK 279 million pre-tax, from the disposition of Visa share and the sales of its minority stake in the Prague Stock Exchange.

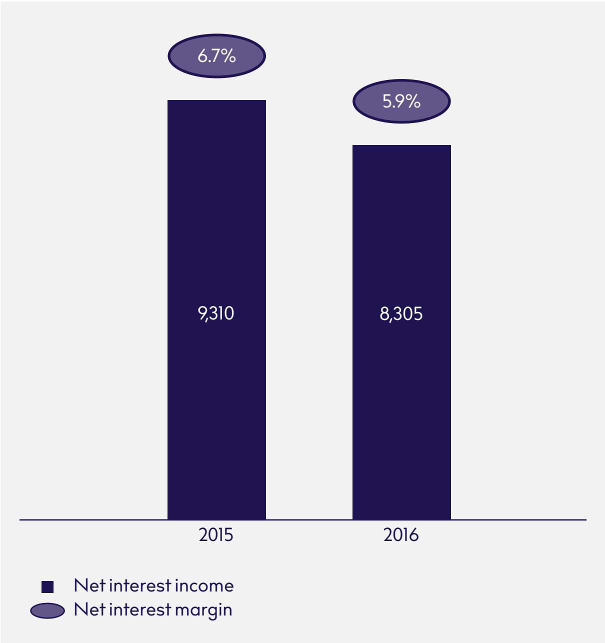
Return on tangible equity for the year 2016 equalled 15.3%. When adjusted to management's target of CET1 Capital Ratio at 15.5%, the return on tangible equity for 2016 would amount to 19.3%, well above the target of a minimum of 14% and 100 bps higher than in 2015.

Profit after Tax (CZK bn), Reported RoTE (%)[5]



The challenging competitive environment in both the retail and commercial segments resulted in a net interest margin drop from 6.7% in 2015 to 5.9% in 2016. In the retail segment, this was largely a result of the repricing of unsecured consumer loans and a continued decrease of credit card balances. In the commercial segment, the Group experienced strong competitor pressure across all product categories. Net interest income for the year reached CZK 8.3 billion, a 10.8% year-on-year decrease.

Net Interest Income (CZK m)



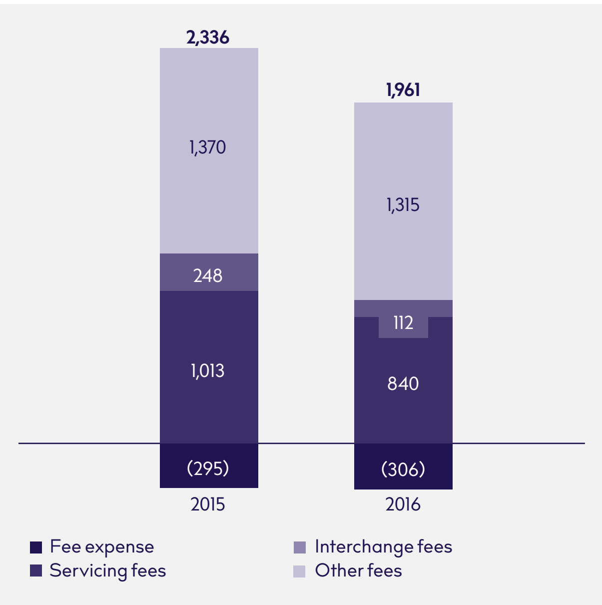
[1] Consists of 3Q 2016 impact of the first initiative of CZK 905 million and 4Q 2016 impact of remaining two initiatives.
[2] Annual recalculation of operational risk capital requirement.
[3] The AFS reserve is newly included into the regulatory capital starting from fourth quarter of 2016.
[4] Including deferred tax effect.
[5] Figures in the charts may not add up to total due to rounding differences.

Net fee and commission income of CZK 1,961 million for the year ended 31 December 2016 decreased 16.1% year-on-year; consistent with management expectations. The drop was predominantly a result of the cap on the interchange fees introduced in 2015, causing a CZK 136 million decline in income. We also witnessed the continuing trend of switching from paid to free current accounts. This resulted in a decline of deposit servicing fees by CZK 115 million and a run-off of servicing fee-earning retail lending portfolio driving a decrease of loan servicing fees by CZK 58 million.

In 2016, the premium paid to insurance companies by MONETA Leasing amounting to CZK 34 million was reclassified from Other Operating Expenses to Net Fee & Commission income. The corresponding number for full year 2015 was CZK 44m, which continues to be shown as reported, i.e. in other operating expenses.

Other fees have dropped by CZK 55 million in the year ended 31 December 2016 with the underlying insurance income performing in line with the previous year, and penalty fees continuing to drop, alongside improving asset quality. Assets under management grew 10% year-on-year, creating the opportunity for fee income improvement in 2017.

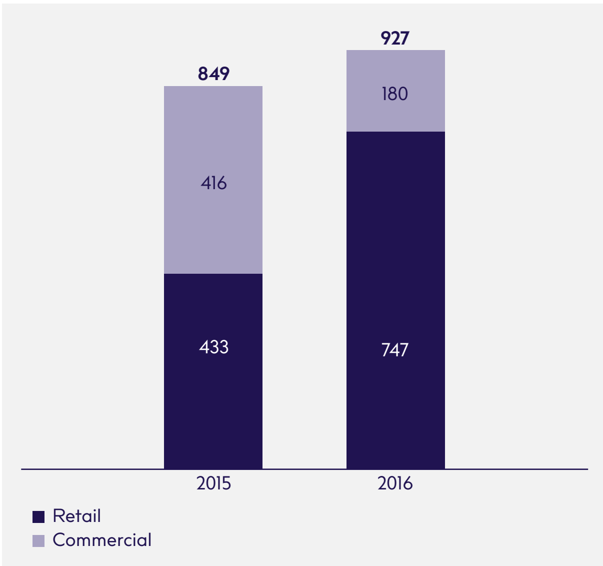
Net fee and commission income (CZK m)[1]



Net income from financial operations amounted to CZK 598 million in the year ended 31 December 2016 (CZK 324 million in 2015). The major driver of the increase was a gain of CZK 279 million pre-tax from the disposition of Visa share and the sale of the minority stake in the Prague Stock Exchange.

Net impairment of loans and receivables remained very low amounting to CZK 927 million for the year ended 31 December 2016, representing a 9.2% increase year-on-year. Net impairment was positively impacted by continuing favourable macroeconomic conditions as well as low NPL formation. On the commercial side, no major single default incurred. However, in the retail segment, net impairment grew year-on-year due to portfolio growth, the maintenance of prudent NPL coverage and book-ups of allowances linked to legacy NPL portfolio write-offs in 2016.The Group significantly reduced its NPL ratio to 6.3% as at 31 December 2016, down from 11.7% as at 31 December 2015. This was achieved mainly through write offs of the legacy portfolio and through NPL sales (a total NPL reduction by CZK 6.5 billion on gross basis). The Group maintained the overall total NPL coverage (including total loan allowances) at a comparatively high level of 82.5% as at 31 December 2016 versus 84.0% at 31 December 2015.

Net Impairment (CZK m)[1]

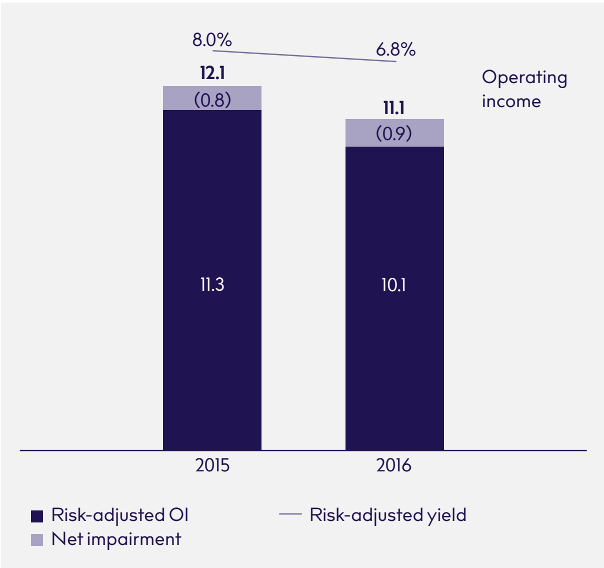


Cost of Risk (%)	2015	2016
Retail	0.79	1.38
Commercial	0.79	0.32
Group	**0.79**	**0.84**

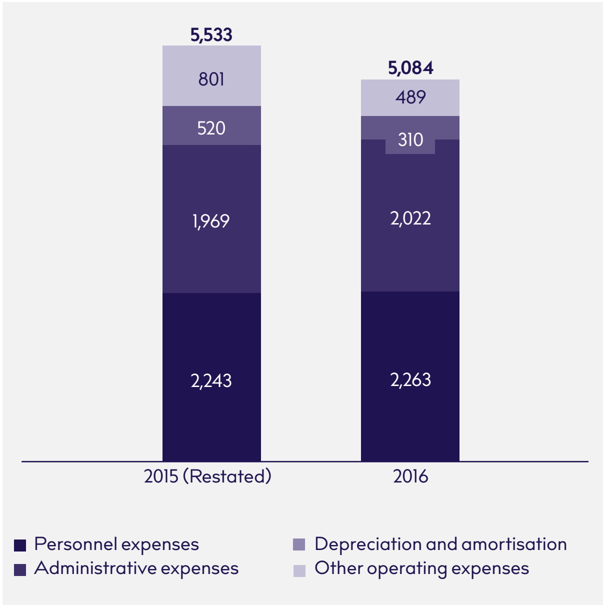
The Group delivered a risk adjusted yield of 6.8% for the year ended 31 December 2016, down 120 bps when compared to the performance in the preceding year. This was broadly in line with management expectations.

[1] Figures in the charts may not add up to total due to rounding differences.

Risk adjusted yield (%), Risk adjusted Operating income (CZK bn)[1]



Operating Expenses (CZK m)



Operating expenses for the year ended 31 December 2016 amounted to CZK 5,084 million, down 8.1% year-on-year. The decrease of CZK 449 million year-on-year was achieved despite a one-time MONETA rebranding and GE separation expenses of CZK 299 million. Personnel costs increased by CZK 20 million and Administrative expenses by CZK 53 million year-on-year, where the negative impact of separation costs (CZK 299 million)[2] and investment in digital capabilities (CZK 66 million) were felt. However, this was partially offset by a lower deposit insurance and resolution fund contribution (CZK 109 million), the release of restructuring reserve (CZK 80 million), savings on facility expenses (CZK 95 million) and lower MSA/TSA (CZK 16 million). The decrease in overall spend was further driven by lower Depreciation and amortization, which dropped by CZK 210 million year-on-year due to the extension of the useful life of property, equipment and intangible assets following their reassessment. Other operating expenses also decreased by CZK 312 million year-on-year, mainly thanks to lower GE royalties (CZK 139 million), lower collection costs (CZK 62 million) and the reclassification of insurance costs on the leasing portfolio (CZK 44 million)[3].

In line with market practice, the regulatory charges of CZK 177 million in 2015 for the deposit insurance fund and the resolution and recovery fund were reclassified from the line „Other operating expenses" to the line „Administrative expenses" (now aligned to 2016). In fourth quarter of 2016, a change in classification of certain leases was made at MONETA Leasing. As a result, depreciation and amortisation and other operating income in the period increased by CZK 31 million and CZK 37 million, respectively, and Interest Income decreased by CZK 4 million. See above for comment to net fees on reclassification between operating expense and fees.

[1] Figures in the charts may not add up to total due to rounding differences.
[2] Including CZK 10 million on depreciation and amortization.
[3] In 4Q16, premium paid to insurance companies by Moneta Leasing s.r.o. in amount of CZK 34m was reclassified from Other operating expenses to Net Fee & Commission income. The corresponding number for full year 2015 was CZK 44m, which continues to be shown as reported

2.5 Intellectual Property

The following software and IT technology licenses include intellectual property necessary for the Group to run its business:

Software	Description
ICBS	This software is a core retail banking system used for customer administration, current and time accounts, loans, payments, interest calculations and currency conversions
Gemini	This software is used in relation to direct, internet, mobile/SMS and telephone banking
ODS, ADS	ODS is a system for managing a unified and consolidated view over the Group's customers and their products and applications ADS is an enterprise data warehouse for all the Group's businesses. It stores almost all business information and is used for, amongst other things, reporting, profitability and other analysis
Attaccamma	Data quality and master data management tool
NAS DB	This database is used to verify, score and approve applications
IBS 90	This system is used in relation to foreign clean payments and trade finance activities (in particular, documentary payments and foreign checks)
Integration hub	Enterprise Service Bus
FISPRO	This is the core accounting system for the leasing business
Avantgard Quantum	This software is a treasury management system
GMC Inspire	This software is used by the Group in relation to document production
Websphere, MQ, Tivoli, Websphere Process Server	These systems include a workflow system and backup software
Server OS, Client OS, MS SQL, Office 365	These are deskside, server and collaboration systems
HP SA, BSM, Systinet	These systems are used by the Group to manage its infrastructure and system services
Oracel Database Software	This software is a database system
VisionPlus	This payment card management system is used by the Group in relation to the processing of both its credit and debit cards portfolio
FineVare	IFRS calculation system
Oracle EBS	Overall financial GL system & procurement management system
SAS	Statistical and analytical software for risk, AML and CRM management
LifeRay	Portal platform
Xyzmo	Biometric signatures management system

The Group uses and owns and relies on the right to the MONETA name, brand and logo.

2.6 Performance of Group companies

Contribution to the Consolidated Financial Statements as at 31 December 2016

CZK m	Bank*	MONETA Auto*	MONETA Leasing*	Other Entities*	Eliminations	Total Consolidated
Loans and receivables to customers	107,353	6,348	11,270	0	(13,111)	111,860
Total Assets	150,272	6,499	11,737	67	(19,196)	149,379
Due to customers	116,349	65	22	0	(184)	116,252
Interest and similar income	7,611	363	667	0	(147)	8,494
Interest expense and similar charges	(191)	(6)	(139)	0	147	(189)
Net interest income	7,420	357	528	0	0	8,305
Net fee and commission income	1,806	80	74	1	0	1,961
Total operating income	13,609	451	651	29	(3,682)	11,058
Total operating expenses	(4,712)	(221)	(256)	(20)	125	(5,084)
Profit for the year before tax and net impairment of loans and receivables and AFS	8,897	230	395	9	(3,557)	5,974
Net impairment of loans and receivables	(768)	(142)	(17)	0	0	(927)
Profit for the year before tax	8,129	88	378	9	(3,557)	5,047
Taxes on income	(860)	(53)	(78)	(2)	0	(993)
Profit for the year after tax	7,269	35	300	7	(3,557)	4,054

* Excluding elimination entries

MONETA IS MÍŠA

Young, energetic, and as she describes herself – 'chatty'. Míša started playing tennis when she was twelve and even nowadays she likes to clear her head on the Pankrác courts at the weekends or play in a seasonal tournament.

"The thing I enjoy the most about my work are my clients, otherwise I wouldn't be able to do it."

You can count on Míša.

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.

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 2016 the Bank was obliged to maintain a mandatory capital conservation buffer of 2.5% that was applied for the whole Czech market[1]. Therefore the overall Pillar I capital requirement on an individual and a consolidated basis was 10.5%. Under the 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, 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 management target a CET1 Capital Ratio of 15.5 %.

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 CET1 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 1 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 2016 the Bank's Capital Adequacy Ratio was 20.5% on a consolidated basis and 18.2% on an individual basis and the Bank met all regulatory requirements and expectations regarding capital adequacy on an individual and a consolidated basis[2].

The Group identified three areas in which it reduced the RWA density by utilising existing regulatory options: mortgages on immovable residential property, SME supporting factor and optimization of exposure class segmentation. All measures were implemented in 2016.

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 for the Group material and for which the Group decided to hold capital to cover them. The ECAP model is calibrated and relevant risks are quantified on 99.95% confidence level corresponding to an AA credit rating.

[1] Starting 1 January 2017 the Bank needs to hold additional countercyclical buffer of 0.5%. This requirement applies for the whole Czech market.
[2] Difference between Capital Adequacy Ratio is mainly given by retained earnings on capital side and eliminations of subsidiaries' equity stakes on the RWA side.

Other risks not covered by the ECAP model, that are material for the Group in the following planning period, are identified through senior management team workshops organised on an annual basis. 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.

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 yearly basis as a part of ICAAP report.

In 2016, the capital outlook together with stress testing results confirmed that the Bank and the Group are capable of keeping the CET1 Capital Ratio safely above target 15.5%, even under the circumstances of unexpected adverse macroeconomic development.

3.1.5 Recovery plan

Given the regulatory requirements, the Bank also prepares a recovery plan. The recovery plan includes three stress scenarios given by the regulation (idiosyncratic event, system-wide event and combination of these 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 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 already maintains an LCR well in excess of the requirement of 100% that needs to be achieved by 2018 (31 December 2016: 161%, 31 December 2015: 140%).

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 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.

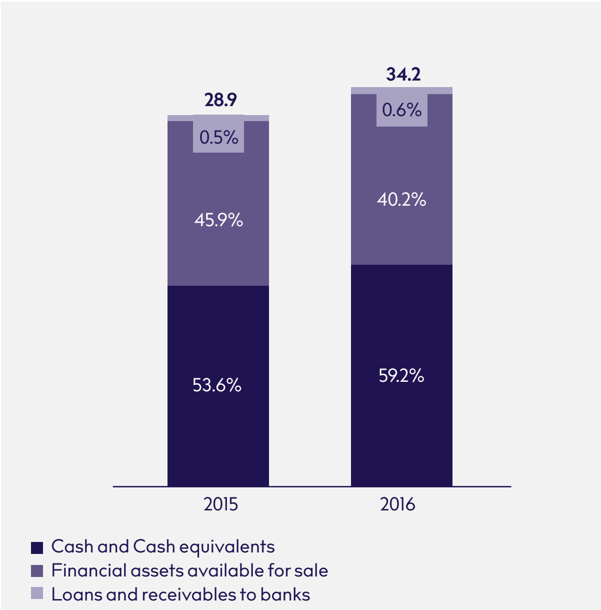
3.2.2 Liquidity portfolio

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

The Bank invests its free cash only into safe securities such as Czech government bonds and treasury bills or short-term European commercial paper. As at 31 December 2016, around 40% of total cash was invested in securities with the remainder held in Central bank and interbank deposits. Of the cash invested in securities, 2% was invested in short term European commercial paper, with vast majority of the remainder in Czech government bonds. All counterparties were rated A or above and these investments were eligible as collateral with both the CNB (with regards to Czech government bonds and treasury bills) and the European Central Bank (with regards to European commercial paper) for central bank funding. As at 31 December 2016, CZK 1.75 billion nominal value of assets were encumbered as for funding the Bank's euro denominated book.

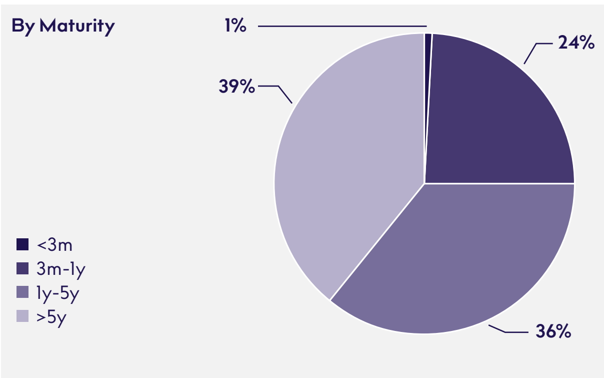
The Group has a strong liquidity position. Under the new Basel III framework for liquidity risk measurement, the Bank will be required to have in place the LCR of 100% from 2018. The Bank had in place excess liquidity of CZK 11.2 billion more than that which would be required to achieve LCR of 100% as at 31 December 2016. The chart below sets out the composition of the Group's liquid assets as at 31 December 2016:

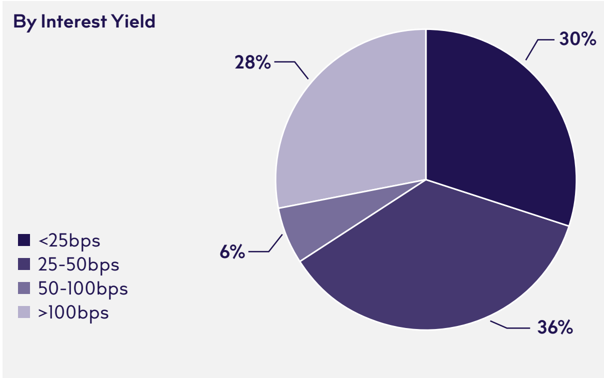
Breakdown of Liquidity Portfolio (in billions CZK)



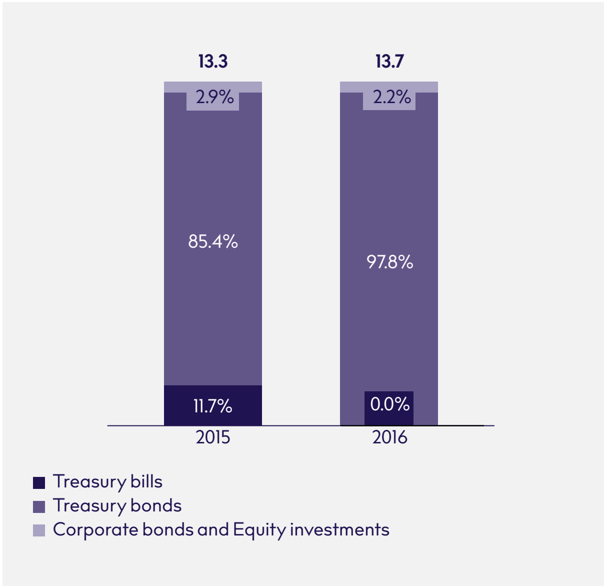
The securities held by the Group are entirely classified as available for sale and the charts below set out the securities portfolio by maturity, interest yield and availability for sale as at 31 December 2016:

Breakdown of Securities Portfolio





Financial assets available for sale (in billions CZK)



Note: As at 31 December 2016, the Group's Czech sovereign debt portfolio contained unrealised gains of CZK 448 million before tax.

3.2.3 Funding

The Bank is an exclusive 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, 96% as at 31 December 2016.

The Bank's funding model benefits from an established and stable client base comprising customer deposits of CZK 116.3 billion as at 31 December 2016 with an average balance per account of CZK 96 thousand. 75% of total deposits were covered by the DIF[1] as at 31 December 2016. In terms of deposit concentration, the top 10 depositors accounted for 4% of total deposits as at 31 December 2016.

[1] Depositors Insurance Fund: deposit insurance scheme protects depositors at banks

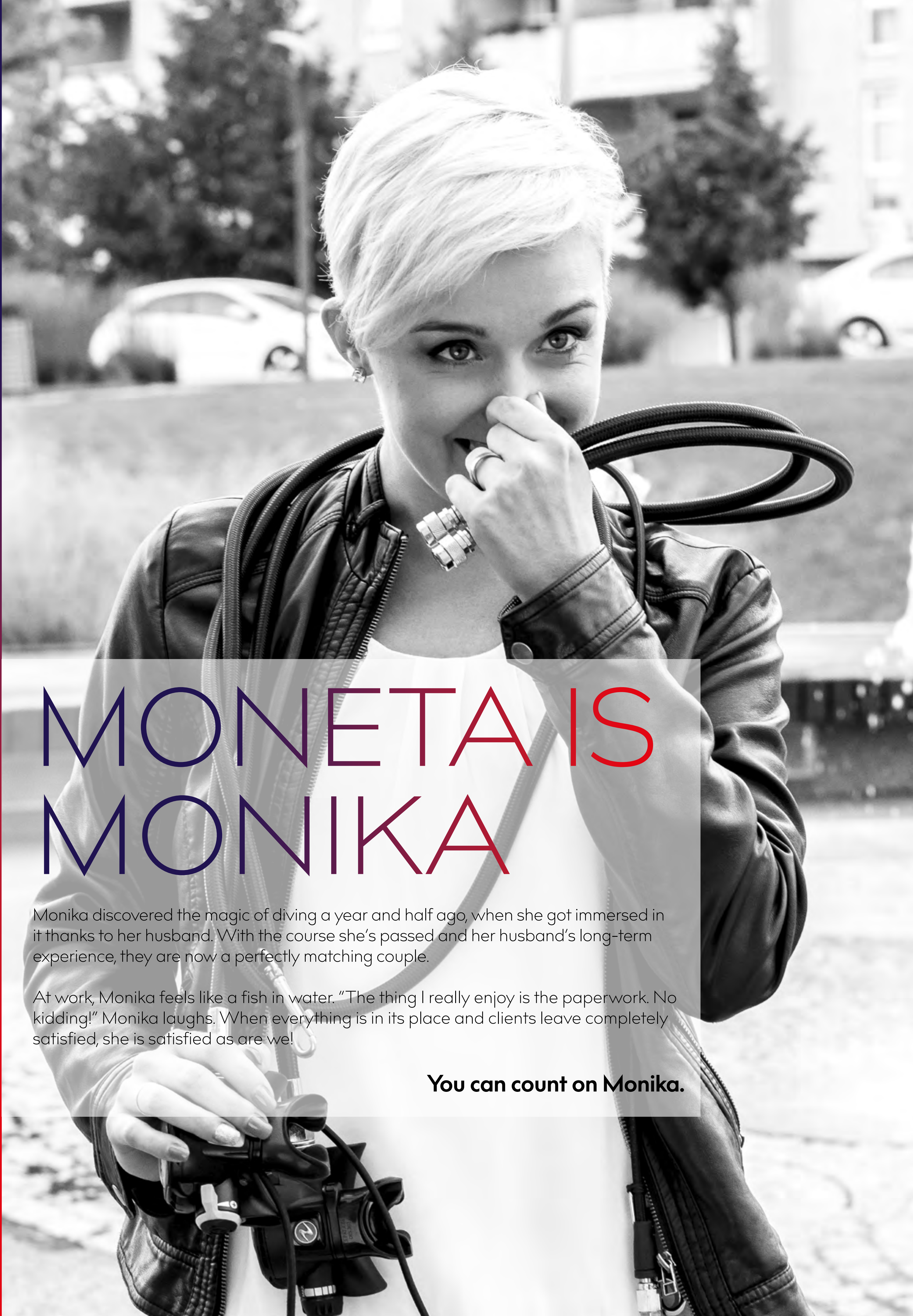
The Bank has access to multiple sources of financing, consisting of savings and other deposits, revolving credit facility and the Bank's own equity. Currently, the Bank is funded primarily by deposits (97.8% being deposits from customers and 2.2% being deposits from banks) and retained earnings, with a loan to deposit ratio of 96.2% as at 31 December 2016. As at 31 December 2016, total deposits balances were CZK 118.9 billion, of which CZK 67.6 billion were current accounts (55.0% being retail current accounts and 45.0% being commercial current accounts). Saving accounts represented CZK 44.2 billion of total deposits (80.1% being retail savings accounts and 19.9% being commercial savings accounts). Term deposits represented CZK 6.4 billion of the total deposits (9.0% being retail term deposits and 91.0% being commercial term deposits). For the purpose of financing EUR denominated assets, as at 31 December 2016, the Group borrowed CZK 2.7 billion in the interbank market consisting of both secured and unsecured borrowings. As at 31 December 2016, the Group also had undrawn credit lines totalling CZK 4.7 billion from GE Capital Switzerland AG.

On top of that the Group intends to establish committed lines replacing the RCA line from GE Capital Switzerland AG as well as to set a Bond issuance programme throughout the year 2017 to have the option to diversify its funding sources.

The table below presents the period-end and average balances of total deposits by type and weighted-average rates thereon paid during the years presented:

CZK m	Year ended 31 December 2016			Year ended 31 December 2015		
	Period-End Balance	Average Balance	Cost of Funds	Period-End Balance	Average Balance	Cost of Funds
Retail						
Current Accounts	37,181	34,354	0.0%	31,527	29,023	0.0%
Savings Accounts	35,409	33,815	0.4%	32,220	32,399	0.4%
Term Deposits	577	811	0.9%	1,044	1,460	1.7%
Commercial						
Current Accounts	30,445	30,605	0.1%	30,766	28,837	0.1%
Savings Accounts	8,810	8,698	0.2%	8,586	8,474	0.2%
Term Deposits	5,803	5,199	0.2%	4,594	2,688	0.4%
Other Liabilities to Customers	**684**	**467**	**n/a**	**249**	**239**	**n/a**
Total Deposits	**118,909**	**113,948**	**0.2%**	**108,987**	**103,120**	**0.2%**

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



MONETA IS MONIKA

Monika discovered the magic of diving a year and half ago, when she got immersed in it thanks to her husband. With the course she's passed and her husband's long-term experience, they are now a perfectly matching couple.

At work, Monika feels like a fish in water. "The thing I really enjoy is the paperwork. No kidding!" Monika laughs. When everything is in its place and clients leave completely satisfied, she is satisfied as are we!

You can count on Monika.

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)

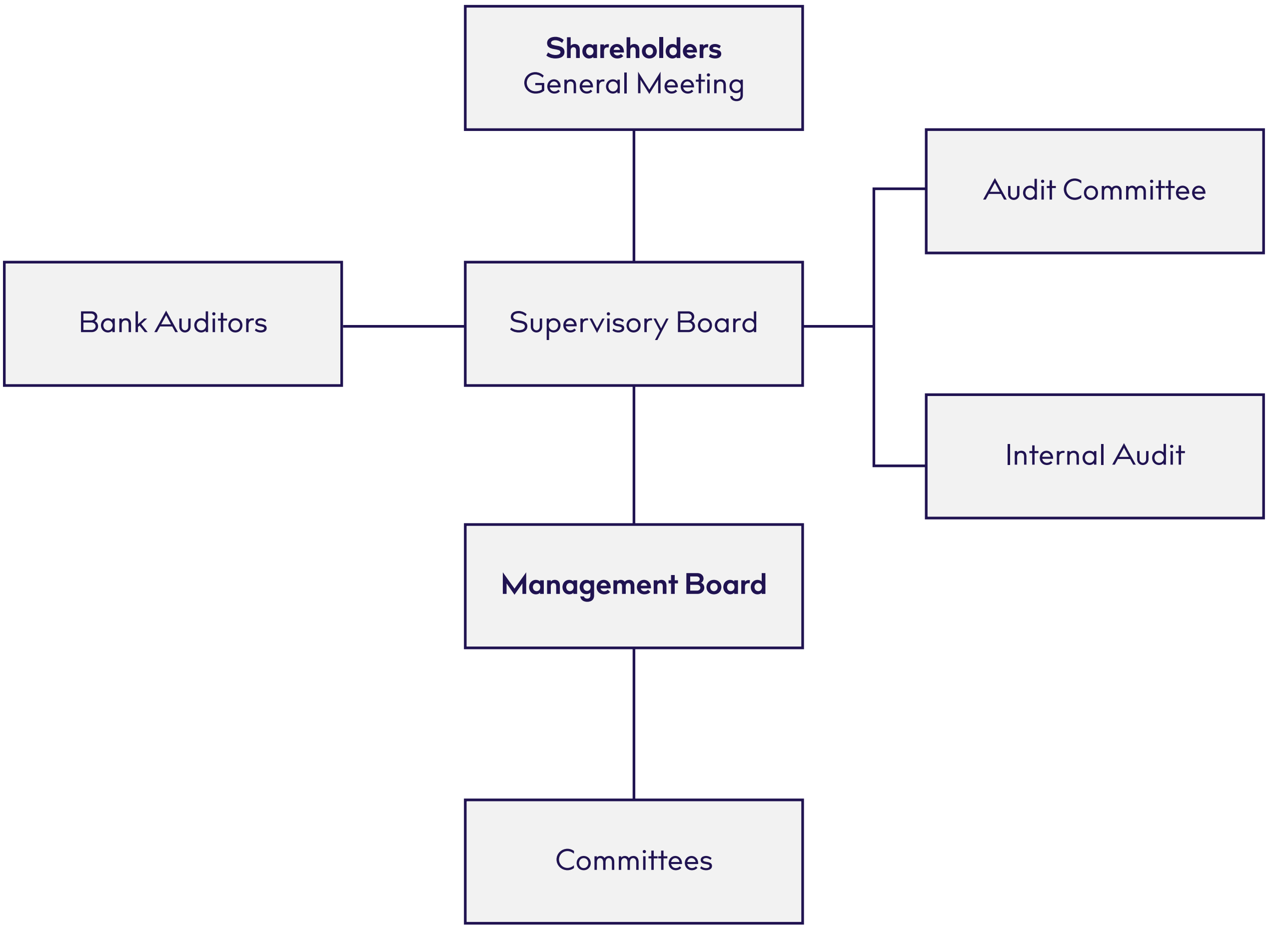
4.1 Organisational chart

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

- Decisions of the General Meeting of the Bank, and
- Participation of persons chosen by the General Meeting in the Supervisory Board of the Bank

Generally, the Supervisory Board oversees the business activities of the Management Board, and is:

- Entitled to examine financial reports and accounting records,
- allowed to require information on all business activities of and inspect all documents related to business activities of the Bank, and
- entitled to convene General Meeting of Bank if necessary.



4.2 General Meeting competencies and principle resolutions

Attendance at the General Meeting

The General Meeting may be attended by any person who is registered as a shareholder or a person entitled to execute rights associated with a share in the statutory register of investment instruments (Central Securities Depository) on the record date. The record date for participation at the General Meeting is the seventh (7th) day prior to the date of the General Meeting.

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

Procedure at the General Meeting

The Chairman of the General Meeting must make sure that all proposals, counterproposals, and requests for explanation put forward by shareholders are brought to the floor, provided that they comply with law and relate to an agenda item and the shareholder in question so insists. 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 an explanation is needed for reviewing the contents of items on the General Meeting's agenda or for exercising the shareholder's rights at the General Meeting, unless no answer may not be given under the law. Explanations may be provided 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 of the date on which the General Meeting is held.

Decision Making at General Meetings

The General Meeting constitutes a quorum if the present shareholders hold shares whose cumulative face value exceeds 50% of the Bank's stated 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 Bank's bylaws.

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 body of the Bank.
2. The General Meeting is authorized to:
   a) amend the Articles of Association, save for amendments resulting from increasing the Bank's registered capital by the duly authorized Management Board or amendments resulting from other legal matters;
   b) decide on changes in the Bank's registered capital;
   c) decide on an increase in the Bank's registered capital by in-kind contributions;
   d) authorize the Management Board to increase the Bank's registered 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 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 Supervisory Board and the Audit Committee may exceed 200% (two hundred per cent.) of fixed component of his/her total compensation;
   l) if applicable, instruct the Supervisory Board to set a proportion between fixed and variable components of the compensation of each member of the Management Board 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 may exceed 200% (two hundred per cent.) of fixed component of his/her total compensation;
   m) approve contracts for settlement of loss caused by a breach of the duty of due care by a member of the Bank's body;
   n) approve a distribution of profit or other own resources of the Bank or on compensation of loss;
   o) approve a distribution of the profit to a person that is not a shareholder of the Bank;
   p) decide to unwind the Bank;
   q) approve a proposed distribution of the Bank's liquidation balance;

r) decide to apply for listing or delisting the Bank's securities on the European regulated market;
s) 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;
t) decide on a change of classes of the shares;
u) decide on a change of rights attached to individual classes of the shares;
v) decide on a conversion of registered shares to bearer shares and vice-versa;
w) approve restrictions or limitations of the shares' transferability;
x) decide on a merger of two or more shares into one share;
y) decide on splitting shares;
z) decide on an acquisition of the Bank treasury shares;
aa) 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 capital created by shares with voting rights, and carrying at least 90% (ninety per cent.) of voting rights in the Bank;
bb) 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);
cc) approve the Bank's annual, extraordinary or consolidated and, if required, interim financial statements;
dd) appoint an auditor to perform the statutory audit; and
ee) 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.

In addition to other cases required by law, a majority of at least two-thirds of the votes of the shareholders present is required for the General Meeting to make decisions on:
a) amend the Articles of Association, save for amendments resulting from increasing the Bank's registered capital by the duly authorized Management Board or amendments resulting from other legal matters;
b) decide on changes in the Bank's registered capital;
d) authorize the Management Board to increase the Bank's registered 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;
p) decide to unwind the Bank;
q) approve a proposed distribution of the Bank's liquidation balance;
s) 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;
y) decide on splitting shares;

Resolutions under Article 2 Lett. b) and s) hereof shall be passed at a General Meeting in addition with 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 with 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) with a qualified majority of at least three-quarters (3/4) of the votes cast at a General Meeting; and
b) in addition with 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 in addition with 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) with a qualified majority of at least two-thirds (2/3) of the votes cast at a General Meeting; and
b) in addition with 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 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) with a qualified majority of at least two-thirds (2/3) of the votes cast at a General Meeting; and
   b) in addition 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 with 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 with 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, but:
   a) a demerger of the Bank with an unequal shares exchange proportion shall be approved by a resolution passed at a General Meeting with 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 with a qualified majority of at least 90% (ninety per cent.) of the votes of all Bank's shareholders.

The minutes of the General Meeting together with General Meeting announcements and attendance lists, including submitted powers of attorney, are kept in the Bank archives for the duration of the Bank.

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 its results.

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

a) examine annual, extraordinary or consolidated and, if required, interim financial statements, proposal for the distribution of profit or compensation of loss, and submit its opinion to the General Meeting;
b) establish the Nomination and Remuneration Committee and the Group Transition 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 laws, 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) if applicable, based on an instruction of the General Meeting, set a proportion between fixed and variable components of compensation of each member of the Management Board 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 may exceed 200% (two hundred per cent.) of fixed component of his/her total compensation;
h) convene a General Meeting if required by applicable laws or by the Bank's interests and propose to the General Meeting appropriate measures to be taken;
i) 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;
j) examine the affiliated parties report and submit its opinion on such examination to the General Meeting;
k) inspect all documents and records related to the activities of the Bank;
l) 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 the applicable laws and these Articles of Association;
m) grant its prior consent to decisions of the Management Board pursuant to Article 13 sub. 3 hereof; and
n) exercise all other powers, rights and duties vested to the Supervisory Board by applicable laws, including powers, rights and duties of a controlling body under the CNB Regulation.

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 five members with three being independent, including the independent Chairman of the Supervisory Board. For purposes of these 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). 2. 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 laws. 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 or employment.

A member of the Supervisory Board may resign from the Supervisory Board via 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 an 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 of 31 December 2016:

Name	Role	Position held from	Term ends on
Christopher Chambers	Chairman	21 April 2016	21 April 2020
Richard Alan Laxer	Vice-Chairman	21 April 2016	21 April 2020[1]
Clare 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

[1] In January 2017 Mr. Laxer decided to step down from his office. He will stay in his function until the Annual General Meeting of the Bank which will be held in April 2017.

There are no conflicts of interest between the duties of the members of the Supervisory Board to the Bank and to their private interests or other duties.

Members of the Supervisory Board whose function terminated in 2016:

Name	Position terminated on
Todd Lamar Smith	21 April 2016
Paul David Hurd	21 April 2016
Andrew Charles Bull	21 April 2016

CHRISTOPHER CHAMBERS has been a senior adviser at Lone Star Europe (Real Estate), London since June 2011. From 2002 to 2005, he was Chief Executive Officer of Man Investments Ltd and executive member of group management (main board director) of Man Group Plc. From 1997 to 2002, he was managing director and head of European Equity Capital markets at Credit Suisse First Boston. Mr. Chambers is also a member of the board of directors and audit and compensation committees of Swiss Prime Site AG (Zurich, Switzerland), a SIX Swiss Exchange listed company for real estate investments in Switzerland, a position he has held since 2009, and a member of the supervisory board of Berenberg Bank Ltd (Zurich, Switzerland), the Swiss-based arm of the German private bank Berenberg, since 2012, a member of the board of directors of Pendragon Plc, a UK automotive retailer listed on the London Stock Exchange, since 2013, executive chairman of the board of directors of Lonrho Ltd (London, UK), a conglomerate operating in Africa that is listed on the London Stock Exchange, since 2013 and chairman of GVO Investment Management (London, UK), a specialist fund manager since 2014. On 27 April 2016 Mr. Chambers left the board of Cembra Money Bank, a bank listed by GE Company in October 2013 on the SIX Swiss Exchange.

Previous board memberships include Mr. Chambers' role as member of the board of directors of Evolution Group Plc (London, UK), from 2009 to 2011, and Chairman of the board of directors of Jelmoli Holding AG (Zurich, Switzerland), from 2007 to 2010.

Mr. Chambers was appointed Chairman of the Supervisory Board of the Bank on 21 April 2016 for four years. His service contract will terminate upon the termination of his office.

RICHARD LAXER holds a degree in business from Skidmore College and is a former Skidmore board member. He began his career at GE in 1984 as a member of the Financial Management Program, following which he held leadership roles at GE Capital Real Estate, concluding with his running of the Asia Pacific region from 2001 to 2003. Mr. Laxer was named a GE officer in 2003, and is a member of GE's Executive Council. From 2006 to 2008, Mr. Laxer was president and Chief Executive Officer of GE Capital Solutions, a global leasing and asset provider with operations in more than 30 countries, before becoming president and Chief Executive Officer of GE Capital Europe, Middle East and Africa. He took up his current position, as president and Chief Executive Officer of GE Capital International, in August 2013. Mr. Laxer was previously a board member of Cembra Money Bank, a bank listed by GE Company in October 2013 on the SIX Swiss Exchange. He left the board after GE Company sold its residual stake in Cembra Money Bank in May 2015.

Mr. Laxer was appointed Vice-Chairman of the Supervisory Board of the Bank on 21 April 2016 for four years. His service contract will terminate upon the termination of his office.

In January 2017 Mr. Laxer decided to step down from his office. He will stay in his function until the Annual General Meeting of the Bank which will be held in April 2017.

RONALD CLARKE is the owner of ReDefine s.r.o., a human resources consultancy operating in the Czech Republic. Mr. Clarke was previously Head of Learning and Development, Europe and Executive Director, Human Resources for Telefonica, where he was also a member of the Management Board from 2009 to 2010. Prior to that, Ronald Clarke worked at Pfizer and Warner-Lambert in Canada.

Mr. Clarke was appointed a member of the Supervisory Board of the Bank on 21 April 2016 for four years. His service contract will terminate upon the termination of his office.

MICHAL PETRMAN is currently an independent consultant advising clients on finance and management and a lecturer at the University of Economics, Prague. Mr. Petrman spent the majority 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 member of the executive committee of Deloitte Central Europe. Mr. Petrman is a member of the supervisory board of the Vaclav and Dagmar Havel foundation VIZE 97 and member of the board of University of Economics, Prague. He is Chairman of the audit committee of Net4Gas. He is also a managing director and partner in Auxilium Consultum, s.r.o. since June 2015 and a director of the statutory body and a managing director in 6D Academy, z.ú, and 6D Services, s.r.o. since June 2016.

Mr. Petrman was appointed a member of the Supervisory Board of the Bank on 21 April 2016 for four years. His service contract will terminate upon the termination of his office.

DENIS HALL has held senior executive positions as Chief Risk Officer in Citibank (1985-2001), Deutsche Bank (2001-2007) and GE Capital (2007–2016). He is currently the Chairman of the Supervisory Board of Hyundai Capital Bank Europe based in Frankfurt; a Board and Audit and Risk Committee member of Cembra Money Bank, Zurich, a bank listed on the SIX Swiss Exchange; and a Board member of the Skipton Building Society in the UK.

Mr. Hall was appointed a member of the Supervisory Board of the Bank on 21 April 2016 for four years. His service contract will terminate upon the termination of his office.

None of the members of the Supervisory Board have been partner or member of a body of any entity in the Czech Republic in the past five years except as stated above.

4.3.3 1 Activity report of the Supervisory Board

Regular meetings of the Supervisory Board are held, at minimum, once per year calendar quarter with the possibility of remote voting.

In 2016, the Supervisory Board held six regular meetings. The average meeting length was three hours.

The Supervisory Board reviewed the Bank's separate and consolidated financial statements as of 31 December 2015 prepared under International Financial Reporting Standards (IFRS). The Supervisory Board recommended that the General Meeting approve the report of the external auditor, KPMG Česká republika Audit, s.r.o., as proposed by the Bank's Management Board.

The Supervisory Board also examined the Management Board' proposal for distribution of net profit for the 2015 accounting period and recommended that the General Meeting approve this proposal.

Furthermore, it reviewed the Report on Relations among Related Entities for 2015 compiled in accordance with the provisions of Section 82 et seq. of Act No. 90/2012 Coll., on business corporations and co-operatives (the Act on Business Corporations) and stated that, based on the presented documents, MONETA Money Bank, a. s., did not incur during the accounting period from January 1st, 2015, to December 31st, 2015, any damages resulting from the contracts and agreements made with related entities. At the same time, upon recommendation of the Audit Committee, the Supervisory Board agreed to submit a proposal to the General Meeting to approve KPMG

Česká republika Audit, s.r.o., as the external auditor of the Bank for the year 2017.

During 2016, 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 and approved the 2015 annual assessment report on the Bank's system for anti-money laundering and preventing the financing of terrorism and the annual compliance management report.

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

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 2016, as well as the internal audit plan for 2017.

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

The activities of the Supervisory Board pertaining to the 2016 financial statements and annual report are described in the Supervisory Board report in chapter 8 of this report.

4.4 Committees established by the Supervisory Board

The committees established by the Supervisory Board, together with their powers and duties, and chairperson and members, are described below.

4.4.1 Nomination and Remuneration Committee

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

The Nomination and Remuneration Committee has the following powers and duties:

a) supporting the Supervisory Board in fulfilling its duty to conduct a self-assessment of the Supervisory Board;
b) establishing and maintaining a process for appointing new members to the Management Board;
c) opining on proposed candidates to the Supervisory Board and deciding on guidelines for candidates for the Supervisory Board and the Management Board; and
d) establishing the remuneration strategy for the company, and approving or making recommendations to the Supervisory Board regarding certain compensation matters.

The following persons are members of the Nomination and Remuneration Committee:

Name	Role
Ronald Clarke	Chairman
Christopher Chambers	Member
Richard Laxer	Member

4.4.2 Group Transition Committee

The Group Transition Committee is an advisory body of the Supervisory Board. The committee consists of three members elected and recalled by the Supervisory Board from among members of the Supervisory Board, with a majority of members being independent.

The Group Transition Committee has the following powers and duties:

a) monitoring, reviewing and opining all material contracts and transactions between the company and parties specified in the Group Transition Committee statute; and
b) co-operating with the Management Board and the company's auditor in respect of matters relating to affiliated parties report.

The following persons are members of the Group Transition Committee:

Name	Role
Denis Hall	Chairman
Ronald Clarke	Member
Michal Petrman	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 ("AC") in its current composition was established on 21 April 2016 in relationship with the IPO of the Bank and nomination of independent members to the Supervisory Board and to the committees.

The Audit Committee has the following powers and duties:

a) monitoring the effectiveness of the company's internal control and risk management system;
b) monitoring the effectiveness of the company's internal audit and ensuring its functional independence;

c) monitoring the process of compiling the company's consolidated and non-consolidated financial statements;
d) recommending an auditor to the Supervisory Board whereas such recommendation shall be duly reasoned;
e) evaluating the independence of the company's auditor, and, in particular, providing supplementary services by that auditor;
f) monitoring the process of the statutory audit;
g) receiving and discussing with the auditor information, declarations and notifications as required by applicable laws;
h) providing other companies' bodies with information on matters within the Audit Committee's competences; and
i) exercising 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.

The following persons are members of the Audit Committee:

Name	Role
Michal Petrman	Independent Chairman
Denis Hall	Vice-Chairman,
Christopher Chambers	Independent Member

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.

There are no conflicts of interest between the duties of the members of the Audit Committee to the Bank and their private interests or other duties.

4.5.1 Activity report of the audit committee

The AC is a corporate body of the Bank. It held its meetings five times in 2016 and twice in 2017 prior to the date hereof and focused primarily on the following five major areas:

i. Internal control system, compliance and risk management matters

The AC reviewed and consulted with the Chief Finance Officer, Chief Risk Officer and Chief Compliance Officer the Bank's internal controls and risk management system and their efficacy. Any significant changes and/or issues in respect of the internal controls and risk management system were on agenda of the AC's meetings.

The AC did not identify any material deficiencies in the Bank's internal controls and risk management system and concluded that all major risks were duly identified, addressed, and effectively managed.

ii. Preparation and statutory audit of annual financial statements

The AC reviewed and assessed processes and controls related to financial reporting and, in particular, preparation of the Bank's annual individual and consolidated financial statements for the year ended 31 December 2016. The review of the financial statements included, among other things, inquiries regarding major accounting policies used by the Bank (including their suitability and consistency or changes in such policies), significant accounting estimates, compliance with accounting standards, and major trends in the Bank's financial results.

The AC also monitored the process of the statutory audit of the Bank's annual individual and consolidated financial statements for the year ended 31 December 2016 conducted by KPMG Česká republika Audit, s.r.o. ("KPMG"). The process of the statutory audit was consulted with KPMG and the AC was regularly informed of the time-table, major steps and significant findings of the statutory audit. The AC reviewed and acknowledged the KPMG's 2016 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 2016, 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 AC discussed with the external auditor unadjusted audit differences and other matters as specified in the agenda. The AC was satisfied with assuring the auditor's independence and with the scope and execution of the audit.

Based on the above, the AC concluded that the annual individual and consolidated statements for the year ended 31 December 2016 were prepared in accordance with applicable law and accounting standards. The Supervisory Board was informed by the AC of the outcome of the 2016 statutory audit, the AC's observations resulting therefrom and contribution of the statutory audit to the integrity of the Bank's accounting and financial reporting system.

iii. Selection, independence and qualification of auditor for statutory audit and approval of non-audit services provided by such auditor

KPMG was appointed to conduct the Bank's statutory audit for the year ended 31 December 2016 by the Bank's then sole shareholder upon recommendation of the AC, prior to the IPO. The AC in its current composition assessed whether KPMG continues to be independent from the Bank and its subsidiaries and sufficiently qualified to conduct the statutory audit for the year ending 31 December 2016, and consulted with KPMG assessment of potential risks, key audit matters, major 2016 audit findings and the 2016 audit report itself.

The AC reviewed and approved individually all requests for performance of non-audit services by KPMG. In its review, the AC focused on any potential threats to KPMG's independence and the amount of requested non-audit services in proportion to the amount of KPMG's statutory audit fee.

Based on the above assessment of KMPG's independence, qualification and conduct of the 2016 statutory audit, the AC 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 2017.

iv. Oversight of internal audit activities

In course of the 2016, the AC also regularly assessed efficacy and functional independence of the Bank's internal audit function. In this respect, the AC, for example, reviewed the 2016 internal audit plan and approved changes to this plan. The 2017 internal audit plan was approved by the AC later in 2016. Implementation of the internal audit plans was continually monitored by the AC. The AC also received and reviewed regular reports from the head of the Bank's internal audit function. These reports focused mainly on progress in implementing the internal audit plan, key internal audit findings and recommendations, implementation of remedial measures, any significant changes in internal audit methodology, as well as funding of the internal audit function.

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

v. Conclusion

In conclusion, the AC states that it has fulfilled all of its responsibilities as set forth in applicable Czech and EU legislation, 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 AC 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 legal regulations.

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 (currently four functions are occupied) members (natural persons) who comply with the conditions established in legal regulations for serving as a member of the Bank's Management Board and who are elected for four-year terms by a majority of all Supervisory Board members at the recommendation of the Nominations Committee. The Nominations 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 competencies under Czech law

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

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

a) ensure proper maintenance of the company's book-keeping;
b) decide on an increase in the registered capital, provided that the Management Board has been duly authorized by the General Meeting;
c) decide on establishing and dissolving the company'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 company as a shareholder in the company'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 company's business and its assets;
   v. summary report pursuant to Section 118 sub.8 of the Czech Capital Markets Act;
   vi. proposals to amend these Articles of Association;
   vii. proposals to increase or decrease the registered capital;
   viii. proposals to issue preference or convertible bonds;
   ix. other documents and proposals, if required by applicable laws or by these 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 company'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 company'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 company financial indebtedness (other than deposit taking), unless included in the approved company'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 company 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 company's receivables in the aggregate nominal value in excess of 5% (five per cent.) of the company's consolidated equity as recorded in the latest available consolidated quarterly financial statements of the company (hereinafter the "Equity"), unless included in the approved company's business plan and/or annual budget;
f) approval of any corporate transformation of the company, 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 capital of any company's subsidiary, unless included in the approved company'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 company'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 company's business plan and/or annual budget;
j) acquisition, disposition or encumbrance of any other assets of the company with the book value in excess of 5% (five per cent.) of the Equity, if outside the company's ordinary course of business and unless included in the approved company's business plan and/or annual budget; and
k) approval of any compensation to members of the company's staff identified in the company'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 has a five member structure. 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 company is governed by a service contract concluded between the company and the respective member of the Management Board and further by applicable laws. Members of the Management Board have notice periods of between 6 and 17 months and the Bank may elect to put the relevant person on paid gardening leave for their notice period as opposed to requiring the relevant person to work their notice period. In the case of contract termination, the members of the Management Board are entitled to receive an amount of up to 19 monthly salaries as termination benefits (according to the conditions of individual contracts).

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 company's registered office. A member of the Management Board may not resign at improper time for the company.

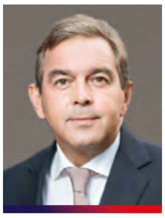
4.6.3 Members of the Management Board

Name	Position	Appointed	Current end period
Tomáš Spurný	Chairman of Management Board	1 October 2015	1 October 2019
Philip Holemans	Vice-Chairman of Management Board	20 April 2016[1]	17 July 2018
Carl Normann Vökt	Member of Management Board	25 January 2013	25 January 2017[2]
Jan Novotný	Member of Management Board	16 December 2013	16 December 2017

[1] From July 17, 2014 to April 20, 2016 Philip Holemans was Member of the Management Board.
[2] 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.

There are no conflicts of interest between the duties of the members of the Management Board to the Bank and their private interests or other duties.

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. Mr. Spurný started his career at McKinsey & Company and has extensive experience from managerial positions in the banking and financial sector. Most recently, he served as CEO and Chairman of the Management Board of Banca Comerciala Romana, a Romanian subsidiary of Erste Group. Previously he served as CEO at major banks in the CEE region, including CIB in Hungary, VUB in Slovakia and held CFO position at Komerční banka. Mr. Spurný also held 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. His service contract will terminate upon the termination of his office. Mr. Spurný has been also 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 a Chief Executive Officer, he actively fulfils his duties resulting from the function which are set by the appropriate legal norms, the 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 Chief Financial Officer in 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 a member of the Management Board of the Bank for four years and on 20 April 2016 Vice-Chairman of the Management Board of the Bank. His service contract will terminate upon the termination of his office.

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, s.r.o between June 2014 and June 2016.

As a 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 of Creditanstalt, followed by a short secondment to the International Finance Corporation in Washington, and since 1996 he had been 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 there was 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. On 25 January 2013 he was appointed a member of the Management Board of the Bank for four years and reappointed with effect from 25 January 2017 for another four years. His service contract will terminate upon the termination of his office. He has been also a member of the Supervisory Boards of MONETA Leasing since November 2015 and MONETA Auto since May 2016.

As a 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 processes 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. His service contract will terminate upon the termination of his office. He has been also 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. He manages to increase assets and accounts, profitably execute growth initiatives, introduce additional products, manage assigned resources and enhance the client relationship in order to retain and grow the business.

None of the members of the Management Board have been partner or member of a body of any entity in the Czech Republic in the past five years except as stated above.

4.6.4 Activity report of Management Board

In 2016, the most significant tasks of the Management Board were the listing of Moneta Money Bank's shares on the Prague Stock Exchange, the separation from GE Corporation and the rebranding of the Bank. Moreover, the Management Board discussed the annual financial results of MONETA Group for the year 2015, as well as the Group's consolidated financial statements, separate financial statements, and their footnotes as of December, 31, 2015 and prepared under International Financial Reporting Standards (IFRS).

The Management Board submitted these statements to the Supervisory Board for review and then to the General Meeting for approval. At the same time, it submitted to the Supervisory Board for review the proposed profit distribution for 2015, which was subsequently approved by the General Meeting. The Management Board also discussed additional proposals for the General Meeting, in particular the Report of the Management Board on the Bank's Business Activities, the Report on Relations among Related Entities, the proposal for appointment of the external auditor and other matters falling within the competence of the General Meeting. The Management Board also approved the Bank's Annual Report for 2015.

The Management Board regularly reviewed the quarterly financial results of MONETA. The Management Board shall convene at its regular, periodic meetings, usually on weekly basis. Meetings shall be convened and presided over by the Chairman of the Management Board or, in his or her absence, by the Vice Chairman of the Management Board.

The average meeting length was about 4 hours with an average participation of all elected members of the Management Board, therefore 100%.

The Management Board continuously evaluated the Bank's capital adequacy and also approved the Internal Capital Adequacy Assessment Process (ICAAP) submitted to the Czech National Bank on the basis of Decree No. 163/2014 Coll. on the performance of the activity of banks, credit unions and investment firms. While taking into consideration the test of solvency, it decided on the payment of dividends for the financial year 2015. It also discussed capital management policy, reports on the market situation, and the development of structural risks for each quarter of the year.

As part of its activities, the Management Board regularly assessed all of the Bank's risks. In the field of risk management, it discussed the reports on the development of market and capital risks and the development of lending on capital markets on a regular basis. At the same time, it discussed and approved limits on market risks, and, within its competence, approved specified loans. Moreover, it 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 also information on the results of the first level controls.

Compliance risks were evaluated both in the annual report for 2015 and the quarterly reports on the development of these risks. At the same time, the Management Board approved the 2015 annual evaluation report on Bank's system against money laundering and the financing of terrorism.

It continued to oversee execution of measures assumed in connection with new regulations impacting the Bank (most importantly the new Consumer Credit Act) and needing to be implemented as well as their expected development in the next year.

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 corrective measures and their proper implementation were fully addressed.

The Management Board monitored the status of individual projects relating to IT strategy and related to the separation from GE Corporation, updated the information security policy and approved the information management strategy.

It also approved numerous transitional service agreements with GE Corporation in order to ensure a smooth and solid separation from GE Corporation IT systems.

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. The Management Board evaluated its own activities in 2015 and submitted its report on those activities for this period to the Supervisory Board. The Management Board approved the distribution of competences among individual members and agreed the proposal for amendment of the Bank's Articles of Association.

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 2016 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 & liability management, market risk and liquidity risk management, both on a single and consolidated basis.

Its main responsibilities include: advising the Management Board in the area of asset & liability management; market and liquidity risk management; monitoring market and liquidity risk, assets & liabilities structure, and approving remediate 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.

Voting members	
Chief Financial Officer	Philip Holemans (Chairperson)
Chief Executive Officer	Tomáš Spurný (Vice-Chairperson)
Chief Risk Officer	Carl Normann Vökt
Chief Commercial Banking Officer	Jan Novotný
Senior Manager Treasury, Finance	Matej Godál
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 Product Finance, Finance	Marcus Pazdírek
Manager Asset and Liability Management, 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, both on a single and consolidated basis.

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 of large exposures including those towards the Group members, financial institutions, governments and countries; monitoring of loan-loss provisions and their overall trends; and tracking large defaulted exposures and credit frauds.

Voting members	
Chief Risk Officer	Carl Normann Vökt (Chairperson)
Chief Executive Officer	Tomáš Spurný (Vice-Chairperson)
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 Product Finance, Finance	Marcus Pazdírek
Senior Manager Enterprise Risk Management, Risk Management	Martin Kubíček
Senior Manager Treasury, Finance	Matej Godál

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, both on a solo and consolidated basis.

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 assessing the Business Continuity Plan; approving ICAAP principles and remedial measures in case of recognised deficiencies; monitoring risks identified within ICAAP; and approving methodology for risk weighted assets.

Voting members	
Chief Risk Officer	Carl Normann Vökt (Chairperson)
Chief Executive Officer	Tomáš Spurný (Vice-Chairperson)
Chief Financial Officer	Philip Holemans
Chief Commercial Banking Officer	Jan Novotný
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	Jiří Tuka
Senior Manager Treasury, Finance	Matej Godál

4.7.4 Pricing Committee

The Pricing Committee is responsible for the management and coordination of activities in the area of rates and fees.

The Pricing Committee mainly reviews and approves the Bank'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.

Voting members	
Chief Executive Officer	Tomáš Spurný (Chairperson)
Chief Financial Officer	Philip Holemans (Vice-chairperson)
Chief Products & Marketing Officer	Andrew Gerber
Chief Commercial Banking Officer	Jan Novotný
Chief Risk Officer	Carl Normann Vökt
Chief Retail Growth Officer	Aleš Sloupenský
Senior Manager Treasury, Finance	Matej Godál
Non-voting members	
Senior Manager Product Finance, Finance	Marcus Pazdírek
Manager Commercial Deposits, Commercial Banking	Lukáš Krejza
Manager Product Finance, Finance (Retail Product Finance)	Radovan Mareček
Manager Product Finance, Finance (Commercial Product Finance)	Ondřej Vejdovec

4.7.5 Incentive Payment Review Committee

The Incentive Payment Review Committee was responsible for management and coordination of activities in the area of compensations and benefits.

The main responsibilities included approving compensation and benefits strategy and its communication, approving principles of incentive plans (financial and non-financial), setting up upper limit for annual plan of salaries and bonuses, approving payment of incentives.

The Incentive Payment Review Committee was cancelled in October 26, 2016 and will be replaced by newly established Management Board working body, Compensation Committee in 2017.

4.7.6 Compliance and Anti-Fraud Committee

The Compliance & Anti-Fraud Committee (CAC) is responsible for the management and coordination of activities in the area of internal controls, compliance risk and anti-fraud management, both on a solo and consolidated basis.

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.

Voting members	
Chief Compliance Officer	Thomas Dodd (Chairperson)
Chief Executive Officer	Tomáš Spurný
Chief Risk Officer	Carl Normann Vökt (Vice-Chairperson)
Chief Financial Officer	Philip Holemans
Chief Commercial Banking Officer	Jan Novotný
Non-voting members	
Chief Controller, Finance	Martin Svozil
Operational Risk Manager, Risk Management	Jiří Tuka
Senior Manager, Internal Audit	Martin Wrlík

4.7.7 Project Management Committee

The Project Management Committee is responsible for project management issues, project tollgates approvals and the detailed allocation of human resources to individual projects.

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

Voting members	
Chief Compliance Officer	Thomas Dodd (Chairperson)
Chief Executive Officer	Tomáš Spurný
Chief Information Officer	Radim Šilhánek
Chief Financial Officer	Philip Holemans
Chief Risk Officer	Carl Normann Vökt
Chief Commercial Banking Officer	Jan Novotný
Chief Products & Marketing Officer	Andrew Gerber
Chief Legal Officer	Tomáš Černý
Chief Retail Growth Officer	Aleš Sloupenský
Chief Shared Services Officer	Petr Brunclík
Non-voting members	
Senior manager, Information Technologies	Jiří Truhlář
Senior Manager, Project Management Office, Compliance	Marta Fraňová
Senior Manager, Internal Audit	Martin Wrlík

4.7.8 Capital Committee

The Capital Committee (CAPCO) is responsible for the coordination of activities in the area of capital management, both on a solo and consolidated basis.

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).

Voting members	
Chief Executive Officer	Tomáš Spurný (Chairperson)
Chief Financial Officer	Philip Holemans (Vice-Chairperson)
Chief Risk Officer	Carl Normann Vökt
Chief Commercial Banking Officer	Jan Novotný
Senior Manager Treasury, Finance	Matej Godál
Non-voting members	
Senior Manager Enterprise Risk Management, Risk Management	Martin Kubíček
Chief Controller, Finance	Martin Svozil
Senior Manager FP&A, Finance	Vít Legerský
Manager Asset and Liability Management, 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 concerning 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.

Voting members	
BCM & Security & Facilities Manager, Shared Services Center	Jiří Huml (Chairperson)
Chief Shared Services Officer	Petr Brunclík
Chief Information Officer	Radim Šilhánek
Chief Compliance Officer	Thomas Dodd
Team Manager Commercial Deposits, Commercial banking	Lukáš Krejza
Senior Manager, Human Resources	Ivana Rossmanithová
PR Manager, Human Resources	Milada Veselá
Senior Manager Enterprise Risk Management, Risk Management	Martin Kubíček
Product, Process & System Assurance Manager, Retail Sales	Blanka Lešáková

4.8 Senior Management

At the executive level, the Bank is managed by the Management Board and other Senior managers. Set out below are the Chief Executive Officer – Chairman of the Management Board, Members of the Management Board and Senior Managers as of 31 December 2016[1].

There are no conflicts of interest between the duties of the senior managers set out below to the Bank and their private interests or other duties.

The relationship between a member of the senior management, other than members of the Management Board (see above), and the Bank is governed by an employment contract concluded between the Bank and the respective member of the senior management and further by applicable laws. Members of the Senior Management, other than members of the Management Board, have notice periods of 6 months and the Bank may elect to put the relevant person on paid gardening leave for their notice period as opposed to requiring the relevant person to work their notice period.

[1] For information related to Management Board refer to chapter 4.6 Management Board

TOMÁŠ SPURNÝ – Chairman of Management Board with delegated power as Chief Executive Officer

PHILIP HOLEMANS - Vice-Chairman of Management Board with delegated power as Chief Financial Officer

CARL NORMANN VÖKT - Member of Management Board with delegated power as Chief Risk Officer

JAN NOVOTNÝ - Member of Management Board with delegated power as Chief Commercial Banking Officer

ANDREW GERBER - Chief Products & Marketing Officer

Mr. Gerber studied at the University in Durham, in the UK. He launched his career in several consulting firms in Great Britain working as a consultant. Between 2007 and 2011 he worked for the Royal Bank of Scotland, where he was in charge of products, commercial banking strategy, loans, mortgages, insurance and direct banking services. Before joining the Bank, Mr. Gerber spent 5 years in Banca Comerciala Romana, where he worked as Senior Executive Director for Retail Product and Segment Management. He was responsible for the performance and strategic development of the retail business including product and segment management for private clients and small businesses. Since July 2016 he has held the position of Chief Products & Marketing Officer.

As a Chief Products & Marketing Officer, Mr. Gerber manages, drives, and executes Retail product and segment strategies. He is also responsible for alignment of the product development strategy with the wider business objectives and goals and efficient delivery of new products and services through strong relationships with internal and external stakeholders.

Employment contract between Mr. Gerber and the Bank was entered into on 1 July 2016 for an indefinite period of time.

THOMAS DODD - Chief Compliance Officer

Mr. Dodd holds an Economics degree from Manchester Metropolitan University and an MBA with Distinction from Warwick Business School in the UK. He has extensive experience in international banking, regulation and compliance. Before joining GE, he worked in Dubai, as a Senior Banking Regulator for seven years, responsible for bank inspections carried out for the Central Bank of the United Arab Emirates. Prior to this, he worked for a number of financial services companies including Crédit Lyonnais in Paris, France and for the Czech companies Expandia Finance and Expandia. He joined the Bank in May 2007 and served as Chief Auditor for over 7 years. During this time, he built up an extensive knowledge of the bank processes. In February 2015, he was appointed Chief Compliance Officer of the Bank.

As a Chief Compliance Officer, Mr. Dodd has responsibility for all aspects related to a business segment's compliance function to ensure the Business is operating in line with regulatory requirements and ethical standards by introducing and maintaining the Compliance Program, which includes the processes of identification and assessment of compliance risks, monitoring and testing of risks and processes, communication and training together with management and remediation of any identified discrepancies.

The latest employment contract between Mr. Dodd and the Bank was entered into on 1 April 2015 and was entered into for an indefinite period of time.

ALEŠ SLOUPENSKÝ - Chief Retail Growth Officer

Mr. Sloupenský studied marketing and management at the Faculty of Economics of the University of West Bohemia in Plzeň and has an MBA from Nottingham Trent University in Great Britain. During his career he has focused on the retail area of the banking sector. He has worked in Česká spořitelna, where for 12 years he was responsible for management and development of the retail distribution network, and he has also held management positions in Komerční banka and Bank Austria Creditanstalt Czech Republic. He has gained foreign experience in Banca Comerciala Romana, where he cooperated on creating a successful retail development strategy. Since April 2014, he has held the position of Chief Retail Growth Officer of the Bank.

As a Chief Retail Growth Officer, Mr. Sloupenský participates in key decisions related to strategic initiatives, operating model and operational execution in the Retail division. 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.

RADKA PEKELSKÁ - Chief Human Resources Officer

Ms. Pekelská graduated from the Faculty of Economics and Administration, and also from the Transport Faculty of the University of Pardubice. She has extensive experience in human resource management in international corporations. She started her career with Babcock & Wilcox, working on the implementation of a computerized control system for the power station in Chvaletice. Before joining the Bank, she had worked for Tesco Stores ČR for more than 11 years, eight of which she served as a Human Resources Director and a member of the Board of Directors for the Czech Republic and Slovakia. Since June 2010 she has been the Chief Human Resources Officer of the Bank.

As Chief Human Resources Officer, Ms. Pekelská is responsible for managing of Human Capital, which includes recruitment, personnel management, learning and development, payroll agenda, employee performance management and employee relations. She manages the strategy of internal and external communication and she is in charge of activities relating to the Corporate Social Responsibility.

Employment contract between Ms. Pekelská and the Bank was entered into on 1 June 2010 and was entered into for an indefinite period of time.

RADIM ŠILHÁNEK - Chief Information Officer

Mr. Šilhánek studied information technology and banking and graduated from the University of Economics in Prague. He also studied finance at the Stockholm School of Economics. He has worked in the field of information technology for more than 15 years, most of which he spent in the Bank. At the Bank he was responsible for the management of technological projects and the definition and implementation of IT strategy. He led the project management agenda and most recently was responsible for the operation of IT systems. Since July 2012, he has been Chief Information Officer at the Bank.

As a Chief Information Officer, Mr. Šilhánek is in charge of the IT department. He also ensures the ongoing availability and development of the IT systems and infrastructure.

Employment contract between Mr. Šilhánek and the Bank was entered into on 1 September 1999 and was entered into for an indefinite period of time.

TOMÁŠ ČERNÝ - Chief Legal Officer

Mr. Černý graduated from the Law Faculty of Charles University. Prior to joining the Bank, he had worked for five years at the Prague office of a leading international law firm, focusing mainly on commercial law, banking and M&A. Before that he worked for two years for a large multinational consulting firm and for one of the best London law firms at both its Prague and London offices. From April 2005, he held position of Chief Legal Counsel; from February 2009, he was the Chief Legal & Compliance Officer and since August 2011 he has been the Chief Legal Officer in the Bank.

As a Chief Legal Officer, Mr. Černý has responsibility for all aspects related to a business segment's legal function to ensure the Business is operating within the law. He also manages legal advice on litigation, mergers and acquisitions, labour and employment, regulatory and legislation changes impacting the business and deal or transaction matters.

Employment contract between Mr. Černý and the Bank was entered into on 1 April 2005 and was entered into for an indefinite period of time.

MARTIN WRLÍK – Senior Manager, Internal Audit

Mr. Wrlík received his Master's degree from Czech University of Life Sciences, Prague and he completed the Certified Internal Auditor certification in 2006. Prior to joining the Bank in July 2006, he had worked as an Internal Auditor in the government agency CzechInvest. During his time in GE he has held several Internal Audit roles including Internal Auditor, Lead Auditor and Senior Auditor in the period between 2006 and 2012. He was the Senior Security & Fraud Manager within Compliance Team since June 2012. He was appointed Senior Manager of Internal Audit for the Bank in August 2015.

As Senior Manager of Internal Audit function, he plans, and develops processes leading to implementation of high quality internal audit practices within the bank. He ensures that overall internal audit function is in line with regulatory and industry standards.

Employment contract between Mr. Wrlík and the Bank was entered into on 1 July 2006 and was entered into for an indefinite period of time.

PETR BRUNCLÍK – Chief Shared Services Officer

Mr. Brunclík studied at the University of Economics in Prague, Faculty of Informatics and Statistics. He joined the Bank in 2003 and gradually held various executive positions within the Operation and Information Technologies divisions. Since 2012, he has been managing the Shared Services Centre Department, and since June 2014, he held the position of Chief Shared Services Officer. Mr. Brunclík ceased to hold the position of Chief Shared Services Officer effective 16 January 2017.

As a Chief Shared Services Officer, Mr. Brunclík was in charge of operational controls, administrative and reporting procedures.

JIŘÍ HUML was appointed to lead the Shared Services Centre Department from 22 February 2017.

Employment contract between Mr. Huml and the Bank was entered into on 15 August 2016 and was entered into for an indefinite period of time.

None of the members of the Senior Management have been partner or member of a body of any entity in the Czech Republic in the past five years except for Mr. Wrlík, who has been and executive director and sole shareholder in Mountain Reality s.r.o. since May 2015.

4.9 Other information on members of Management Board, Supervisory Board and other senior managers

In the last five years, no member of the Management Board, the Supervisory Board or other senior manager has been:

- Convicted in relation to any fraudulent offence;
- Subject to any official public incrimination and/or sanctions by a 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.

4.10 Remunerations and benefits to members of the Management Board and Supervisory Board and other members of the senior management

4.10.1 Compensation paid to the members of the Management Board

Compensation paid to the members of the Management Board consists of fixed and annual variable remuneration.

The fixed remuneration is paid monthly. The amount reflects the responsibility and experience of members.

The annual variable remuneration is set according the EU's Capital Requirements Directive IV and its transposition into Czech law by ČNB Decree No. 163/2014 Coll., as amended. The remuneration scheme is split into a deferred part (40%) and a non-deferred part (60%) when:

- 50% of the deferred part is paid in the course of three consecutive calendar years, in three equal parts, no later than by March of each calendar year;
- 50% of the non-deferred part of the bonus is paid out in March of the following year; and
- 50% of the deferred part and 50% non-deferred part is transferred to 'Phantom plans'. Phantom plan is based on RAROC. The calculation of RAROC oversees independent service provider.

The variable part of the remuneration is not a discretionary entitlement and reflects the performance of the members of the Management Board and other managers during the year and is closely linked with remuneration.

At the beginning of the year Key Performance Indicators (KPIs) are set based upon Management Board discussions and in line with the Supervisory Board / Nomination and Remuneration Committee (SB/NRC) approved plan adjusted for material subsequent events. KPIs are financial and business metrics evaluating the performance of a company. KPIs are also used as a tool to set targets for the members of the Management Board. Based on delivering these targets, the members of the Management Board will be incentivized. KPIs for the members of the Management Board are divided into two groups: Quantitative and Qualitative targets. Each member of the Management Board has assigned a list of KPIs consisting of both, Quantitative and Qualitative targets.

Quantitative goals are set with values for 100% and have a defined floor and cap of 0% and 200% target fulfilment, respectively, and are derived from the SB/NRC approved business plan adjusted for material subsequent events. Key quantitative indicators are for example net income, net customer receivables, total Operation Expenses, Capital Adequacy Ratio and Attrition rate for the whole company.

Qualitative targets are strategic priorities which have been agreed by the Management Board and also are in line with the SB/NRC approved business plan adjusted for material subsequent events.

The budget for the variable compensation is set in accordance with the financial plan for the given fiscal year.

The maximum amount of bonus scheme may not exceed 200% of the basic salary, while variable remuneration greater than 100% of the basic salary is subject to approval by the General Meeting.

4.10.1.1 Benefits of the members of the Management Board

Each member is entitled to apply for life or pension insurance up to CZK 250,000 annually. The split between life and/or pension insurance is the decision of the member.

Each member is entitled to use the cafeteria system for flexible benefits where he/she gets 355,000 points on annual basis. The Chairman of Management Board has 564,000 points. The points can be used for company car, sport activities, leisure, pension plan or transfer to the cash.

Non-cash benefits include also paying the school costs of family members.

The table below set out the total compensation paid to members of the Management Board in the year 2016:

Item [1]	Amount (thousands CZK)
Total remuneration	48,365
Variable remuneration (paid; related to previous fiscal year; related to GE ownership)	7,984
Variable remuneration (paid; related to current fiscal year)	12,743
Variable remuneration (recognized, but not paid)	34,894
Benefits (paid; related to current fiscal year)	1,806
Total estimated value of non-monetary income considered as remuneration not included in previous items	140
TOTAL	**105,931**

[1] The compensation received by the members of the Management Board is not split into: (i) compensation paid to them in their capacity as members of the Management Board; and (ii) compensation paid to them in their capacity as senior managers. Therefore, they receive a single compensation package in respect of their position as members of the Management Board and senior management.

In the case of a member's contract coming to an end, the member has the right to receive payment of between 0 and 19 months (depending on the conditions in the contract) of their total remuneration.

4.10.2 Compensation paid to the Senior management

Compensation paid to the Senior management consist of fixed and annual variable remuneration.

The fixed remuneration is paid monthly. The amount reflects the responsibility and experience of members.

The annual variable remuneration is set according the EU's Capital Requirements Directive IV and its transposition into Czech law by ČNB Decree No. 163/2014 Coll., as amended.

Remuneration scheme is split into a deferred part (40%) and a non-deferred part (60%). The structure of the scheme is as follow:

- 50% of the deferred part is paid in the course of three consecutive calendar years, in three equal parts, no later than by March of each calendar year
- 50% of the non-deferred part of the bonus is paid out in March of the following year
- 50% of the deferred part and 50% non-deferred part is transferred to 'Phantom plans'. Phantom plan is based on RAROC. The calculation of the RAROC is overseen by an independent service provider.

The variable part of the remuneration is not an automatic entitlement and reflects the performance of the member of the Senior management during the year and is closely linked with remuneration.

At the beginning of the year Key Performance Indicators (KPIs) are set based upon Management Board discussions and are in line with the Supervisory Board / Nomination and Remuneration Committee (SB/NRC) approved plan adjusted for material subsequent events.

KPIs are divided into 2 groups: Quantitative and Qualitative targets. Each member of the Senior management has assigned a list of KPIs consisting of both, Quantitative and Qualitative targets.

Quantitative targets are set with values for 100% and have a defined floor and cap of 0% and 200% target fulfilment, respectively, and are derived from the SB/NRC approved business plan adjusted for material subsequent events. Key quantitative indicators are for example net income, net customer receivables, total Operation Expenses, Capital Adequacy Ratio and Attrition rate for whole company.

The budget for the variable remuneration is set in accordance with the financial plan for the given fiscal year.

The table below set out the total compensation paid to members of the senior management, other than members of the Management Board, in the year 2016:

Item [1]	Amount (thousands CZK)
Total remuneration	34,144
Variable remuneration (paid; related to previous fiscal year; related to GE ownership)	7,699
Variable remuneration (paid; related to current fiscal year)	12,937
Variable remuneration (recognized, but not paid)	10,579
Benefits (paid; related to current fiscal year)	2,476
Total estimated value of non-monetary income considered as remuneration not included in previous items	0
TOTAL	**67,836**

[1] The compensation received by the members of Senior management (compensation of members of the Management Board with delegated power of Senior management is shown in the summary of compensation for the Management Board 4.10.1.1)

The table above represent the structure of remuneration of Senior management received in 2016, including remuneration received in 2016 related to GE ownership as deferred payments. If no value is shown, then such compensation was not made within the given year to the member by the Bank or entities controlled by the Bank. The data does not include remuneration of the Management Board, which has a single remuneration package as members of Management Board and Senior management and are shown in the section 4.10.1 Compensation paid to members of Management Board.

4.10.2.1 Benefits of the members of Senior management

Members whose remuneration is set in the band EB (Executive Band) or SEB (Senior Executive band) are entitled to apply for life or pension insurance up to CZK 250,000 annually. The split between life and/or pension insurance is decision of the member.

Members of Senior Management are entitled to use the cafeteria, where employees set in the band SPB (Senior Professional Band) have 214,000 points, employees in EB band have 355,000 points and employee in SEB band has 564,000 points annually. The points can be used for company car, sport activities, leisure, pension plan or transfer to the cash.

In the case of a Senior management member's (except for the Management Board) contract coming to an end, the member can receive payment of between 0 and 6 months (depending from the conditions in the contract) of total compensation.

4.10.3 Compensation paid to the Supervisory Board

Compensation paid to the Supervisory Board consists of:

- Fixed remuneration – The fixed remuneration is paid monthly. The amount reflects the responsibility and experience of members
- Annual variable remuneration – the company does not provide variable remuneration to the members
- Compensation of travel costs - if the member of Supervisory Board travels in connection with performance of his/her function, the company compensates the travel costs

The table below set out the total compensation paid to members of the Supervisory Board in the year 2016:

Item	Amount (thousands CZK)
Total remuneration (fixed part)	7,127
Variable remuneration (paid; related to previous fiscal year = related to GE ownership)	0
Variable remuneration (paid; related to current fiscal year)	0
Variable remuneration (recognized, but not paid)	0
Benefits (paid; related to current fiscal year)	0
Total estimated value of non-monetary income considered as remuneration not included in previous items	0
TOTAL	**7,127**

The data in the table above is only for the period May 2016 - December 2016, when the Supervisory Board was operating. Prior to May 2016, members of the Supervisory Board did not receive any compensation from the Bank.

4.11 Share and share option ownership of Management Board and Supervisory Board and other key managers

The following table provides information on the numbers of shares issued by MONETA Money Bank that were held as of 31 December 2016 by members of the Management Board and members of the Supervisory Board and other member of the senior management of the Bank:

	Shares
Members of the Management Board in 2016 (total)	74,426
Members of the Supervisory Board in 2016 (total)	63,600
Other member of the senior management (total)	0

4.12 Employee programs connected to IPO

1. Virtual share ownership programme for employees

The Group has established a virtual share programme in connection with the IPO as an incentive instrument for current employees (the "Virtual Share Programme"). Under the Virtual Share Programme, each of the Group's employees actively employed on the date of IPO received a number of virtual shares. The number of virtual shares distributed to each employee was based on the relevant employee's level of job seniority. The expenses of virtual shares programme under the Virtual Share Programme was approximately USD 1.8 million. USD 500,000 will be used to calculate the number of virtual shares to be awarded to the Management Board and USD 1.3 million will be used to calculated the number of shares to be awarded to employees other than the Management Board. The expense of this initial allocation is borne by the Selling Shareholder Group (GE).

In case a new member is appointed to the Management Board in the future, additional virtual shares may be awarded to such member under the Virtual Share Programme. The cost of any awards subsequent to the initial allocation will be borne by the Bank. Each virtual share under the Virtual Share Programme will track the share price of the Bank and be paid out in cash in June 2018, provided that the relevant employee is still employed by the Group in May 2018. In the event of an employee's termination on or prior to such vesting and settlement date, the virtual shares will be paid out to the relevant employee on a pro-rata basis, provided that the employment is terminated from organizational reasons, otherwise the virtual shares will be forfeited.

The virtual shares are a virtual incentive instrument and are not existing shares or other securities issued by the Bank. They are not exchangeable for any shares or other securities issued or to be issued by the Bank and 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 split of Virtual Shares between employees at December 31, 2016 was as follows:

	Shares (pcs)
Members of the Management Board	174,412
Members of the Senior management	103,165
Other employees	353,639
TOTAL	**631,216**

2. Retention program for employees

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 program 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 in shares in the Bank on the PSE (10 May 2016) with a second instalment being paid six months thereafter and, in one case, 30% of the award was paid out in cash upon the first day of official trading in shares in the Bank on the PSE (10 May 2016) with a further 20% instalment being paid six months thereafter and a final 50% instalment being paid 18 months thereafter.

As a result of the first part of the retention program, CZK 11,966 thousand was paid in 2016 to members of the management board and CZK 8,177 thousand to other members of the senior management.

The second part of the retention program targeted fixed retention rewards for up to 10% of the most critical employee population, other than members of the Management Board and Supervisory Board and other members of the senior management. The criteria for selection were unique expertise, outstanding performance or exceptional know-how.

The expense resulting from both the first and second part of retention programme were, or will be born by GE and as such netted within the profit or loss line "Personnel expenses".

4.13 Other legal requirements

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

a) Information concerning the structure of the Bank's equity structure as at 31 December 2016

CZK m	
Share capital	511
Share premium	5,028
Statutory reserve	102
Available for sale reserves	363
Share based payment reserve	(2)
Retained earnings	22,612
Total equity	**28,614**

The stated capital as at 31 December 2016 consisted of 511,000,000 shares with a nominal value of CZK 1 each. The issue price of all shares had been paid up in full. All the shares had been issued as dematerialized bearer shares and had been admitted to trading on a European regulated market.

The Bank's stated 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 Prague Stock Exchange in the Czech Republic.

b) Information concerning restrictions on the transferability of securities.

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

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

As at December 31, 2016, the following entities were recorded in the evidence of the Bank's shares administered by the Central Securities Depository as holding a stake of at least 1% in the registered share capital of the Bank:

Shareholder	Shareholding %
Chase Nominees Limited	20.28
J.P. MORGAN BANK LUXEMBOURG S.A.	6.92
Nortrust Nominees Limited	6.52
GIC PRIVATE LIMITED	4.24
UBS AG	3.95
STATE STREET BANK AND TRUST COMPANY	3.80
Brown Brothers Harriman CO.	3.29
AMERICAN FUNDS DEVELOPING WORLD GROWN AND INCOME F	2.82
BROWN BROTHERS HARRIMAN (Luxemburg) S.C.A.	2.06
HSBC Bank plc	1.68
College Retirement Equities Fund	1.63
PICTET AND CIE (EUROPE) S A	1.44
BNY MELLON T.D.(UK)L.ATF ST. JAMES'S P.U.A.I.I.U.T.	1.43
Blackrock Global Funds	1.37
RBC Investor Services Bank S.A.	1.35
HSBC - Fund Services	1.29
UBS AG London Branch	1.28
Deutsche Bank AG Polska Apolka Akcijna	1.22
BNP PARIBAS SECURITIES SERVICES S.C.A	1.07

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

Shareholder	Share on voting rights %
Artemis Investment Management LLP	7.68
J.P. Morgan Securities Plc	5.96
Rainer-Marc Frey	4.99
BlackRock, Inc.	4.58
The Capital Group Companies, Inc.	3.95
GIC Private Limited	3.89
FMR LLC	3.29
Templeton Asset Management Ltd.	1.72
NN Group N.V.	1.54
NN Investment Partners Luxembourg S.A.	1.36
Massachusetes Mutual Life Insurance Co	1.22
J O Hambro Capital Management Limited	1.08
Vanguard Total International Stock Index Fund	1.07
MW Ltd.	1.05
Pictet Asset Management Ltd	1.04
College Retirement Equities Fund	1.01
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 concerning 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 concerning restrictions on voting rights

The voting right attached to the Bank's shares is not restricted.

f) Information concerning agreements between shareholders that may impede the transferability of shares or voting rights

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

g) Information concerning special rules specifying the election and removal of members of the statutory representation body and amendment 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 the General Meeting by a qualified, two-thirds majority of the votes of the share-holders present at the General Meeting. Apart from regulatory prudential requirements, no special rules specifying the election and removal of members of the statutory representation body and amendment to the Bank's Articles of Association are applied.

h) Information concerning special authority of the Bank's statutory representation body

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

i) Information concerning 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 concerning 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 concerning programs that allow acquiring the Bank's corporate securities

The Bank does not have any such programmes.

4.14 Internal Audit

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

Internal Audit in a complete and interconnected manner covers all activities within the company while focusing on uncovering risks and issues. Internal audit provides objective and independent assurance to the Management Board, Audit Committee and Supervisory Board on the functionality and efficiency of risk management, control and governance processes. Internal Audit provides clear recommendations to ensure remedy of discovered issues, monitors and verifies the implementation of adopted remedial actions.

In 2016, Internal Audit assurance engagements were executed according to the annual periodic plan composed primarily based on risk assessments and regulatory requirements. Internal Audit also performed consulting engagements that were not in conflict with its assurance role.

Internal Audit in its Report on Evaluation of the Functionality and Efficiency of the Internal Control System for 2016, classified the overall internal control system as functioning and effective.

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 rules 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. 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 Codex of management and corporate governance

The corporate governance structure of the Bank complies with Act No. 90/2012 Coll., on business corporations and co-operatives (act on business corporations), as amended, stringent requirements under Czech and EU banking regulation and international capital markets corporate governance standards. As a result, the Bank has best-in-class corporate governance structure. Under Czech law, the Bank is not required to comply with any corporate governance codex. Therefore, the Bank did not adhere to any corporate governance codex.

4.17 Remuneration charged by auditors of Group in 2016

CZK m*	Bank	Group
Statutory audit	(7)	(10)
Other assurance services	(3)	(3)
Tax services	0	0
Other services	0	0
Total	(10)	(13)

* Excluding VAT

MONETA IS MARTINA

When you jump in, you'll experience an adventure. That's Martina's motto. It's because she likes canoeing and getting into a canoe is always a spontaneous experience full of unexpected situations. She and her friends like to stop at places that feel right at the moment. She loves meeting other paddlers because they are a friendly crowd, who help each other.

The fact that she's one of them is also reflected in her job. "I always try to solve issues in time to prevent clients from getting into a tight spot," the ever-smiling Martina explains. And people recognize her commitment. That's why they are like to confide in her.

You can count on Martina.

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 of clients' creditworthiness on its business.

The Bank provides for centralised risk management of the Group wherever possible and practical. Risk management is centralised in the Bank primarily through outsourcing or by providing methodology guidance to other Group members.

5.1.2 Risk Management Organisational Structure

The key Bank's committees for risk management on an individual and a consolidated basis established by the Bank's Management Board are:

- The Enterprise Risk Management Committee (ERMC) for risk management framework, internal control system, 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; 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 of 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 risk management's internal regulations, processes and limits 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 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, the Commercial Banking Division and the Finance 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 early work-out process for commercial individually managed loans and its members are employees of the Risk Division and the Legal Division.
- The New Product Introduction Council (NPIC) coordinates development and implementation of new or material changes of current products. Its members are employees of involved 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 line 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;
- Administers the data infrastructure and analytical systems supporting risk management;
- Ensures the model risk management;
- Maintains and develops credit, collections, provisioning, management of operational risks and capital allocation models;
- Monitors indicators of fraudulent operations at 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 for commercial credit risk (products' conditions, underwriting, monitoring, reporting, quality assurance and controls);
- The Consumer Risk department for consumer credit risk (products' conditions, underwriting, monitoring, reporting, quality assurance and controls);
- The Collateral Management department for collateral management (methodology, valuation);
- The Risk Infrastructure department for risk IT infrastructure (data, analytical tools);
- The Planning, Reserving & Models department for credit and provisioning model development;
- The Collections & Recovery department for collections (including commercial early work-out process); and
- The Enterprise Risk Management (ERM) department for market, liquidity, model and operational risk methodology, measuring, monitoring and reporting, credit risk measurement, regulatory and internal capital requirement methodology and calculation.

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 line of business and to minimise all other risks. 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 due to 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 counter-parties on the financial market include the exposures to financial institutions and governments. These exposures primarily arise as part of the 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 counter-parties 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. First type ratios (financial) are derived from financial statements and reflect the financial strength of a borrower. Second type ratios (non-financial) are used to assess the borrower based on qualitative information, which reflect 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: 0.01% 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 tool 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 two authorised persons – one of the sales department and one of 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 thereof 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 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 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 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 15.6%
e) CR5: 15.6% 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 Bank's loans. The Bank has a comprehensive collection process which includes an automated collection system. The Bank is optimizing 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 Counter-parties in the Financial Market

5.2.4.1 External Rating

The main tool for measuring the credit risk of countries and counter-parties (financial institutions and governments) with respect to transactions in financial markets is the rating of international rating agencies: Standard & Poor's, Moody's, and Fitch. The Bank sets individual limits for individual countries and counter-parties, 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 counter-parties 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 CFO and breaches over CZK 100 million to the ALCO members.

5.2.5 Categorisation of Receivables

The Bank 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:

The 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 the categorisation on a daily basis:

- The fulfilment of the debt service (not assessed in non-approved debits on current accounts up to CZK 2 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 yearly reassessed and approved by the CRCO.

5.2.7 Allowances Calculation

Allowances are determined in accordance with IFRS.

In order 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) and loss given default (LGD), further for retail exposures the cure rate is determined. The PD and LGD for commercial individually managed exposures are calculated directly from statistical models. For other receivables (i.e.portfolio managed exposures) models based on the probability of a transfer to default are used to determine the PD, and discounted anticipated cash flows from collection where the 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.

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, counter-parties, 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 7.6% of commercial receivables (exposure includes gross loans and receivables, unused commitments including credit lines, and guarantees).

The top 3 sector exposures represent 32% Agriculture, 19% Services and 11% Transport and telecommunication 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

CZK Million	31 December 2016			31 December 2015		
	Retail	Commercial	Total	Retail	Commercial	Total
Nonperforming Receivables	5,686	1,802	**7,488**	10,641	3,382	**14,024**
Allowances to NPL Receivables	4,094	1,216	**5,310**	8,414	2,443	**10,857**
NPL Ratio	9.6%	3.1%	**6.3%**	17.0%	5.9%	**11.7%**
Total NPL coverage	82.9%	81.2%	**82.5%**	84.7%	81.8%	**84.0%**

The NPL Ratio decreased from 11.7% at 31.12.2015 to 6.3% at 31.12.2016, which was significantly influenced by the legacy nonperforming portfolio resolution. At the same time the Group maintained a conservative NPL Coverage exceeding 80% in both Retail and Commercial segments.

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 with 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 instalment, 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, market risk predominantly represented by interest rate 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. Its activities in the area of interest rate risk management 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 2015, only the portfolio denominated in Czech crown exceeded 5% share of the Group's assets/liabilities. In 2016, the threshold was also exceeded for the portfolio denominated in euro on the liabilities side.

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. During 2016 and 2015 the Group did not need to use any interest rate derivatives due to natural offsets between assets and liabilities.

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 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 foreign exchange risk on 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 crown 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 consolidated basis only net currency position in EUR (on a monthly basis).

The foreign exchange risk at MONETA Leasing at an individual level is managed primarily by 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; and
- Calculation of Interbank borrowing to Total Assets Ratio.

The quarterly measurement of liquidity risk includes:

- 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;
- Loan to Deposit 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, as well as the Group's equity. The bond and money markets are used to further diversify sources of liquidity and to deposit excess cash. The Bank also has a credit line from GE Capital Switzerland AG, which, together with diversification of other sources of financing, gives the Group flexibility regarding liquidity.

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 and a rating of "Baa2/P-2" (long- and short-term deposit rating) with a stable outlook from the international rating agency Moody's.and based on that is planning to set up bond issuance programme which will provide the Bank additional source of liquidity.

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 , was 161% (31 December 2015: 140%).

As other companies of the Group are financed exclusively by the Bank, the Group's liquidity management is executed exclusively 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 or failure to comply with a legal or regulatory requirement or 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 Loss Data Collection of actual operational risk losses, Risk & Control Self-Assessment (RCSA), 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 a business continuity plan 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 Loss Data Collection, RCSA, 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, rules, related self-regulatory organisation standards and codes of conducts applicable to its 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 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 include:

- Managing all aspects of interactions with Regulators, including the management and follow-up of regulatory examination findings;
- 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 prevention, detection, reporting and strategy;
- Running the anti-fraud risk management programme by centralised anti-fraud team, covering all internal and external areas of fraud;
- Overseeing the data privacy and personal data protection agenda; and
- Project management office responsibilities, including overseeing, monitoring and delivering key strategic projects, process assurance and business architecture review.

In the area of regulatory compliance, the Compliance Division acts as a single point of contact for communication to and from all regulatory bodies. Additionally, it actively participated in the implementation into business processes of the requirements of the amended Czech Anti Money Laundering Act, the new Consumer Credit Act and Consumer Protection Act. Furthermore, it continues to work with other departments in the preparation for the implementation of the EU Markets in Financial Instruments Directive (MiFID II) and the EU Payments Services Directive II as these are transcribed into Czech legislation.

5.5.2 Information Security

The main objective of Information Security is to protect and maintain information assets by maintaining confidentiality, integrity, availability, and credibility of information. The Group understands the significance of well designed and implemented Information Security and keeps it as one of the key priorities. Information Security is applied via variety of security tools and processes ranging from antivirus to user awareness. The aim is to ensure maximum risk coverage and protection of the Group information, including client data. Information Technology Division is responsible for information security management.

During 2016 the Group focused on separation from former owner, GE, with keeping the level of security and protection of the Group assets on the same or higher level than it was within GE group. Within the security enhancements Group implemented advanced tools to increase detection of fraudulent activities including attempts of client user identity theft.

The Bank was in 2016 informing and educating clients via different channels to increase client security awareness. The Bank participated in the Czech Banking Association awareness for schools focused on Cyber security to help even the younger part of population understanding the risks of cyber world, including 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 case of an extraordinary situation with regard to employee security and 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 the ERMC regularly reviews and assesses their adequacy.

During the past three 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 laws, applicable 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 2016 consisted in updating retail contractual documentation for retail banking and preparatory work on implementing the new Consumer Credit Act significant portion of which meant inclusion of product terms directly into the retail banking contractual documentation and drafting of new documentation, as required by the new Consumer Credit Act. This was managed in due time and as of 1 December 2016 all contractual documentation has been updated in order to fully comply.

5.5.5 Significant legal disputes

Taking into account overall financial situation, the Bank considers as significant all litigations involving principal amounts exceeding CZK 10 million and any bankruptcy proceeding in which the Bank is a creditor with a claim exceeding CZK 50 million. As of 31 December 2016, there was one such significant litigation where the Bank enforced its claim in the amount of CZK 11 million and no such bankruptcy proceedings. Only other significant litigation was initiated in 2016 against the Bank by Arca Services, a.s. 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"). Please see below for further information on this legal risk.

Litigation risks in respect of the 1998 acquisition of a part of banking business of Agrobanka

The Bank is subject to the risks set out below in connection with the acquisition from Agrobanka of a part of Agrobanka's banking business in June 1998 (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 October 2016, Arca Services, a.s., a minority shareholder of Agrobanka not bound by the 2010 Settlement ("Arca Services"), 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 believes that the Acquisition is legal, valid and enforceable and that Arca 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 will vigorously contest any claim made against it, any of its subsidiaries or any of its or their respective assets. In addition, similar claims were filed in past and such claims were dismissed by Czech higher instance courts. Nevertheless, the deregistration of Agrobanka from the Czech Commercial Register will be delayed until the court proceedings initiated by Arca Services are terminated.

In addition, 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.

If such a challenge, filed by Arca Services or other Agrobanka shareholders, is successful and a competent court declares that the Acquisition was not legal, valid and enforceable, there would be considerable uncertainty as to what remedial action a court could decide to take and what effect such action 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 19 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 the event of a successful challenge of the Acquisition, a court may, therefore, award a payment by the Bank of a financial equivalent of such assets and / or liabilities to Agrobanka instead. In such case, it is uncertain how a court would determine the appropriate amount of such financial equivalent. Any court award against the Bank could have material and adverse consequences for the Bank and its business, results of operations and financial condition and the value of its shares.

In addition, Agrobanka has historically been at risk of insolvency, raising the possibility that an 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 19 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. So far as the Bank is aware, Agrobanka is not insolvent as at the date hereof. 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. Moreover, the Bank believes that any bankruptcy trustee of Agrobanka would be bound by the 2010 Settlement and, as a result, contractually prohibited from challenging the legality, validity and enforceability of the Acquisition. However, the risk of Agrobanka's insolvency and of a bankruptcy trustee, notwithstanding the 2010 Settlement, treating the Acquisition as being not legal, valid and enforceable and assuming control over any assets deemed to belong to Agrobanka, challenging the Acquisition or making a claim against the Bank to pay a financial equivalent of the assets deemed to belong to Agrobanka remains. Agrobanka's insolvency may primarily arise from: (i) unforeseen tax liabilities of Agrobanka being determined by Czech tax authorities; and (ii) the liquidation balance of Agrobanka approved by the general meeting of Agrobanka in September 2014 being found by a competent court to be insufficient if a claim for insufficiency of the liquidation balance were brought by Agrobanka shareholders not bound by the 2010 Settlement on the basis that the Acquisition was not legal, valid and enforceable.

Although Agrobanka is in the final phase of its liquidation, its shares were cancelled and the process of the payment of the liquidation balance to Agrobanka shareholders will commence in the first half of the year 2017, Agrobanka's liquidation is also subject to ongoing legal challenges, which also indirectly exposes the Bank to the risks described above. In December 2014, an individual shareholder of Agrobanka not bound by the 2010 Settlement, directly and through a company controlled by him, challenged in court actions against Agrobanka the validity of resolutions adopted in September 2014 at Agrobanka's general meeting approving the liquidation balance, on the basis that the liquidation amount was insufficient. In April 2015, these court actions were dismissed by the Municipal Court in Prague, which also stated in its reasoning that the Acquisition was valid. On 22 June 2016, the High Court in Prague as an appellate court affirmed the decision of the Municipal Court in Prague. On 2 November 2016, the plaintiff filed an extraordinary appeal against the decision of the High Court in Prague. Until the ongoing proceedings initiated by such shareholders (or any future court proceedings which may be initiated against Agrobanka) are finally dismissed, it is not possible to deregister Agrobanka from the Czech Commercial Register. In addition, in case of proceedings regarding the sufficiency of the liquidation balance, a court may review the legality, validity and enforceability of the Acquisition as a preliminary question prior to making a decision on the merits.

The Bank would also encounter all of the above described risks if the liquidation of Agrobanka were renewed after deregistration of Agrobanka from the Czech Commercial Register. The liquidation of Agrobanka may be renewed upon the request of any shareholder, creditor or debtor of Agrobanka if any unknown assets of Agrobanka are discovered after deregistration of Agrobanka. However, the Bank believes that the risks associated with renewal of the liquidation of Agrobanka after its deregistration will lessen over time.

In September 2016, Arca 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 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.

Furthermore, negative developments in relation to Agrobanka, including the commencement of insolvency proceedings against Agrobanka or the threat of or speculation regarding Agrobanka's insolvency, or court proceedings and negative ruling relating to the validity, legality and enforceability of the Acquisition 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.

Information concerning the provisions created for litigations in which the Bank is a defendant is stated in the Notes to the Separate Financial Statements, note 33 "Provisions".

Administrative proceedings initiated by Czech Trade Inspection Authority ("CTI") against MONETA Auto, s.r.o. ("MONETA Auto")

In 2016, MONETA Auto continued resolving results and proceeding arising claims of clients to return fees paid for concluding consumer loan agreements and to set the level of interest on the respective loans at the CNB's discount rate inasmuch as the claimants considered that disclosure of the contractual parameters in the contracts' documentation had not been in accordance with Appendix 3 of the Consumer Credit Act.

In related terminated court cases, MONETA Auto proved that it had complied with the Consumer Credit Act when concluding the consumer loan agreements, and the legally effective court decisions on these disputes were in favour of 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 with the competent court an action against the decision of the General Director of the CTI in August 2016. The court proceedings are ongoing. Consumers which are parties to the relevant consumer credit agreements concluded by MONETA Auto from 2011 to 2014 MONETA Auto 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 compliance reviews of MONETA Auto's compliance with Czech consumer credit law. As a result, the CTI imposed in October 2015 a fine of CZK 100,000 due to an alleged breach by MONETA Auto of Czech credit check requirements. MONETA Auto lodged an appeal against this decision with the General Director of the CTI. In September 2016, the General Director of the CTI decreased the amount of fine to CZK 80,000 and affirmed the opinion of the CTI. MONETA Auto believes that it complied with credit check requirements and filed with the competent court an action against the decision of the General Director of the CTI in December 2016. Consumers which were parties to the relevant consumer credit agreements may attempt to bring legal proceedings in light of the CTI decision 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 and MONETA Auto may be required to return to customers an amount of already paid interest and fees.

5.6 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.

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 setup 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.

MONETA IS JIŘÍ

When you say 'Jirka', the first thing that comes to your mind is his immense passion for living. Jirka emanates a relaxed attitude and a sense of perspective. He loves travelling, electronics, nature, but most of all his family. "It's important to realize what the priority is and what's just wasting your time," he says, letting us in on his recipe for the good life. And this is the motto that he follows both at work and in his private life. It is one of the reasons why you can so often see a relaxed smile on his face. Because everything goes better with a smile.

You can count on Jiří.

6. CORPORATE SOCIAL RESPONSIBILITY

6.1 Code of ethics

In 2016, after the separation from GE Capital Corporation, a new MONETA Money Bank a.s. code of ethics was established. This sets out our commitment to maintain the highest levels of integrity in our interaction with our customers, our suppliers and colleagues. We also follow the ethics code of the Czech Banking Association. Our employees complete annual mandatory training related to the prevention of inappropriate behaviour, unethical conduct and conflicts of interest. All of our suppliers receive a document that spells out our expectations on integrity.

The Group operates a series of policies related to the prevention of improper payments and a money laundering prevention and Counter-Terrorist Financing policy. In both cases, our rules enshrine a policy of zero tolerance towards either category. Additionally, we adhere to the principles of responsible lending and prudent risk management. We are also actively interested in the opinions of our clients. Based on their feedback, we are continually reviewing our products and services to ensure that they are easily accessible, clear, simple to understand, ensuring that customers are provided information which is accurate, not misleading and includes any potential risks for the consumer.

Our Code of Ethics is based on the following maxims:

1. Clients and their interests are always our priority
2. We treat every client, business partner and employee with respect and dignity and we respect all applicable laws and regulations
3. Our high standards of integrity and professionalism govern and motivate our behaviour
4. We take responsibility for all our activities
5. We are one team

6.1.1 Company Values

Separation from GE meant it was necessary to create a new set of Company values. These were derived from the internal Code of Ethics by the senior management. These values are: Customer focus, Respect, Credibility and Integrity, Responsibility and Cooperation.

6.2 Ombudsman for clients

MONETA Money Bank, a.s., created the position of "Ombudsman for Clients" in 2012. The Ombudsman deals mainly with complaints of clients dissatisfied with the previously proposed solution of their complaint handled within the standard complaint resolution procedure. Its role is to review the Bank's initial resolution proposal and to find the best possible solution for both parties. 2016 showed a decline in the number of received customer complaints, which was noticeable throughout the year. The overall decline in the number of handled cases was also reflected in the reduction in the number of repeated complaints.

In 2016, the Ombudsman handled 694 cases, compared to 728 cases in 2015.

6.3 Responsible banking

The Bank's principles of responsible banking include ensuring strong governance, fair and transparent customer relations, positive contributions to the community and environmentally friendly business, while striving for financial health, responsible investment and financial stability.

We have, therefore, joined the voluntary codes set out by the Czech Banking Association and we actively participate in discussions on current topics in the financial sector. We also ensure our products and services are addressed to the right clients and at the same time the language we use is simple and clear to help our customers make informed decision about our products and services.

6.3.1 Support of Eco-Energy Projects

Support of agriculture is an important part of our business strategy. We try to help farmers with modernization of their businesses and the use of new green technologies and procedures. An integral part of this is the support of Eco-Energy projects. We provide 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 cooperate with Agroteam CZ.

6.3.2 Anti-Corruption Measures

By upholding our Code of Ethics we commit ourselves to honesty and credibility. To achieve this goal, we have introduced rules protecting us from corrupt practices. We have also created a system of long-term education for our employees in the area of corruption prevention. 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 when someone wants to give a gift to our employees. We manage meetings between our employees and our competitors. We also have an internal process for donations to non-profit organizations. We require the same anti-corruption standards from our employees as well as from our partners and suppliers.

6.3.3 Measures against Money Laundering and Financing of Terrorism

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, therefore, set up a robust programme, whose integral part are binding rules and control processes in accordance with applicable legal regulations, standards, and requirements for this area. The programme is subject to regular review and updates.

We regularly train both our employees and partners to educate them about their responsibilities, ensuring that all necessary steps related to offering products and services to our customers are taken and ensuring they are aware of who to address in case of any suspicions or questions. When establishing a business relationship with a customer, and subsequently during the customer's lifetime, we consistently apply these internal rules and control procedures.

6.4 Philanthropy and sponsorship

Corporate social responsibility is an essential part of our company culture and our business. We consider its principles in our approach to the community in which our clients and employees live and work and to the environment. Our corporate social responsibility consists of three pillars: Support for local communities – Grant Programme, Volunteerism, and Financial literacy.

6.4.1 Support for local communities - Grant Programme

At MONETA Money Bank, a.s. we are aware of how linked our business is to local communities, which is why we try to support them in four different areas: disabled persons, disadvantaged children, elderly people, and environmental protection. These are the main topics promoted by our grant programme as well as by our volunteers.

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 naturally 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 in different volunteering activities.

We supported 41 organizations and their 51 projects with CZK 1.9 million in 2016. The Grant committee, which meets four times a year and is composed of the Bank´s employees, bases its decision on the reach and sustainability of the proposed projects.

Supported area	Total donation in CZK	No. of supported projects	Names of supported organizations
Socially Disadvantaged Children	377,280	10	Člověk v tísni, Dům tří přání, IQ Roma Servis, Klub Dětem, o.s., SANREPO, Vzájemné soužití o.p.s.
Disabled children	500,951	15	ALKA o.p.s., Divadlo Perštýn z.s., Klára pomáhá z.s., Lékořice, z.s., Mateřská škola, základní škola a střední škola Daneta, s.r.o., MŠ a ZŠ pro děti s kombinovaným postižením PINK CROCODILE SCHOOL, o.p.s., Sdružení na pomoc dětem s hendicapy, z.ú., Speciální ZŠ Velká Bíteš, Středisko rané péče SPRP Ostrava, Základní škola, Znojmo, Václavské nám. 8, příspěvková organizace, ZŠP a ZŠS Pod Dubíčkem Bystřice pod Hostýnem
Disadvataged adults	647,280	16	Asistence, o.p.s., Borůvka Praha o.p.s., Český institut biosyntézy, z.s., Chráněné bydlení Pastelky, o.p.s., InBáze, z. s. , Klub nemocných cystickou fibrózou, z.s., ParaCENTRUM Fenix, z.s., Sdružení zdravotně postižených občanů a jejich přátel, Sjednocená organizace nevidomých a slabozrakých ČR, obočka Kladno, Společnost „E"/Czech Epilepsy Association, z.s., Spolek Slunečnice, Sportovní klub vozíčkářů Pardubice NEZLOMENI z.s., Studio Oáza, kulturní centrum pro lidi s mentálním postižením, Svaz tělesně postižených v ČR, z.s. - místní organizace Nový Jičín, Svaz tělesně postižených v ČR, z.s. Okresní organizace Karlovy Vary, Svépomocná společnost Mlýnek, z. s.
Elderly people	385,402	10	Cesta domů, Domov Sue Ryder, z.ú., Nadační fond Seňorina, NADĚJE Znojmo, Oblastní charita Červený Kostelec, středisko Hospic Anežky České, SPOLEK AKTIVNÍHO STÁŘÍ A VZÁJEMNÉHO POROZUMĚNÍ, TŘI, o.p.s. (Hospic Dobrého Pastýře)
Total	**1,910,913**	**51**	

6.4.2 Volunteerism

Our volunteers donated to the community 7,880.5 voluntary hours in 2016. They supported 51 organizations with their work. We organized 210 voluntary events with the participation of 372 employees and around 100 family members and their friends. Voluntary events take place both during the working hours and outside working hours.

6.4.3 Financial Literacy

Our financial literacy project 'We understand money' celebrated ten years in 2016. Our goal since the beginning of the project has been to make our customers and the wider public understand what we tell them and to help them navigate various banking services. Since we launched the project ten years ago, we have advised teachers on how to teach financial literacy in schools and educated them in financial products, recently also in the field of consumer rights. This project is carried out in co-operation with the AISIS civic association and it is supported by the European Social Fund and ministry grants.

More than 30,750 children, 3,746 teachers and a team of about 100 Bank employees have gone through the project since it started.

MONETA IS MARTIN

Martin escaped archaeology for a job in a bank. Though this may sound strange, it simply means that he is a team player. Even his preference in sports is always in favour of the team activities as he likes cooperating with others. On the other hand, he admits to being the competitive type. Being just average has no appeal for him, he is strongly success-driven.

He likes helping his customers to arrange home financing. He enjoys advising people on how to achieve a better deal than they thought possible. And does he have a mortgage, too? But of course. "You can't sell something you haven't tried yourself" he confirms. And you don't need to ask from where he got his mortgage!

You can count on Martin.

7. HUMAN CAPITAL

Dear shareholders, clients, business partners and colleagues,

In 2016 we set out on our path to make MONETA Money Bank, a.s. a domestic champion and Czech digital leader, and one which is built on great human capital. Attracting the top talent in financial services, technology and customer service from across the country – and maintaining this level of talent – is a significant priority, both now and in the future.

Last year saw us make a number of key achievements in the area of human capital. Our experienced salesforce at our branches and in the Shared Services Centre helped thousands of clients every day, offering them professional support in a number of different areas of finance. Across the bank, we strengthened our teams to more fully support our objective of providing valuable and quality services to our customers. In addition, we began building new teams of talented and creative colleagues focusing on projects oriented to the growth of our Bank and our continued digital transformation. We also improved our graduate recruitment outreach: contacting young candidates via social networks, job fairs and even in schools to offer them exciting development opportunities as part of our transformation into a digital bank.

Of course, the Bank's success depends on the people who work here and their engagement with their colleagues and clients, and we want to reward those who show continued dedication and commitment in their work. We continuously strive to improve our working environment and internal culture and offer competitive remuneration to support this. Our extensive and flexible rewards and benefits programme suits everyone's needs and preferences. Employees may freely choose whether they prefer training and development opportunities, a flexible office, more free time, any support during their studies or supplementary pension insurance. Discounted Bank products and the promotion of a healthy lifestyle are a matter-of-course.

It is no coincidence that the motto of our campaign launched in 2016 is "MONETA is You". Employees lie at the heart of this organisation and represent the MONETA brand; they are therefore the true wealth of our company. I would like to thank all our colleagues for their hard work in 2016 and the integral role they have played in the bank's successful performance and continued growth across the year.

We are all proud to be an innovative and digital Bank that cares about all its stakeholders. Its customers, whose enjoyable customer experience is our top priority. And its employees, who feel rewarded and motivated to develop such strong customer relationships. 2016 for all of us was an exciting period full of exciting and meaningful changes; from the listing on the Prague Stock Exchange to the rebranding of the bank and the kick-starting of our digital journey. This transformation is far from being over, and I am grateful for each and every one of our employee's support as we look to the future and all the challenges and successes that we will work towards together!

Radka Pekelská,
Chief Human Resources Officer
MONETA Money Bank, a.s.

7.1 Hiring

In 2016, the Bank's recruitment process went through many significant changes, primarily due to its separation from General Electric Group, which brought along the decision to insource the hiring process and hiring team and to integrate it fully within our structures. The second reason for these changes in recruitment can be attributed to the developments on the employment market. The ongoing trend of a decreasing unemployment rate, increasing offer of vacancies and having lower number of candidates in the market was the main reason for seeking new ways in how to bring in future new employees.

The generally more unfavourable backdrop in the Czech Republic for employers has driven the Bank to further improving its hiring efficiency, resulting in over 1,100 new colleagues being recruited to and trained within our company in the last year.

Following the successful IPO process, the Bank's need for identification and recruitment of new talents for the retail network has become more pertinent. Our overall hiring strategy is based on our requirement to enhance our network to become the bank of choice for entrepreneurs, independent professionals and small companies. We met our last year's recruitment target and continue strengthening our sales network in 2017.

One successful channel for the marketing of available positions and introduction of the new MONETA Money Bank brand was our participation in job fairs both in Prague and Ostrava as well as in other regions across the country, supported by the Open House days at our Shared Services Centre in Ostrava. 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 all modern resources for the recruitment process with special focus on "active approach" towards the candidates. We also cooperated with different hiring agencies in seeking potential employees. We also emphasized opportunities for internal candidates, reflecting the opportunity for career progression we present to all our staff, and our referral programme also encouraged existing employees to identify external talent for new roles.

Independence of the General Electric Corporation meant further changes in the recruitment process last year, particularly system changes. We launched the first recruitment module of the new HRIS (HR Information System), focused on candidates' signing up for available positions, creation of candidate database and communication with them. Another visible change was the launch of the new MONETA career website.

7.2 Training

Training and development of the Bank's employees is one of the 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. On average, each employee spent 4.5 days in training in 2016.

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. Training activities focused on improving their product, process and professional knowledge as well as the development of managers' skills in leading a team. A further significant factor introduced into training programmes towards the end of the year was compliance with and understanding of the new Consumer Credit Act.

The significant changes taking place across MONETA Money Bank, a.s. in 2016 in terms of ownership structure and rebranding brought the need for further training and development activities. In order to support employees during this transformative time we initiated workshops focusing on change management, team leadership during periods of transformation and the important of maintaining their personal brand. In addition, we helped employees obtain different technical and expert skills and knowledge, such as the IFRS, investor relations, new IT systems and technologies, project and process management, communication, negotiating, etc., which are vital in the separation from GE.

High-potential junior colleagues were boosted in their effort by attending MONETA University, which aims to prepare them for fast-track career progression. 21 new graduates finished last year's University programme (now in its 16th year) and are now ready to take on higher positions within our company.

7.3 Organizational Climate Survey

In June 2016 all employees had the opportunity to participate in an organizational climate survey. Following the Bank's successful IPO, the roll-out of the new MONETA brand and communication of the new Bank strategy, the objective was to receive feedback on how well the company has engaged with its employees during this period. In other words, to identify internal sentiment post-IPO, to better understand how the various changes implemented during the year affected employees, and to ascertain the ways in which we can improve going forward. The survey helped us obtain information on employees' opinions concerning the culture within our organization, the working environment, the level of team communication and cooperation or the approach of leadership and line managers. 68% of all employees shared their opinion in the survey.

According to the survey, our company culture demonstrates its stability and productivity. There is a strong focus on delivering objectives and meeting performance targets. Other features characterizing our business are its high ambition, customer focus and fulfilment of customer needs, adaptability – capability and openness towards changes and motivation – and the willingness to achieve both individual and team goals.

The survey showed us where there exist potential gaps in our culture and working environment. These areas have become priorities for each division in formulating their action plans for 2017 and beyond, which will help us in creating a common vision and better assimilating company culture in order to deliver our objectives in line with the expectations of our shareholders.

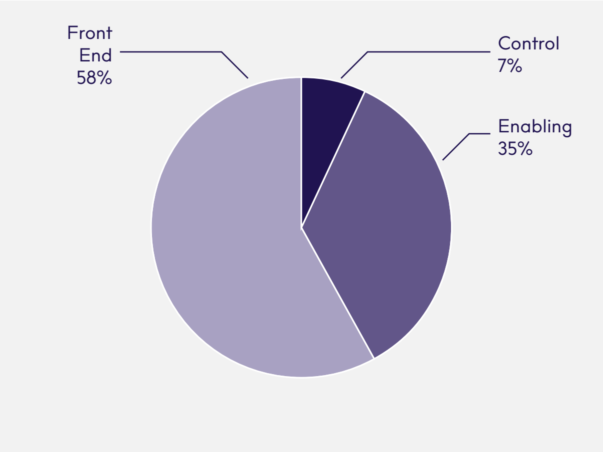
7.4 Responsible Employer

In 2016 the Group had 3,114 employees[1] compared to 3,097 in 2015. All employees are based in the Czech Republic.

The following numbers relate to 31 December 2016

For internal purposes the company splits its employees into three segments: Front end, Enabling and Control. It is our long-term strategic objective to increase the percentage of Front end employees:

Employee Segments Split



Front end employees made up 58% of the Company's total employees in 2016, and had an average tenure at the Company of 6.6 years. Employees falling within the Enabling segment constitute 35% of the Company's total employees, and have an average tenure at the Company of 6.9 years. The remaining 7% of employees are engaged within Control functions, where employees have an average tenure of 7.3 years

As at 31 December 2016, 1.9% of employees were classified as senior management, 10.6% were classified as middle management, 41.9% were classified as specialists and 45.6% were classified as branch staff or administration.

36% of all employees worked at the Company head office in Prague, 5% at the Leasing head office in Brno, 19% at the Shared Services Centre in Ostrava and the remaining 40% in the retail network of MONETA Group in all regions of the Czech Republic. 66% of employees are women. 37% of employees hold a university degree, and only 0.6% is without a secondary education.

7.4.1 Internal Ombudsman

MONETA Group does not have a workers' council and is not subject to collective bargaining agreements. However, it does have the institute of internal ombudsman, who provides assistance to 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.

7.4.2 Company Benefits

Our employees can use the eBenefits system, i.e. an extensive rewards and benefits scheme enabling them to choose benefits according to their own preferences. Everyone can choose how they want to use their benefit points, e.g. for training and development or more free days of contribution to supplementary pension insurance. Discounted bank products, extra week of holidays and two sick days for recovering from acute sickness or short-term illness are a standard feature.

7.4.3 Diversity for Employees

The core of our diversity is made of unique approaches which support our wish to be the employer for all. We have two main pillars: a flexible office and family programme.

The flexible office enables our employees to work from their homes. 695 employees worked days from their homes last year.

We support the possibility of arranging a part-time job if our operational needs allow it. This also includes 'Career break': an unpaid leave of six to twelve months. 8% of employees worked on part-time positions as of 31 December 2016.

We also provide days of paid or unpaid leave for university students. These days should be used for preparation for regular or Bachelor's/Master's exams. In 2016, a total of 40 employees took advantage of this option.

[1] 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 hours per an employee and a month.

Our family programme supports our employees to reconcile family life with work. All parents who take care of a child younger than 15 years can use one extra free day called the 'Parents' day'. We provided 727 parents' days last year.

We allow new dads to stay at home for five extra days on daddy's leave. A total of 57 dads used this benefit in 2016.

We also think about mums who want to return to work after their maternity/parental leave. If they return until their child is one year old, we offer them an early return contribution. This contribution was paid to 18 employees in 2016.

Unfortunately, life brings also sad moments, which is why we also provide Condolence leave, days off in case of a death in the family. We gave 171 Condolence days in 2016.

7.4.4 Health Ahead

Good physical and mental condition of our employees is important for us. We support their healthy life style, exercises, and prevention. In addition, we subsidize healthy meals and salads in our cafeterias, we contribute to regular sport activities and facilitate regular massages and meetings with a physiotherapist at the workplace. We organize lectures and preventive health checks for serious diseases.

7.4.5 Arrangements for involving employees in the capital of the Bank

There are no arrangements for involving the employees in the capital of the Bank.

MONETA IS MICHAL

Basketball or pottery? The decision was simple for Michal, even back at school. He likes team sports and has been learning fair play since childhood. He's an impressive man, both in his stature and his mind and he will be happy to back you up. "If you have someone to lean on, everything is easier to deal with" Michal explains. And when you have a two-metre support by your side, you know you won't fall. And even though Michal is good at boxing, his clients are not afraid to come to see him again.

You can count on Michal.

8. REPORT OF THE SUPERVISORY BOARD

The Supervisory Board of the Bank, fulfilled all its obligations and duties stipulated by law and by the Articles of Association throughout its activities conducted in 2016.

1. Having reviewed the Bank's consolidated and separate annual financial statements for the year ended 31 December 2016, 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 for 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 for the year 2016 as proposed by the Management Board of the Bank.

2. The Supervisory Board reviewed the Bank's consolidated 2016 financial statements that show profit after tax for year 2016 of CZK 4,053,922,695.00 and the Bank's separate 2016 financial statements that show profit after tax for year 2016 of CZK 7,269,196,635.09. The Supervisory Board noted that profit after tax from the Bank's 2016 separate financial statements was positively impacted by dividends distributed from the Bank's subsidiaries following the changes in their capital structure.

   The Supervisory Board reviewed the Management Board proposal of profit distribution and propose to the general meeting to approve the distribution of the profit after tax for the year 2016 per the 2016 separate financial statements of MONETA Money Bank, a.s., in the total amount of CZK 7,269,196,635.09 as follows:

To be paid as dividend	CZK 5,007,800,000.00
To be transferred to the account of retained earnings	CZK 2,261,396,635.09

   The amount of the dividend per share is CZK 9.80 before taxation.

3. The Supervisory Board examined the Report on Relations among Related Entities in 2016 drawn up under Section 82 et seq. of the Act on Commercial Corporations, and states on the basis of the presented documents that, during the accounting period from 1 January 2016 to 31 December 2016, the Bank, did not suffer 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.

The Supervisory Board throughout 2016 maintained its supervision over the exercise of powers by the Management Board, checked the accounts and other financial documents of MONETA Money Bank, a. s., ascertained the effectiveness of the management and control system and made regular assessments.

In Prague, on 20 March 2017

On behalf of the Supervisory Board:

Christopher Chambers
Chairman of the Supervisory Board of
MONETA Money Bank, a.s.

MONETA IS NAĎA

Knit and purl. Naďa's favourite time for knitting is during long winter evenings while watching the TV. She makes it all – from jumpers and neck warmers to hats and socks. It makes the younger family members happy, keeps them warm and helps Naďa relax. It's her way to balance her professional and personal life.

She can rescue her clients from any situation. "It's important to find out about your client's problem and what they need. Then it's just a matter of finding the solution." And both go smoothly with Naďa's long experience.

You can count on Naďa.

9. 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 2016, 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 2017

Signed on behalf of the Management Board:

Tomáš Spurný
Chairman of the Management Board

Philip Holemans
Vice-Chairman of the Management Board

MONETA IS MARKÉTA

You would never guess that she's been in the "Auto" team since 1998. How come she's still not bored? First of all, it's because she's no longer just a business partner for her clients. "I have the opportunity to change some things in dealerships, both personnel and strategic" as she explains the benefit of building trust and long-term relationships. The only thing she's still learning is how to switch off – at least her phone when she's riding her favourite bicycle.

You can count on Markéta.

FINANCIAL SECTION

Auditor’s Report and Consolidated Financial Statements as at and for the year ended 31 December 2016

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Independent Auditor's Report to the Shareholders of MONETA Money Bank, a.s.

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 2016, 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 2016, 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, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Loss allowances for loans and receivables to customers

Key audit matter

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 6,175 million as at 31 December 2016 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, which are further segmented into commercial and retail exposures.

The calculation of allowances for the non-impaired loan portfolio is based on statistical models.

How the audit matter was addressed

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.

Key audit matter

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 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), 42.3 (Risk management relating to credit risk) and 42.3.6 (Credit portfolio and its quality) to the consolidated financial statements.

How the audit matter was addressed

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 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 forecast 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.

Litigation and claims

Key audit matter
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), 33 (Provisions) and 38 (Contingent liabilities) to the consolidated financial statements.

How the audit matter was addressed
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
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..

How the audit matter was addressed
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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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
- 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 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.

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- 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.

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 2016, based on which this independent auditor's report has been prepared.

Prague
20 March 2017

KPMG Česká republika Audit

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.

Name of the Bank:	MONETA Money Bank, a.s.
Registered office:	Vyskočilova 1422/1a, Praha 4 – Michle
Identifi cation no:	25672720
Business:	Bank
Code of the Bank:	0600
Date of preparation:	20 March 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

CZK m	Note	31 December 2016	31 December 2015
Assets			
Cash and balances with the central bank	18	20,235	15,475
Financial assets at fair value through profit or loss	24	26	7
Financial assets available for sale	23	13,749	13,255
Loans and receivables to banks	21	189	139
Loans and receivables to customers	22	111,860	108,437
Intangible assets	25	744	429
Property and equipment	27	649	485
Non current assets held for sale		0	22
Goodwill	26	104	104
Investments in associates	35	2	2
Current tax assets	28	267	172
Deferred tax assets	29	805	944
Other assets	30	749	566
Total assets		**149,379**	**140,037**
Liabilities			
Deposits from banks	31	2,657	289
Due to customers	32	116,252	108,698
Financial liabilities at fair value through profit or loss	24	7	8
Provisions	33	416	543
Current tax liabilities		29	1
Deferred tax liabilities	29	280	220
Other liabilities	34	2,470	2,439
Total liabilities		**122,111**	**112,198**
Equity			
Share capital	36	511	511
Share premium	36	5,028	5,028
Legal and statutory reserve	36	102	167
Available for sale reserve	36	363	482
Share based payment reserve		(2)	(2)
Retained earnings		21,266	21,653
Total equity		**27,268**	**27,839**
Total liabilities and equity		**149,379**	**140,037**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2016

CZK m	Note	2016	2015 Restated*
Interest and similar income		8,494	9,522
Interest expense and similar charges		(189)	(212)
Net interest income	6	**8,305**	**9,310**
Fee and commission income		2,267	2,631
Fee and commission expense		(306)	(295)
Net fee and commission income	7	**1,961**	**2,336**
Dividend income	8	26	9
Net income from financial operations	9	598	324
Other operating income	10	168	123
Total operating income		**11,058**	**12,102**
Personnel expenses	11	(2,263)	(2,243)
Administrative expenses	12	(2,022)	(1,969)
Depreciation and amortisation	13	(310)	(520)
Other operating expenses	14	(489)	(801)
Total operating expenses		**(5,084)**	**(5,533)**
Profit for the year before tax and net impairment of loans and receivables and AFS		**5,974**	**6,569**
Net impairment of loans and receivables	15	(927)	(849)
Profit for the year before tax		**5,047**	**5,720**
Taxes on income	16	(993)	(1,214)
Profit for the year after tax		**4,054**	**4,506**
Items that are or might be reclassified to profit or loss			
Change in fair value of AFS investments recognised in OCI		132	165
Change in fair value of AFS investments recognised in P&L		(279)	(13)
Deferred tax		28	(29)
Other comprehensive income, net of tax		**(119)**	**123**
Total comprehensive income		**3,935**	**4,629**
Earnings per share			
Profit for the year after tax attributable to the equity holders		4,054	4,506
Weighted average of ordinary shares (millions of shares)**		511	510
Basic/Diluted earnings per share (in CZK)	17	**7.93**	**8.84**

* Due to the market practice the regulatory charges of CZK 177 million for Deposit insurance fund and Resolution and recovery fund were reclassified from the line „Other operating expenses" to the line „Administrative expenses".
** In April 2016, the nominal value of one share was changed from CZK 1,000,000 to CZK 1 see note 36. The comparatives of weighted average number of shares are calculated in line with guidance in IAS 33 (Earnings per Share) in order to ensure a comparison on year-to-year basis.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

CZK m	Share capital	Share premium	Legal and statutory reserve	Available for sale reserve	Share based payment reserve	Retained earnings	Total
Opening balance 1 January 2015	**510**	**4,702**	**158**	**359**	**(2)**	**36,856**	**42,583**
Transactions with owners of the company							
Dividends	0	0	0	0	0	(19,700)	(19,700)
Transfers to reserve funds	0	0	9	0	0	(9)	0
Capitalization of liability into equity	1	326	0	0	0	0	327
Total comprehensive income							
Profit for the year after tax	0	0	0	0	0	4,506	4,506
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	165	0	0	165
Change in fair value of AFS investments recognised in P&L	0	0	0	(13)	0	0	(13)
Deferred tax	0	0	0	(29)	0	0	(29)
Balance 31 December 2015	**511**	**5,028**	**167**	**482**	**(2)**	**21,653**	**27,839**
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)
Transfers to reserve funds	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**

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

CZK m	Note	2016	2015
Cash flows from operating activities			
Profit for the year after tax		**4,054**	**4,506**
Adjustments for:			
Depreciation and amortisation	13	**310**	**520**
Net impairment of loans and receivables	15	**927**	**849**
Net gain on sale of available for sale financial assets	9	**(279)**	**(13)**
Interest income from available for sale financial assets	6	**(87)**	**(88)**
Net loss on sale or impairment of tangible and intangible assets		**54**	**10**
Dividend income	8	**(26)**	**(9)**
Taxes on income	16	**993**	**1,214**
		5,946	**6,989**
Changes in:			
Financial assets at fair value through profit or loss	24	**(19)**	**5**
Loans and receivables to customers	15,22	**(4,350)**	**(2,089)**
Other assets	30	**(183)**	**(9)**
Deposits from banks	31	**2,368**	**42**
Due to customers	32	**7,554**	**11,692**
Financial liabilities at fair value through profit or loss	24	**(1)**	**(8)**
Other liabilities and provisions	33,34	**(96)**	**(39)**
		11,219	**16,583**
Taxes on income paid		(835)	(788)
Net cash from/(used in) operating activities		**10,384**	**15,795**
Cash flows from investing activities			
Acquisition of financial assets available for sale		**(3,489)**	**(16,398)**
Proceeds from financial assets available for sale		**3,217**	**23,795**
Acquisition of property and equipment and intangible assets	25,27	**(852)**	**(191)**
Proceeds from the sale of property and equipment and Intangible assets	25,27	**32**	**25**
Dividends received		**24**	**9**
Net cash from/(used in) investing activities		**(1,068)**	**7,240**
Cash flows from financing activities			
Dividend paid		**(4,506)**	**(19,700)**
Net cash from/(used in) financing activities		**(4,506)**	**(19,700)**
Net change in cash and cash equivalents		**4,810**	**3,335**
Cash and cash equivalents at the beginning of the period	19	**15,614**	**12,279**
Cash and cash equivalents at the end of the period	19	**20,424**	**15,614**
Interest received*		7,803	8,698
Interest paid*		(239)	(259)

* Interest received and Interest paid are included within cash flows from operating activities.

Notes to Consolidated Financial Statements of MONETA Money Bank, a.s. As at and for the Year Ended 31 December 2016 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 35. 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 51% of the common shares of the Bank (the "Offering") to institutional investors and the Bank applied 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. The conditional trading in the shares commenced on 6 May 2016 and official trading in the 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.

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.

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.

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 and 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 2017. 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 our 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.

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 2016 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 29
- Impairment of financial assets – notes 15 and 42
- Provisions – note 33
- Fair value – note 43
- Goodwill impairment assessment– note 5.12 and 26
- 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 2016

(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, de-recognition 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).

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 contractual cash flow characteristics.

All financial instruments are initially measured at fair value plus or minus, including a financial asset or financial liability not at fair value through profit or loss, transaction costs.

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.

Hedge Accounting

IFRS 9 will contain 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.

The Group does not currently apply hedge accounting.

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, with no requirement to restate comparative periods. Hedge accounting is generally applied prospectively from that date.

The Group currently analyses 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 Group assesses its business model applied for managing financial assets. Analysis performed so far focused on material classes of financial assets indicates that financial assets currently classified as loans and receivables are meeting the SPPI test and their business model shall be regarded as hold to collect contractual CFs. Available-for-sale debt instruments are indicated also as meeting the SPPI test and their business model shall be regarded as both hold to collect contractual CFs and selling. The Group also focused on the impact of rules stipulated by the standard with respect to purchased or originated credit-impaired financial assets ("POCI") mainly on effective interest rate calculation that represent new topic as compared to IAS 39 for originated financial assets.

According to the analyses provided so far, the Group does not expect any significant changes in measurement category of financial assets.

The Group also performed gap analyses relating to impairment methodology changes triggered by IFRS 9. Main expected 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
- Implementation of POCI lifetime allowances models

Using an expected loss model for allowances the impairment charge will probably lead to significant one time increase in the total level of impairment allowances as of 1 January 2018 with corresponding charge into the equity.

(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 is currently assessing the 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. Analysis provided so far does not indicate significant impact on the Group´s financial statements.

4.2 Standards and amendments issued by the IASB but effective after 31 December 2016 and not endorsed by the EU

Certain new accounting standards and interpretations have been published by the IASB that are not mandatory for 31 December 2016 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) IFRS 16 Leases

In January 2016 IFRS 16 was issued subject to endorsement by EU. This standard shall be effective for annual periods beginning on or 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 recognized 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 recognized 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 leases head office premises, branches and personal cars that would be recognized in Property and equipment under the IFRS 16.

The Group is assessing the impact of IFRS 16 on lines "Property, plant and equipment" and "Intangible assets" in its Statement of financial position and the line "Depreciation and amortization" in the Statement of profit or loss and other comprehensive income.

(b) Amendments to IAS 12 Income taxes

In January 2016, the IASB issued "Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses". The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. The amendments, specifically, confirm that:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity should assess a deferred tax asset in combination with other deferred tax assets. In the case that tax law restricts the utilization of tax losses, the entity should assess deferred tax asset in combination with other deferred tax assets of the same type.

The amendments are effective since 1 January 2017, subject to endorsement by the EU. These amendments will not have material influence on the Group´s financial statements.

(c) Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued "Amendments to IAS 7: Disclosure Initiative". The amendments are intended to improve information provided to users of financial statements about an entity's financing activities including both changes arising from cash flows and non-cash changes. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.

They are effective on 1 January 2017, subject to endorsement by EU. Since the amendments have been issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.

(d) 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. These amendments will not have material influence on the Group´s financial statements.

(e) Other amendments to standards with minor or without impact on the Group

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Annual Improvements to IFRS Standards 2014-2016 Cycle
- Amendments to IAS 40 Investment property
- Amendments to IFRS 4 Insurance Contracts

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 recognized 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 recognized in profit or loss immediately. Acquisition-related costs are recognized 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 recognized 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 except financial instruments measured at fair value through profit or loss is recognized 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 amortized 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 amortized cost calculated on an effective interest basis
- Interest on available-for-sale investment securities calculated on an effective interest basis

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 recognized 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 recognized 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 recognized on receipt of cash or performance of the service obligation whichever is later.

5.5 Dividends

Dividend income is recognized 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 recognizes financial assets measured at amortized cost on the date on which they are originated. All other financial instruments are recognized 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 recognized 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 held-to-maturity or designated at fair value through profit or loss.

(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 amortized 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.

Available-for-sale financial assets include equity and debt securities. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

Interest income is recognized in the profit or loss using the effective interest method. Dividend income is recognized in the profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on AFS debt securities investments are recognized in profit or loss.

Fair value changes other than impairment losses are recognized 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 recognized 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.

5.6.2.2 Financial Liabilities

The Group classifies its non-derivative financial liabilities, other than financial guarantees and loan commitments, at amortized 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.

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 recognized in other comprehensive income is recognized in profit or loss.

A financial liability is derecognised when the obligation under the liability as specified in the contract is discharged, cancelled or expires.

5.6.5 Offsetting

Financial assets and financial liabilities are offset and the net amount 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 Amortized Cost Measurement

The amortized 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 recognized and the maturity amount, minus any reduction for impairment.

5.6.7 Derivatives

Derivatives are initially recognised, and are subsequently remeasured, at fair value. Fair values of derivatives are obtained by using valuation techniques. 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. Derivatives include currency derivatives (swaps and forwards). Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivatives as used by the Group are not designated as hedging instruments and in the statement of financial position they are presented 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".

Derivatives are classified as held for trading. As a matter of policy, the Group uses derivatives for risk management purposes and does not use derivatives for speculative purposes.

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 42.3.1.), 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 recognized, 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 recognized 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 Group does not expect material recovery cash flow from the loan it is deemed uncollectible. This loan is derecognized 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 recognized. 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 recognized in other comprehensive income is removed from equity and recognized 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 recognized, 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 recognized 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 43.

5.9 Provisions

A provision is recognized 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 33.

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 recognized in profit or loss on a straight line basis over the term of the lease. Any lease incentives received are recognized 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 recognized in the statement of financial position of the Group.

Assets subject to a finance lease are recognized 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 recognized 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 recognized in profit or loss on a straight line basis over the term of the lease in "Other operating income". Any lease incentives paid are recognized as an integral part of the total lease income over the term of the lease.

As a lessor, operating leased assets are recognized 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
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.

During the course of 2016 the Group assessed whether the estimate of economic useful lives of certain tangible assets (mainly ATMs and computer hardware) still reflected expected period when the tangibles will be used. As a result, the estimates of economic useful lives of certain assets were extended with the following effect on depreciation: in 2016 a decrease of CZK 17 million, in 2017 a decrease of CZK 5 million and in 2018 an increase of CZK 11 million compared to results without the change in the estimate. Gains and losses on disposals are determined by deducting the carrying value from the consideration received. Any gain/loss on sale is recognized 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 26. 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 recognized 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 amortized 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.

During the course of 2016 the Group assessed whether the estimate of the economic useful life of major software assets still reflected expected period when the software will be used. As a result, the estimate of economic useful life of certain software was extended with the following effect on amortization: in 2016 a decrease of CZK 98 million, in 2017 a decrease of CZK 51 million and in 2018 a decrease of CZK 21 million compared to results without the change in the estimate.

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 recognized if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognized 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 recognized.

5.15 Employee Benefits

Employee benefits include short term bonus payments, flexible benefits (Cafeteria), bonus for loyalty, retention bonuses and bonuses tied to equity and stock option plan.

Compensation paid to the members of senior management

Plan for members of the senior management (including members of the Management Board), which came into effect 1 January 2015. 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 with the remainder of the value being received in the form of virtual shares. The value of the virtual shares granted is determined by the risk-adjusted return on capital.

Short Term Bonuses Payment

Manager and Retention Bonuses are used as a motivation for the Group´s management. Measurement is based on meeting performance indicators. The payments are payable in the next quarter after the end of the period. Bonus payments are accrued over time and represent the best estimate of the amount that will be paid.

Sales incentives represent a performance benefit to retail employees at branches and commercial bankers. The size of the sales incentives depends on fulfilment performance targets, which are evaluated quarterly and the payment is partially made in the subsequent quarter and in the first quarter after the end of the year. The Group recognizes 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 recognized 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 recognized 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, covering different types of employees.

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 36).

Bonuses – Share-based payment

Share options and restricted units over the shares of General Electric Company, the previous ultimate parent entity, were granted to certain employees and executives of the Group. The fair value of options and units granted was recognised as "Personnel expenses" with a corresponding increase in "Share based payment reserves" within equity.

Following the "Offering" (see chapter 1) the programme was terminated and all stock options/RSUs were divested, which means that all unvested stock options were vested and became immediately exercisable with the disposition. The exercisable period is 5 years or the original expiration date of the award, whichever occurs first.

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 recognized in the profit or loss except to the extent that it relates to items recognized 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

Our 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 senior management team.

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.
- 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. This change of reporting was made as part of the separation of the Group from GE.

Information about the reported segments is described in note 41.

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 38.

6. NET INTEREST INCOME

CZK m	2016	2015
Interest income from financial assets measured at amortised cost	8,407	9,434
Loans to customers	8,396	9,428
out of wich interest income from impaired loans	343	426
out of wich penalty interest	139	145
Loans to banks	1	0
Cash and deposit with the central bank	10	6
Interest income from available-for-sale financial assets	87	88
Interest icome and similar income	**8,494**	**9,522**
Interest expense from financial liabilities measured at amortised cost	(189)	(212)
Deposits from customers	(189)	(212)
Interest expense and similar expense	**(189)**	**(212)**
Net interest income	**8,305**	**9,310**

7. NET FEE AND COMMISSION INCOME

CZK m	2016	2015
Lending servicing fees	253	311
Deposit servicing fees	587	702
Interchange fees	112	248
Insurance	362	393
Penalty fees (incl. early termination fees)	426	453
Transactional and other fees	527	524
Fee and commission income	**2,267**	**2,631**
Fee and commission expense	**(306)**	**(295)**
Net fee and commission income	**1,961**	**2,336**

Drop in line "Insurance" in 2016 is caused by reclassification of the premium paid to insurance companies by MONETA Leasing s.r.o. in amount of CZK 34 million from "Other operating expenses" to "Fee and commission income". The corresponding number for full year 2015 was CZK 44 million.

8. DIVIDEND INCOME

CZK m	2016	2015
Dividends from equity instruments	26	9
Dividend income	**26**	**9**

9. NET INCOME FROM FINANCIAL OPERATIONS

CZK m	2016	2015
Net gain on available-for-sale financial assets	**279**	**13**
Net income from financial assets and liabilities at FVTPL	**17**	**224**
Expense on currency derivative instruments	(36)	(120)
Income from currency derivative instruments	53	344
Exchange rate differences	**302**	**87**
Net income from financial operations	**598**	**324**

The increase in net gain on available-for-sale financial assets is driven by the gain on the sale of redeemable ordinary share in Visa Europe and by the gain on the sale of shares in Prague Stock Exchange.

10. OTHER OPERATING INCOME

CZK m	2016	2015
Income from leases	37	0
Rent income	6	9
Other collection income	80	81
Other income	45	33
Total other operating income	**168**	**123**

Income from leases includes income from operating lease contracts provided by MONETA Leasing s.r.o.

In 2015, the Group did not disclose operating leases separately from finance leases due to insignificant volume and number of contracts.

During 2016, the management decided to disclose the operating lease contracts separately in accordance with requirements of IAS 17 Leases.

Assets leased under operating leases are shown in the category "Assets leased under operating lease" (see note 27).

11. PERSONNEL EXPENSES

	2016	2015
The average number of employees during the period*	3,114	3,097
out of which: Management Board	4	4
out of which: Supervisory Board**	5	3
out of which: other members of senior management	8	11

CZK m	2016	2015
Salaries and bonuses***	(1,650)	(1,572)
Salaries and bonuses actuals	(1,467)	(1,395)
Salaries and bonuses accruals	(183)	(177)
Social security and health insurance	(526)	(523)
Other employee related expenses****	(87)	(148)
Total personnel expenses	**(2,263)**	**(2,243)**

* 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 3 members out of 5 members received compensation as the members of the Supervisory Board.
*** Includes the bonuses for retention programmes mentioned in the Bank's prospectus in connection with the Offering (pg.207, part 21.4 and 21.5) and Virtual Share Programme as described in the note 37 which are 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).
**** Decrease in other employee related expenses relates to change of contracts from expatriots to local employees.

12. ADMINISTRATIVE EXPENSES

CZK m	2016	2015
IT and software expense	(337)	(242)
Regulatory charges*	(68)	(177)
Rent expense	(330)	(471)
Rent-related services	(129)	(138)
Advisory services	(145)	(30)
Auditor´s fees	(13)	(11)
out of that: audit	(10)	(11)
out of that: other services	(3)	0
Marketing	(358)	(203)
Travel cost	(35)	(27)
Collection expense**	25	(44)
Other expenses	(632)	(626)
out of that: services provided by previous majority shareholder	(221)	(260)
Total administrative expenses	**(2,022)**	**(1,969)**

* The line "Regulatory charges" includes the 2016 annual contribution to the resolution and recovery fund and the deposit insurance fund. Following the market practice, the total amount charged to expenses in 2015 financial statements of CZK 177 million was reclassified from the line "Other operating expenses" to the line "Administrative expenses".
** 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 legal costs associated with claims of solicitors 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 33 and profit or loss line "Administrative expenses".

In 2016, the Group incurred CZK 289 million of administrative expenses 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).

13. DEPRECIATION AND AMORTISATION

CZK m	2016	2015
Depreciation of property and equipment	(178)	(223)
Amortisation of intangible assets	(132)	(297)
Total depreciation and amortisation	**(310)**	**(520)**

In 2016, the Group incurred CZK 10 million on depreciation and amortization related to IT separation from GE.

In 2016, in line with the Group's policy, the Group reassessed the economic useful life of property and equipment and intangible assets. Impairment losses are shown in the note 14.

14. OTHER OPERATING EXPENSES

CZK m	2016	2015
Trademark GE	(49)	(174)
Trademark GE - withholding tax	(5)	(19)
Damages	(17)	(15)
Unrecoverable VAT	(285)	(264)
Other collection costs	(55)	(117)
Other expenses	(78)	(212)
out of that: impairment of assets	(63)	(22)
Total other operating expenses*	**(489)**	**(801)**

* The line "Other operating expenses" included amount of regulatory charges in the 2015 financial statements as described in note 12. Following the market practice, the total amount charged to expense in 2015 of CZK 177 million was reclassified from the line "Other operating expenses" to the line "Administrative expenses".

Other collection costs include commissions paid to third parties for collection services on impaired portfolios.

In 2015 the line "Other expenses" primarily includes additions to provisions for legal claims as presented in note 33.

15. NET IMPAIRMENT OF LOANS AND RECEIVABLES

CZK m	2016	2015
Additions and release of loan loss allowances	(1,136)	(896)
Additions and release of provisions to unused commitments*	2	0
Use of loan loss allowances**	6,540	1,746
Income from previously written-off receivables	205	30
Write offs of uncollectable receivables	(6,540)	(1,746)
Change in allowances to operating receivables	2	17
Net impairment of loans and receivables* **	**(927)**	**(849)**

* In 2015 the change in provisions for unused commitments of CZK 21 million was reported in the line "Other operating expenses".
** Significant increase in the lines "Use of loan loss allowances" and "Write offs of uncollectible receivables" in 2016 is driven by the execution of write offs of legacy non-performing loans ("NPLs") that have been fully covered by loan loss allowances and NPLs sales.
*** The increase in the Net impairment of loans and receivables from CZK (849) million in 2015 to CZK (927) million in 2016 is due to a portfolio growth in 2016, write-offs of aged NPLs and maintenance of adequate level of NPL coverage by allowances.

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 recognized and in which 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 amount 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 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 302 million as at 31 December 2016 and by +/- CZK 410 million as at 31 December 2015

16. TAXES ON INCOME

Tax expense from the Group's profit before tax can be analysed as follows:

CZK m	2016	2015
Current income tax for the year	(711)	(924)
Income tax related to prior years	(57)	4
Change in deferred tax recognised in profit or loss	(225)	(294)
Taxes on income	**(993)**	**(1,214)**

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	2016	2015
Theoretical income tax accounted for into expenses, calculated with the rate of 19%	(959)	(1,088)
Income tax related to the prior years	(35)	4
Impact of the tax non-deductible expenses*	(29)	(142)
Impact of the non-taxable income	30	12
Taxes on income	**(993)**	**(1,214)**
Effective income tax rate	20%	21%

* Positive movement in 2016 is mainly driven by improved tax deductibility of receivables being written-off and sold.

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	2016	2015
Profit for the year after tax attributable to the equity holders	4,054	4,506
Weighted average of ordinary shares (millions of shares)	511	510
Basic earnings per share	**7.93**	**8.84**

During 2015 one additional share was issued as a consequence of capital infusion (see note 36).

In April 2016, existing shares were split due to the IPO in a ratio of 1:1,000,000 (see note 36). The comparatives of weighted average number of shares are calculated in line with guidance in IAS 33 (Earnings per Share) in order to ensure a comparison on year-to-year basis.

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 2016	31 Dec 2015
Cash and cash in transit	3,843	3,778
Balances with the central bank other than mandatory minimum reserves	14,100	9,700
Mandatory minimum reserve requirement with the central bank	2,292	1,997
Total cash and balances with central bank	**20,235**	**15,475**

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 2016	31 Dec 2015
Cash and deposits with the central bank	20,235	15,475
Loans and receivables to banks	189	139
Total cash and cash equivalents	**20,424**	**15,614**

20. TRANSFER OF FINANCIAL ASSETS – REPURCHASE TRANSACTIONS

31 December 2016				
CZK m	**Carrying amount of transferred assets**	**Carrying amount of associated liabilities**	**Fair value of transferred assets**	**Fair value of associated liabilities**
Repurchase agreements	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 "Deposits from banks" (note 31). Transferred financial assets available for sale consist of treasury bonds (note 23).

As at 31 December 2015, there were no repurchase transactions.

21. LOANS AND RECEIVABLES TO BANKS

Loans and receivables to banks include:

CZK m	31 Dec 2016	31 Dec 2015
Current accounts at banks	154	129
Term deposits in banks payable within 3 months	35	10
Included in cash equivalents	189	139
Total loans and receivables to banks	**189**	**139**

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 2016	31 Dec 2015
Financial organisations	566	614
Non-financial organisations	46,675	44,553
Government sector	65	45
Non-profit organisations	76	93
Entrepreneurs	11,130	12,191
Resident individuals	59,181	62,351
Non-residents entrepreneurs	0	2
Non-residents individuals	342	366
Gross loans and receivables to customers	**118,035**	**120,215**
Loss allowances for loans and advances to customers*	(6 175)	(11,778)
Net loans and receivables to customers	**111,860**	**108,437**
Gross loans and receivables to customers without impairment	110,547	106,192
Loss allowances for loans and advances to customers without impairment	(865)	(921)
Net loans and receivables to customers without impairment	**109,682**	**105,271**

* Significant decrease in the line "Loss allowances for loans and advances to customers" in 2016 is driven by 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 2016	31 Dec 2015
Consumer authorised overdrafts and credit cards	4,551	5,407
Consumer loans	32,281	30,526
Mortgages	15,571	15,387
Commercial loans	42,639	38,340
Auto & equipment financial lease	6,633	8,038
Commercial	6,633	8,025
Retail	0	13
Auto & equipment loans	10,146	10,274
Commercial	7,958	8,329
Retail	2,188	1,945
Other loans	39	465
Commercial	21	38
Retail	18	427
Net loans and receivables to customers	**111,860**	**108,437**

c) Loss allowances for loans and receivables to customers

CZK m	2016			2015		
	Individual allowances	Portfolio allowances	Total allowances	Individual allowances	Portfolio allowances	Total allowances
1 January	**1,027**	**10,751**	**11,778**	**928**	**11,972**	**12,900**
Additions and release of allowances	108	1,028	1,136	192	704	896
Effect of written off receivables	(718)	(5,822)	(6,540)	(71)	(1,675)	(1,746)
Unwinding of discount of loss allowances	(11)	(188)	(199)	(22)	(250)	(272)
Net movement of allowances	**(621)**	**(4,982)**	**(5,603)**	**99**	**(1,221)**	**(1,122)**
31 December	**406**	**5,769**	**6,175**	**1,027**	**10,751**	**11,778**

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 January 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 December 2016	**6**	**948**	**2**	**507**	**4,693**	**19**	**6,175**

CZK m	Financial organisations	Non-financial organisations	Non-profit organisations	Entrepreneurs	Resident individuals	Non-residents individuals	Total
1 January 2015	**5**	**1,587**	**10**	**1,095**	**10,177**	**26**	**12,900**
Net change of allowances	(1)	301	0	87	233	4	624
Effect of written off receivables	0	(199)	(4)	(121)	(1,417)	(5)	(1,746)
31 December 2015	**4**	**1,689**	**6**	**1,061**	**8,993**	**25**	**11,778**

23. FINANCIAL ASSETS AVAILABLE FOR SALE

Assets available for sale acquired by the Group represent equity investments, Czech government bonds, treasury bills and bonds with fixed or variable coupon issued mainly by financial institutions.

CZK m	31 Dec 2016	31 Dec 2015
Treasury bills	0	1,557
Treasury bonds	13,444	11,315
Corporate bonds	256	248
Equity investments	49	135
Total available-for-sale financial assets	**13,749**	**13,255**
By listing:		
Listed	13,444	12,874
Unlisted	305	381

In 2016 and 2015 no impairment of available-for-sale assets has been recognized. Equity investments include investments in SWIFT and VISA Inc.

Repurchase transactions are disclosed in the note 20. Amount of transferred financial assets available for sale from repurchase transactions equals to CZK 1 863 million as at 31 December 2016 (CZK 0 million as at 31 December 2015), transferred financial assets available for sale consists of treasury bonds.

24. FINANCIAL ASSETS / LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The portfolio of financial assets at fair value through profit or loss includes positive fair value of Over the Counter ("OTC") derivatives classified as held for trading. The Group enters into such derivatives to hedge its risks and not for speculative purposes. However, it does not apply hedge accounting under IAS 39.

The portfolio of financial liabilities at fair value through profit or loss only includes negative fair value of OTC derivatives held for trading.

CZK m	Nominal value		Fair value	
	Assets	Liabilities	Assets	Liabilities
31 December 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**

CZK m	Nominal value		Fair value	
	Assets	Liabilities	Assets	Liabilities
31 December 2015				
CURRENCY DERIVATIVES				
Currency swaps	3,283	3,284	6	7
Currency forwards	310	310	1	1
Total derivatives for trading	**3,593**	**3,594**	**7**	**8**

25. INTANGIBLE ASSETS

CZK m	Software purchased	Software – internally developed	Intangibles not in use	Total
Carrying amount as at 31 December 2014	**105**	**478**	**63**	**646**
Additions to assets	23	93	80	196
Transfers of assets	0	0	(116)	(116)
Amortisation for period	(60)	(237)	0	(297)
Carrying amount as at 31 December 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 December 2016	**117**	**389**	**238**	**744**

* Increase in the line "Additions to assets" in 2016 is caused primarily by higher investments arising from IT separation from former shareholder (GE Capital International Holding Limited), capitalization of internal staff personnel expenses directly related to development of intangible assets that has been expensed prior 2016.

	Software purchased	Software – internally developed	Intangibles not in use	Total
Cost as at 31 December 2014	650	3,566	63	4,279
Accumulated Amortisation 2014	(545)	(3,088)	0	(3,633)
Carrying amount as at 31 December 2014	**105**	**478**	**63**	**646**
Cost as at 31 December 2015	654	3,661	27	4,342
Accumulated Amortisation 2015	(586)	(3,327)	0	(3,913)
Carrying amount as at 31 December 2015	**68**	**334**	**27**	**429**
Cost as at 31 December 2016	738	3 796	238	4,772
Accumulated Amortisation 2016	(621)	(3,407)	0	(4,028)
Carrying amount as at 31 December 2016	**117**	**389**	**238**	**744**

For preparation of financial statements for 2016, the Group changed classification of Intangible assets due to significant increase in investments into IT systems. Software purchased from third parties is disclosed separately from software that had been internally developed. "Other intangible assets" previously disclosed separately have been allocated into "Software purchased", resp. "Software – internally developed".

Annual costs related to research and development (that did not meet capitalization criteria) amounted to CZK 33 million in 2016 (2015: CZK 3 million).

26. GOODWILL AND NEWLY ACQUIRED ENTITIES

Reconciliation of Goodwill on the following entities:

CZK m	2016	2015
MONETA Leasing, s.r.o. & MONETA Leasing Services, s.r.o.		
Goodwill as of 1 January	**104**	**104**
Additions arising from business combinations	0	0
Less Impairment	0	0
Goodwill as of 31 December	**104**	**104**

Goodwill relates 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 CGU for goodwill impairment testing.

These were included into the consolidated financial statements of the Group using the acquisition method. The goodwill of CZK 104 million comprises the value of expected synergies arising from the acquisition. None of the goodwill recognized is expected to be deductible for income tax purposes.

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 four-year period, with a terminal growth rate of 3% (2015: 2%) applied thereafter. The forecast cash flows have been discounted at a pre tax rate of 10% (2015: 10%).

27. PROPERTY AND EQUIPMENT

CZK m	Property	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 December 2014	**22**	**271**	**327**	**23**	**0**	**11**	**654**
Additions to assets	0	34	34	1	0	110	179
Disposals/transfers of assets	(22)	(2)	(10)	0	0	(69)	(103)
Depreciation for period	0	(97)	(121)	(5)	0	0	(223)
Impairment of assets	0	(17)	(4)	(1)	0	0	(22)
Carrying amount as at 31 December 2015	**0**	**189**	**226**	**18**	**0**	**52**	**485**
Additions to assets	0	19	156	4	176	384	739
Disposals/transfers of assets	0	0	0	0	0	(355)	(355)
Depreciation for period	0	(57)	(85)	(5)	(31)	0	(178)
Impairment of assets	0	(32)	(5)	(3)	0	(2)	(42)
Carrying amount as at 31 December 2016	**0**	**119**	**292**	**14**	**145**	**79**	**649**

CZK m	Property	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 December 2014	22	912	1,710	78	0	11	2,733
Acumulated Depreciation 2014	0	(641)	(1,383)	(55)	0	0	(2 ,079)
Carrying amount as at 31 December 2014	**22**	**271**	**327**	**23**	**0**	**11**	**654**
Cost as at 31 December 2015	0	877	1 ,534	74	0	52	2,537
Acumulated Depreciation 2015	0	(688)	(1,308)	(56)	0	0	(2,052)
Carrying amount as at 31 December 2015	**0**	**189**	**226**	**18**	**0**	**52**	**485**
Cost as at 31 December 2016	0	892	1,498	68	176	79	2,713
Acumulated Depreciation 2016	0	(773)	(1,206)	(54)	(31)	0	(2,064)
Carrying amount as at 31 December 2016	**0**	**119**	**292**	**14**	**145**	**79**	**649**

Net book value of assets leased under finance lease is CZK 9.1 million as at 31 December 2016 (2015: CZK 15 million).

In 2015, the Group did not disclose operating leases separately from finance leases due to insignificant volume and number of contracts.

During 2016, the management decided to disclose the operating lease contracts separately in accordance with requirements of IAS 17 Leases.

Assets leased under operating leases are shown in the category "Assets leased under operating lease".

27.1 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. 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.

28. CURRENT TAX ASSETS

CZK m	31 Dec 2016	31 Dec 2015
Income tax receivable	267	172
Total current tax assets	**267**	**172**

29. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax is determined based on all temporary and timing differences between the tax bases of assets and liabilities and their carrying amounts 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 2016	31 Dec 2015
Deferred tax liabilities	**280**	**220**
Loans and lease loss allowances	183	(167)
Difference between remaining book value and tax remaining book value of long-lived assets	4	4
Other temporary variances	93	49
Deferred tax assets	**805**	**944**
Loans allowances	747	950
Difference between remaining book value and tax remaining book value of long-lived assets	(9)	19
Revaluation of available-for-sale financial assets	(85)	(113)
Other temporary variances	152	88
Net deferred tax asset/(liability)	**525**	**724**

The following table shows the movement of the net deferred tax asset:

CZK m	2016	2015
Net deferred tax assets at the beginning of period	**724**	**1 047**
Change of the net deferred tax - total profit and loss impact	**(227)**	**(294)**
Loss allowances for loans and receivables to customers	(219)	(561)
Difference between remaining book value and tax remaining book value of long-lived assets	(28)	46
Change of the net deferred tax – other temporary variances	20	221
Change of the net deferred tax - equity impact	**28**	**(29)**
Revaluation of available-for-sale financial assets	28	(29)
Net deferred tax receivable at the end of period	**525**	**724**

30. OTHER ASSETS

CZK m	31 Dec 2016	31 Dec 2015
Accounts receivables*	191	15
Advances and guarantees for rent related services	194	152
Receivables to finance authorities	19	65
Other receivables net of allowances	65	66
out of that allowances	(98)	(100)
Prepayments	84	57
Other accruals	196	211
out of that accruals to former shareholder**	21	0
Total other assets	**749**	**566**

* Includes receivable to former shareholder (GE Capital International Holding Limited) arising from reimbursement of retention bonuses of CZK 52 million (2015: CZK 0 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 37.

31. DEPOSITS FROM BANKS

The Group has following liabilities to other banks:

CZK m	31 Dec 2016	31 Dec 2015
Deposits on demand	233	289
Term deposits	945	0
Liabilities arising from repurchase agreements	1,479	0
Total deposits from banks	**2,657**	**289**
Type of rate:		
Fixed interest rate	2,424	0
Floating interest rate	233	289

32. DUE TO CUSTOMERS

Breakdown of due to customers by sector:

CZK m	31 Dec 2016	31 Dec 2015
Financial organisations	3,210	1,263
Non-financial organisations	22,237	24,001
Insurance organisations	587	660
Government sector	3,966	6,243
Non-profit organisations	2,314	2 111
Entrepreneurs	10,550	9,445
Resident individuals	72,367	64,020
Non-residents	1,021	955
Total due to customers	**116,252**	**108,698**
Rate type:		
Fixed interest rate	4,205	6,023
Floating interest rate	111,363	102,515
Non-interest bearing	684	160
Total due to customers	**116,252**	**108,698**

Breakdown of due to customers according to the type is as follows:

CZK m	31 Dec 2016	31 Dec 2015
Deposits on demand	111,363	102,515
Savings accounts with notice period	249	294
Term deposits	3,956	5,639
Other liabilities towards customers	684	250
Total due to customers	**116,252**	**108,698**

33. PROVISIONS

CZK m	2016	2015
Provisions for undrawn loan commitments		
1 January	**49**	**70**
Additions to provisions	3	0
Use of provisions	0	(7)
Release of unused provisions	(5)	(14)
31 December	**47**	**49**
Provisions for legal claims		
1 January	**299**	**192**
Additions to provisions	3	118
Use of provisions	(24)	(11)
Release of unused provisions	(9)	0
31 December	**269**	**299**
Other provisions		
1 January	**195**	**128**
Additions to provisions	12	166
Use of provisions	(8)	(11)
Release of unused provisions	(99)	(88)
31 December	**100**	**195**
Total provisions	**416**	**543**

Provisions for undrawn loan commitments are created for irrevocable loan commitments (refer to 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 2016 of CZK 220 million (2015: CZK 230 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.

Breakdown of other provisions		
CZK m	**31 Dec 2016**	**31 Dec 2015**
Provisions for assets retirement obligation	**40**	39
Provisions for restructuring	**0**	40
Provisions for employee bonuses and awards	**31**	27
Provisions for collection services*	**25**	87
Other provisions	**4**	2
Total other provisions	**100**	**195**

* 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".

34. OTHER LIABILITIES

CZK m	31 Dec 2016	31 Dec 2015
Trade payables	451	593
out of which payables to solicitors	204	218
Payables to employees	116	95
Payables for social and health insurance	61	54
Payables to the state	22	19
Payables for deposit insurance	0	40
Accruals for uninvoiced services/goods	679	546
Accruals for employees bonuses	285	235
Clearing account of payment settlement	733	755
Deferred income and accrued expenses	67	29
out of that rental services and cards services	37	0
Other liabilities	56	73
Total other liabilities	**2,470**	**2 ,439**

In December 2016 the Group realized the debt sale of an aged written-off loan portfolio and released related liability to solicitor in amount of CZK 12 million reported in the line "Trade payables" and profit or loss line "Other operating expenses".

35. CONSOLIDATION GROUP

The Group's companies included in consolidation as at 31 December 2016, together with the ownership were as follows:

31 December 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., adopt 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.

Decrease in share capital and return of contribution to other capital funds was accounted for as recovery of investment and reduced carying 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.

31 December 2015
CZK m

Name	Registered office	Business activity	Equity as at 31 Dec 2015	Bank's share in equity	Method of consolidation
Inkasní Expresní Servis s.r.o.	Vyskočilova 1422/1a, 140 28 Prague 4	Debt recovery services	36	100%	Full
AgroConsult Bohemia s.r.o. in liquidation*	Vyskočilova 1422/1a, 140 00 Prague 4	Technical advisory in agriculture and woodcraft industry	3	100%	Full
GE Money Auto, s.r.o.**	Vyskočilova 1422/1a, 140 00 Prague 4	Auto financing (Loans and Leases)	8,092	100%	Full
GE Money Leasing Services, s.r.o.**	Holandská 1006/10, Štýřice, 639 00 Brno	Lease and rental of movables	10	100%	Full
GE Money Leasing, s.r.o.**	Holandská 1006/10, Štýřice, 639 00 Brno	Financing of loans and leasing	3,010	100%	Full
CBCB - Czech Banking Credit Bureau, a.s.	Na Vítězné pláni 1719/4, 140 00 Prague 4	Banking Credit Register	1	20%	Equity

* The company was deregistered from the commercial register on 25 January 2016.
** The companies were renamed as at 1 May 2016: 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.

36. EQUITY

36.1 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 2016:

Shareholder	Number of shares	Ownership in %
Tomáš Spurný, Chairman of the Management Board	74,426	0.015%
Christopher Michael Chambers, Chairman of the Supervisory Board	63,600	0.012%

No other related person or other related party to the Bank held any shares of the Bank as at 31 December 2016 or 31 December 2015.

36.2 Legal and statutory reserve and available for sale reserve of the Group

Legal and 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 shareholder 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 2016 (2015: CZK 167 million) consists of Legal and statutory reserve of MONETA Money Bank, a.s. at CZK 102 million (2015: CZK 102 million).

Available for sale reserve

CZK m	Bonds	Shares	Deferred Tax	Total
1 January 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 December 2016	**447**	**1**	**(85)**	**363**

CZK m	Bonds	Shares	Deferred Tax	Total
1 January 2015	**428**	**15**	**(84)**	**359**
(Gain) and losses in the period recognises in the income statement	(13)	0	0	(13)
Gain and (losses) in the period recognises in AFS reserve	62	103	(29)	136
31 December 2015	**477**	**118**	**(113)**	**482**

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 5.15):

in CZK	Virtual Share Programme
Weighted average fair value as 31 December 2016	**82.80**
Information how fair value was determined	
Valuation model	Black-Scholes
Share price	82.80
Expected volatility	21.43%
Risk-free interest rate	0.45%
Weighted average remaining life of options outstanding (in years)	1.33

The following table reconciles the number of virtual shares outstanding as at 31 December 2016:

	Virtual Share Programme	
	Units in thousands	Weighted average share price in CZK
Outstanding as at 1 January 2016	**0**	**0**
Granted	694	68.00
Exercised	3	77.87
Forfeited	60	76.82
Outstanding as at 31 December 2016	**631**	**82.80**
Exercisable as at 31 December 2016	**0**	**0**

The table below reconciles outstanding liability resulting from cash-settled share-based payment under the Virtual Share Programme recognized within the line "Other liabilities":

CZK m	Virtual Share Programme
Outstanding liability to employees at 1 January 2016	**0**
Total expense recognized in 2016	2
of which Personnel expenses recognized in 2016	20
of which Personnel expenses compensation from GECIHL	(18)
Outstanding liability to employees at 31 December 2016	**20**

Oustanding receivable from GECIHL for Virtual Share Programme as of 31 December 2016 is CZK 18 million (31 December 2015: CZK 0 million). For further detail about Virtual Share Programme see note 5.15

38. CONTINGENT LIABILITIES

38.1 Loan Commitments and Issued Guarantees

CZK m	31 Dec 2016	31 Dec 2015
Irrevocable loan commitment	15,843	14,576
Issued guarantees	1,029	1,044
Credit limits on issued guarantees*	483	406
Issued letter of credit	2	17
Total loan commitments and issued guarantees	**17,357**	**16,043**

* This line represents committed limits on guarantees that can be withdrawn by customers.

38.2 Legal Disputes

Taking into account overall financial situation, the Bank considers as significant all litigations involving principal amounts exceeding CZK 10 million and any bankruptcy proceeding in which the Bank is a creditor with a claim exceeding CZK 50 million. As of 31 December 2016, there was one such significant litigation where the Bank enforced its claim in the amount of CZK 11 million and no such bankruptcy proceedings. Only other significant litigation was initiated in 2016 against the Bank by Arca Services, a.s. 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"). Please see below for further information on this legal risk.

38.2.1 Litigation risks in respect of the 1998 acquisition of a part of banking business of Agrobanka

The Bank is subject to the risks set out below in connection with the acquisition from Agrobanka of a part of Agrobanka's banking business in June 1998 (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 October 2016, Arca Services, a.s., a minority shareholder of Agrobanka not bound by the 2010 Settlement ("Arca Services"), 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 believes that the Acquisition is legal, valid and enforceable and that Arca 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 will vigorously contest any claim made against it, any of its subsidiaries or any of its or their respective assets. In addition, similar claims were filed in past and such claims were dismissed by Czech higher instance courts. Nevertheless, the deregistration of Agrobanka from the Czech Commercial Register will be delayed until the court proceedings initiated by Arca Services are terminated.

In addition, 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.

If such a challenge, filed by Arca Services or other Agrobanka shareholders, is successful and a competent court declares that the Acquisition was not legal, valid and enforceable, there would be considerable uncertainty as to what remedial action a court could decide to take and what effect such action 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 19 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 the event of a successful challenge of the Acquisition, a court may, therefore, award a payment by the Bank of a financial equivalent of such assets and / or liabilities to Agrobanka instead. In such case, it is uncertain how a court would determine the appropriate amount of such financial equivalent. Any court award against the Bank could have material and adverse consequences for the Bank and its business, results of operations and financial condition and the value of its shares.

In addition, Agrobanka has historically been at risk of insolvency, raising the possibility that an 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 19 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. So far as the Bank is aware, Agrobanka is not insolvent as at the date hereof. 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. Moreover, the Bank believes that any bankruptcy trustee of Agrobanka would be bound by the 2010 Settlement and, as a result, contractually prohibited from challenging the legality, validity and enforceability of the Acquisition. However, the risk of Agrobanka's insolvency and of a bankruptcy trustee, notwithstanding the 2010 Settlement, treating the Acquisition as being not legal, valid and enforceable and assuming control over any assets deemed to belong to Agrobanka, challenging the Acquisition or making a claim against the Bank to pay a financial equivalent of the assets deemed to belong to Agrobanka remains. Agrobanka's insolvency may primarily arise from: (i) unforeseen tax liabilities of Agrobanka being determined by Czech tax authorities; and (ii) the liquidation balance of Agrobanka approved by the general meeting of Agrobanka in September 2014 being found by a competent court to be insufficient if a claim for insufficiency of the liquidation balance were brought by Agrobanka shareholders not bound by the 2010 Settlement on the basis that the Acquisition was not legal, valid and enforceable.

Although Agrobanka is in the final phase of its liquidation, its shares were cancelled and the process of the payment of the liquidation balance to Agrobanka shareholders will commence in the first half of the year 2017, Agrobanka's liquidation is also subject to ongoing legal challenges, which also indirectly exposes the Bank to the risks described above. In December 2014, an individual shareholder of Agrobanka not bound by the 2010 Settlement, directly and through a company controlled by him, challenged in court actions against Agrobanka the validity of resolutions adopted in September 2014 at Agrobanka's general meeting approving the liquidation balance, on the basis that the liquidation amount was insufficient. In April 2015, these court actions were dismissed by the Municipal Court in Prague, which also stated in its reasoning that the Acquisition was valid. On 22 June 2016, the High Court in Prague as an appellate court affirmed the decision of the Municipal Court in Prague. On 2 November 2016, the plaintiff filed an extraordinary appeal against the decision of the High Court in Prague. Until the ongoing proceedings initiated by such shareholders (or any future court proceedings which may be initiated against Agrobanka) are finally dismissed, it is not possible to deregister Agrobanka from the Czech Commercial Register. In addition, in case of proceedings regarding the sufficiency of the liquidation balance, a court may review the legality, validity and enforceability of the Acquisition as a preliminary question prior to making a decision on the merits.

The Bank would also encounter all of the above described risks if the liquidation of Agrobanka were renewed after deregistration of Agrobanka from the Czech Commercial Register. The liquidation of Agrobanka may be renewed upon the request of any shareholder, creditor or debtor of Agrobanka if any unknown assets of Agrobanka are discovered after deregistration of Agrobanka. However, the Bank believes that the risks associated with renewal of the liquidation of Agrobanka after its deregistration will lessen over time.

In September 2016, Arca 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 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.

Furthermore, negative developments in relation to Agrobanka, including the commencement of insolvency proceedings against Agrobanka or the threat of or speculation regarding Agrobanka's insolvency, or court proceedings and negative ruling relating to the validity, legality and enforceability of the Acquisition 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.

Information concerning the provisions created for litigations in which the Bank is a defendant is stated in the Notes to the Separate Financial Statements, note 33"Provisions".

38.2.2 Administrative proceedings initiated by Czech Trade Inspection Authority ("CTI") against MONETA Auto, s.r.o. ("MONETA Auto")

In 2016, MONETA Auto continued resolving results and proceeding arising claims of clients to return fees paid for concluding consumer loan agreements and to set the level of interest on the respective loans at the CNB's discount rate inasmuch as the claimants considered that disclosure of the contractual parameters in the contracts' documentation had not been in accordance with Appendix 3 of the Consumer Credit Act.

In related terminated court cases, MONETA Auto proved that it had complied with the Consumer Credit Act when concluding the consumer loan agreements, and the legally effective court decisions on these disputes were in favour of 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 with the competent court an action against the decision of the General Director of the CTI in August 2016. The court proceedings are ongoing. Consumers which are parties to the relevant consumer credit agreements concluded by MONETA Auto from 2011 to 2014 MONETA Auto 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 compliance reviews of MONETA Auto's compliance with Czech consumer credit law. As a result, the CTI imposed in October 2015 a fine of CZK 100,000 due to an alleged breach by MONETA Auto of Czech credit check requirements. MONETA Auto lodged an appeal against this decision with the General Director of the CTI. In September 2016, the General Director of the CTI decreased the amount of fine to CZK 80,000 and affirmed the opinion of the CTI. MONETA Auto believes that it complied with credit check requirements and filed with the competent court an action against the decision of the General Director of the CTI in December 2016. Consumers which were parties to the relevant consumer credit agreements may attempt to bring legal proceedings in light of the CTI decision 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 and MONETA Auto may be required to return to customers an amount of already paid interest and fees.

39. LEASING

Operating lease – the Group as a Lessee

The Group leases mainly office or branch property and personal cars. Property leases are both for indefinite and definite period (usually 5 years). Personal cars are leased at maximum for 5 years.

Following table summarizes non-cancellable operating lease commitments not provided for in the financial statements:

Non-cancellable operating lease commitments		
CZK m	**31 Dec 2016**	**31 Dec 2015**
No later than one year	318	295
Later than one year but not later than five years	503	549
Later than five years	9	10
Total minimum lease payments	**830**	**854**

Expense resulting from non-cancellable operating leases recognized in the statement of total comprehensive income:

CZK m	**2016**	**2015**
Lease payments expensed within the period	346	413
Less received sub-lease payments	(1)	(9)
Total expense for period	**345**	**404**

Sub-lease payments 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 2016**	**31 Dec 2015**
No later than one year	7	9
Later than one year but not later than five years	1	8
Total minimum lease payments	**8**	**17**
Less Finance charges	0	(1)
Total outstanding liability	**8**	**16**

Finance lease – the Group as a Lessor

Minimum Lease Payments – Finance lease		
CZK m	31 Dec 2016	31 Dec 2015
No later than one year	2,817	3,770
Later than one year but not later than five years	4,234	5,398
Later than five years	45	29
Total minimum lease payments	**7,096**	**9,197**
Less unearned income	(370)	(656)
Present value of lease receivable	**6,726**	**8,541**
Less allowances	(93)	(503)
Carrying value of lease receivable	**6,633**	**8,038**

The carrying value of lease receivable is presented under Loans and receivables to customers in the consolidated statement of financial position.

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 27.

Minimum Lease Payments - Operating lease		
CZK m	31 Dec 2016	31 Dec 2015
No later than one year	50	0
Later than one year but not later than five years	103	0
Total minimum lease payments	**153**	**0**

40. TRANSACTIONS WITH RELATED PARTIES

The Group's related parties include the parent, fellow subsidiaries, associates, key management personnel, and close family members of key management personnel. As of 31 December 2015 the immediate parent of the Group was 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 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 are mainly bank services, including loans, interest bearing deposits, overdrafts, current accounts and other services (see the table below). 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 are 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 2016 and as at 31 December 2015.

The following transactions were undertaken between related parties in 2016:

31 December 2016				
CZK m	**Key members of the management***	**Former majority shareholder****	**Other related parties****	**Total**
Loans and receivables to customers	10	0	0	**10**
Financial assets at fair value through profit or loss	0	0	0	**0**
Due to customers	19	0	0	**19**
Financial liabilities at fair value through profit or loss	0	0	0	**0**
Other liabilities	0	3	0	**3**
Interest expense and similar charges	0	0	0	**0**
Fee and commission expense	0	0	0	**0**
Operating expenses	(165)	55	(225)	**(335)**
Other operating income	0	0	8	**8**

* Includes members of Supervisory Board, Management Board and senior management team.
** Due to the announcement made by GE in September 2016 to sale 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.

The following transactions were undertaken between related parties in 2015:

CZK m	Key members of the management*	Former majority shareholder	Other related parties	Total
Loans and receivables to customers	11	0	0	**11**
Financial assets at fair value through profit or loss	0	0	6	**6**
Due to customers	7	0	574	**581**
Financial liabilities at fair value through profit or loss	0	0	7	**7**
Other liabilities	0	0	1	**1**
Interest expense and similar charges	0	0	(1)	**(1)**
Fee and commission expense	0	0	(1)	**(1)**
Operating expenses	(152)	(57)	(513)	**(722)**
Other operating income	0	0	44	**44**

* Includes members of Supervisory Board, Management Board and senior management team.

The line "Operating expenses" from other related parties at CZK 225 million for 2016 (2015: CZK 513 million) includes the services provided by the former Group based on the Master Service Agreement with GE Capital EMEA Services to the amount of CZK 86 million (2015: CZK 238 million) and Transition Service Agreement of CZK 135 million (2015: CZK 0 million).

The line "Operating expenses" from the former majority shareholder includes the compensation of CZK 121 million (2015: CZK 0 million) for the Retention Programmes mentioned in the Bank´s prospectus in connection with the Offering (pg. 207, part 21.4 and 21.5).

The line "Operating expenses" from key members of the management includes wages, compensation and benefits that were paid or accrued during the year ended 31 December 2016 to members of the Management Board, Supervisory Board and other members of senior management.

The Group had a credit line of CZK 3,000 million with the Selling Shareholder Group, which was undrawn as at 31 December 2015. Prior to the First Day of Official Trading on the Prime Market of Prague Stock Exchange, this credit line was replaced by a new revolving credit facility agreement, with GE Capital Switzerland AG (a member of the Selling Shareholder Group) providing the Group with a revolving credit facility in the amount of CZK 4,743 million.

40.1 Remuneration to members of supervisory board, management board and senior management team

The following remuneration were paid or accrued to the key members of the management during the year:

CZK m	2016	2015
Short-term employee benefits, there of:	**98**	**124**
Members of the Management Board	50	77
Members of the Supervisory Board	7	0
Other members of senior management	41	47
Other long-term employee benefits, there of:	**75**	**20**
Members of the Management Board	54	4
Other members of senior management	21	16
Pay-outs from stock option plans	**8**	**8**
Members of the Management Board	2	5
Other members of senior management	6	3
Total remuneration	**181**	**152**

This table shows wages, compensation, benefits and payments relating to retention programmes that were paid or accrued during the year ended 31 December 2016 to members of the Management Board, Supervisory Board and other members of senior management. It also includes long-term benefits paid in 2016 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 senior management team, which are responsible for allocating resources and assessing performance of operating segments.

The Group's operating segments are as follows: 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 and public sector institutions. Services are provided through the branch network 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 the Group's partners. This segment provides services to citizens through the branch network, online channels and external sales channels.

Other/Treasury segment includes primarily the treasury function. The focus of this segment is on foreign exchange transactions, 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
31 December 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	(180)	(754)	0	(934)
Net impairment of other receivables	0	7	0	7
Risk adjusted operating income	**2,608**	**6,793**	**730**	**10,131**
Total operating expenses				**(5,084)**
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 from customers	**57,251**	**54,609**	**0**	**111,860**
Total liabilities of the segment	**47,083**	**75,021**	**7**	**122,111**

CZK m	Commercial	Retail	Other/Treasury	Total
31 December 2015				
Interest and similar income	2,527	6,901	94	9,522
Interest expense and similar charges	(48)	(164)	0	(212)
Net fee and commission income	589	1,750	(3)	2,336
Dividend income	0	0	9	9
Net income from financial operations	0	0	324	324
Other operating income	15	108	0	123
Total operating income	**3,083**	**8,595**	**424**	**12,102**
Net impairment of loans and receivables	(416)	(450)	0	(866)
Net impairment of other receivables	0	17	0	17
Risk adjusted operating income	**2,667**	**8,162**	**424**	**11,253**
Total operating expenses				**(5,533)**
Profit for the year before tax				**5,720**
Taxes on income				(1,214)
Profit for the year after tax				**4,506**
Total assets of the segment	**58,056**	**57,022**	**24,959**	**140,037**
Net value of loans and receivables from customers	**54,732**	**53,705**	**0**	**108,437**
Total liabilities of the segment	**45,555**	**66,635**	**8**	**112,198**

42. 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 of clients' creditworthiness on its business.

The Bank provides for centralised risk management of the Group wherever possible and practical. Risk management is centralised in the Bank primarily through outsourcing or by providing methodology guidance to other Group members.

42.1 Risk Management Organisational Structure

The key Bank's committees for risk management on an individual and a consolidated basis established by the Bank's Management Board are:

- The Enterprise Risk Management Committee (ERMC) for risk management framework, internal control system, 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; 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 of the development of relevant risks, including the observance of limits, approval of remedial measures in the case of exceeded limits or unfavorable development trends; and
- Monitoring of the adequacy, reliability and efficiency of risk management's internal regulations, processes and limits 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 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, the Commercial Banking Division and the Finance 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 early work-out process for commercial individually managed loans and its members are employees of the Risk Division and the Legal Division.
- The New Product Introduction Council (NPIC) coordinates development and implementation of new or material changes of current products. Its members are employees of involved 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 line 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;
- Administers the data infrastructure and analytical systems supporting risk management;
- Ensures the model risk management;
- Maintains and develops credit, collections, provisioning, management of operational risks and capital allocation models;
- Monitors indicators of fraudulent operations at 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 for commercial credit risk (products' conditions, underwriting, monitoring, reporting, quality assurance and controls);
- The Consumer Risk department for consumer credit risk (products' conditions, underwriting, monitoring, reporting, quality assurance and controls);
- The Collateral Management department for collateral management (methodology, valuation);
- The Risk Infrastructure department for risk IT infrastructure (data, analytical tools);
- The Planning, Reserving & Models department for credit and provisioning model development;
- The Collections & Recovery department for collections (including commercial early work-out process); and
- The Enterprise Risk Management (ERM) department for market, liquidity, model and operational risk methodology, measuring, monitoring and reporting, credit risk measurement, regulatory and internal capital requirement methodology and calculation.

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 line of business and to minimise all other risks. 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.

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.

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 on a consolidated basis was equal to 10.5% of risk weighted assets in 2016, of which 8% was the principal requirement and 2.5% was the capital conservation buffer applied by the Czech National Bank. However, pursuant to the assessment of the Bank's report on the internal capital adequacy assessment process, 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 management target a Common Equity Tier 1 Capital Ratio of 15.5%.

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 approach 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 1 both on an individual and a consolidated basis.

The Group'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 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 equaled 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 Bank met all regulatory requirements regarding capital adequacy on an individual and a consolidated basis in 2015 and 2016, even after the payment of the dividends in 2015 and 2016.

The Group identified three areas in which it reduced the Group's total risk exposure density by utilising existing regulatory options:

- mortgages on immovable residential property,
- SME supporting factor and
- optimization of exposure class segmentation.

In relation to mortgages, the Group achieved a large reduction in risk weighting (from 75% to 35% for a large part of the portfolio) by using collateral offsets. The Group accomplished putting in place the SME supporting factor. In case of optimization of exposure class segmentation the Group reclassified a portion of the commercial segmentation and achieved a reduction in portfolio risk weighting from 100% to 75%. All measures were implemented in 2016.

Regulatory capital and its components:

CZK m	31 December 2016	31 December 2015
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	17,314	17,314
Available for sale reserve	363	0
Items deductible from Tier 1 capital	(796)	(510)
Regulatory Capital	**22,420**	**22,343**
Total Risk Exposure (Total Risk Weighted Assets)	**109,301**	**126,565**
Regulatory capital adequacy requirement	14.0%	14.0%
Capital requirement	15,302	17,719
Capital adequacy ratio	20.5%	17.7%

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 on an individual and a consolidated basis, the Bank currently uses the internal ECAP model. This model covers all regular risks that are for the Group material and for which the Group decided to hold capital to cover them:

- 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 99.95% confidence interval corresponding to an AA credit rating.

Other risks not covered by the ECAP model, that are material for the Group in the following planning period, are identified through senior management team workshops organised on an annual basis. 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 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 on yearly basis reported to the Czech National Bank as a part of the ICAAP report.

In 2016, 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 development.

42.2.3 Recovery Plan

Given the regulatory requirements from Act No. 374/2015 Coll., on Recovery and Resolution in the Financial Market, as amended, the Bank also prepares a recovery plan. The recovery plan includes three stress scenarios given by the regulation (idiosyncratic event, system-wide event and combination of these 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.

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 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.

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 due to 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 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 counter-parties on the financial market include the exposures to financial institutions and governments. These exposures primarily arise as part of the 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 counter-parties 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. First type ratios (financial) are derived from financial statements and reflect the financial strength of a borrower. Second type ratios (non-financial) are used to assess the borrower based on qualitative information, which reflect 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 internal rating grade twenty-two (OR22 or ORD). The 23 ORs and their associated probabilities of default are:

a) OR0 to 5: 0.01% 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 two authorised persons – one of the Commercial Banking division and one of 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 thereof 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 42.3.2). 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 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 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.

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 15.6%
e) CR5: 15.6% 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 Bank's loans. The Bank has a comprehensive collection process which includes an automated collection system. The Bank is optimizing 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.

Counter-parties in the Financial Market

a) External Rating

The main tool for measuring the credit risk of countries and counter-parties (financial institutions and governments) with respect to transactions in financial markets is the rating of international rating agencies: Standard & Poor's, Moody's, and Fitch. The Bank sets individual limits for individual countries and counter-parties, 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 authorities 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 counter-parties 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 CFO and breaches over CZK 100 million to the ALCO members.

42.3.2 Categorisation of Receivables

The Bank 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 and they are not in work-out process. 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.

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.

The Bank automatically assesses the following criteria for the categorisation on a daily basis:

- The fulfilment of the 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.

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.

42.3.4 Allowances Calculation

Allowances are determined in accordance with IFRS.

In order 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) and loss given default (LGD); further for retail exposures the cure rate is determined. The PD and LGD for commercial individually managed exposures are calculated directly from statistical models. For other receivables (i.e. portfolio managed exposures) models based on the probability of a transfer to default are used to determine the PD, and discounted anticipated cash flows from collection where the 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.

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.

42.3.5 Credit Concentration Risk

As part of managing credit risk, the Bank regularly monitors and actively manages the credit concentration risk (see note 42.4) of the Group through the limits to countries, counter-parties, 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 December 2016	31 December 2015
Top 10 exposures*	5,250	4,144

* 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

31 December 2016		
Sector	**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%**

31 December 2015		
Sector	**CZK m***	**%**
1 Agriculture	17,403	30%
2 Mining	17	0%
3 Food industry	1,783	3%
4 Textile industry	406	1%
5 Wood processing industry	685	1%
6 Chemical industry	1,204	2%
7 Metal processing industry	2,163	4%
8 Electric and optical equipment	123	0%
9 Manufacturing of equipment, including transportation	1,533	3%
10 Construction industry and construction modifications	3,395	6%
11 Wholesale	5,350	9%
12 Retail sale	3,745	7%
13 Transport and telecommunication	6,384	11%
14 Finance	541	1%
15 Services	10,371	18%
16 Public sector	166	0%
17 Health industry	1,291	2%
18 Power sector	802	1%
Total	**57,362**	**100%**

* The amounts represent the relevant gross loans and receivables to customers. Exposures of Other loans are excluded.

c) Maximum credit risk exposure

31 December 2016				
CZK m	Statement of financial position	Off-balance sheet	Total credit risk exposure	Available collateral*
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**
Currency swaps	20	0	20	0
Currency forwards	6	0	6	0
Financial assets available for sale	**13,749**	**0**	**13,749**	**0**
Treasury bills	0	0	0	0
Treasury and corporate bonds	13,700	0	13,700	0
Equity investments	49	0	49	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
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**

31 December 2015				
CZK m	Statement of financial position	Off-balance sheet	Total credit risk exposure	Available collateral*
Cash and balances with the central bank	**15,475**	**0**	**15,475**	**0**
Financial assets at fair value through profit or loss	**7**	**0**	**7**	**0**
Currency swaps	6	0	6	0
Currency forwards	1	0	1	0
Financial assets available for sale	**13,255**	**0**	**13,255**	**0**
Treasury bills	1,557	0	1,557	0
Treasury and corporate bonds	11,563	0	11,563	0
Equity investments	135	0	135	0
Loans and receivables to banks	**139**	**0**	**139**	**0**
Current accounts at banks	129	0	129	0
Term deposits at banks payable within 3 months	10	0	10	0
Loans and receivables to customers	**108,437**	**14,576**	**123,013**	**47,246**
Consumer authorized overdrafts and credit cards	5,407	6,231	11,638	0
Consumer loans	30,526	149	30,675	0
Mortgages	15,387	477	15,864	15,227
Commercial loans	38,340	7,675	46,015	20,433
Auto & Equipment Financial Lease	8,038	0	8,038	6,901
Commercial	8,025	0	8,025	6,901
Retail	13	0	13	0
Auto & Equipment Loans	10,274	44	10,318	4,685
Commercial	8,329	44	8,373	4,685
Retail	1,945	0	1,945	0
Other loans	465	0	465	0
Commercial	38	0	38	0
Retail	427	0	427	0
Issued guarantees and credit limits on guarantees	**0**	**1,450**	**1,450**	**153**
Issued letter of credit	**0**	**17**	**17**	**0**
Other assets	**2,724**	**0**	**2,724**	**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 December 2016			31 December 2015		
	Receivables to banks	Loans and receivables to clients	Total	Receivables to banks	Loans and receivables to clients	Total
Not-impaired before due date	189	106,525	106,714	139	101,141	101,280
Not-impaired past due date	0	4,022	4,022	0	5,051	5,051
Total not-impaired	189	110,547	110,736	139	106,192	106,331
Total impaired	0	7,488	7,488	0	14,023	14,023
Gross loans and receivables	**189**	**118,035**	**118,224**	**139**	**120,215**	**120,354**
Allowances	0	(6,175)	(6,175)	0	(11,778)	(11,778)
Net loans and receivables	**189**	**111,860**	**112,049**	**139**	**108,437**	**108,576**
Individual allowances	0	(406)	(406)	0	(1,027)	(1,027)
Portfolio allowances	0	(5,769)	(5,769)	0	(10,751)	(10,751)
Total allowances	**0**	**(6,175)**	**(6,175)**	**0**	**(11,778)**	**(11,778)**

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					
Credit quality	Probability of default	Authorized overdrafts & credit cards	Consumer loans	Mortgages	Auto and equipment financial leases	Auto and equipment loans	Other loans
31 December 2016							
	1 (PD<=1.3%)	2,696	10,828	14,477	0	1,207	0
	2 (1.3%<PD<=3.2%)	862	13,740	304	0	842	0
	3 (3.2%<PD<=7.7%)	485	4,659	205	0	34	0
	4 (7.7%<PD<=15.6%)	243	1,336	128	0	35	0
	5 (PD>15.6%)	236	1,028	175	0	65	0
	unrated	3	6	16	0	2	22
Total loans and receivables		**4,525**	**31,597**	**15,305**	**0**	**2,185**	**22**
31 December 2015							
	1 (PD<=1.3%)	2,742	10,123	13,883	0	1,064	63
	2 (1.3%<PD<=3.2%)	1,166	12,750	299	0	716	49
	3 (3.2%<PD<=7.7%)	679	4,414	205	0	38	20
	4 (7.7%<PD<=15.6%)	367	1,339	184	0	30	11
	5 (PD>15.6%)	388	1,057	355	0	53	15
	unrated	4	6	11	32	4	8
Total loans and receivables		**5,346**	**29,689**	**14,937**	**32**	**1,905**	**166**

CZK m		Commercial				
Credit quality	Probability of default	Commercial loans	Auto and equipment financial leases	Auto and equipment loans	Other loans	Total
31 December 2016						
	1 (PD<=1.3%)	33,497	3,292	5,339	22	71,358
	2 (1.3%<PD<=3.2%)	6,901	1,873	1,747	0	26,269
	3 (3.2%<PD<=7.7%)	1,157	920	553	0	8,013
	4 (7.7%<PD<=15.6%)	857	412	215	0	3,226
	5 (PD>15.6%)	0	57	68	2	1,631
	unrated	0	0	1	0	50
Total loans and receivables		**42,412**	**6,554**	**7,923**	**24**	**110,547**
31 December 2015						
	1 (PD<=1.3%)	28,309	3,405	5,325	0	64,914
	2 (1.3%<PD<=3.2%)	7,431	3,561	2,287	0	28,259
	3 (3.2%<PD<=7.7%)	565	613	422	0	6,956
	4 (7.7%<PD<=15.6%)	1,602	162	125	0	3,820
	5 (PD>15.6%)	0	44	79	0	1,991
	unrated	113	12	23	39	252
Total loans and receivables		**38,020**	**7,797**	**8,261**	**39**	**106,192**

* 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 2016 and 31 December 2015, the Group reported the following gross loans and receivables to customers with their due dates that are not individually impaired:

31 December 2016

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
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**

31 December 2015

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
Not past due	5,055	27,891	14,584	32	1,807	157	36,892	7,023	7,661	39	101,141
1 - 30 days past due	232	1,451	269	0	70	6	1,069	594	483	0	4,174
31 - 60 days past due	41	233	61	0	15	2	49	120	79	0	600
61+ days past due	18	114	23	0	13	1	10	60	38	0	277
Total	**5,346**	**29,689**	**14,937**	**32**	**1,905**	**166**	**38,020**	**7,797**	**8,261**	**39**	**106,192**

d) Loans and receivables to customers that are individually impaired

As of 31 December 2016 and 31 December 2015 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 December 2016	31 December 2015
Gross individually impaired loans and receivables, to which an individual loss allowance is created	728	1,453
Individual allowances	(406)	(1,027)
Net individually impaired loans and receivables to which an individual loss allowance is created	322	426

42.3.7 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 with 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 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 instalment, 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:

31 December 2016

CZK m	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans	Total
Forborne receivables	88	462	111	110	22	793
Total	**88**	**462**	**111**	**110**	**22**	**793**

31 December 2015

CZK m	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans	Total
Forborne receivables	123	777	244	22	4	1,170
Total	**123**	**777**	**244**	**22**	**4**	**1,170**

b) Impaired loans out of all gross loans and receivables with forbearance:

31 December 2016

CZK m	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans	Total
Forborne receivables	34	179	94	86	18	411
Total	**34**	**179**	**94**	**86**	**18**	**411**

31 December 2015

CZK m	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans	Total
Forborne receivables	40	377	218	1	1	637
Total	**40**	**377**	**218**	**1**	**1**	**637**

c) Loans and receivables to customers forborne within the reporting year

2016

	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans
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

2015	Mortgage loans	Consumer loans	Commercial loans	Commercial auto and equipment financial leases	Commercial auto and equipment loans
Number of incrementally forborne receivables within the reporting year	1	253	4	17	7
Balance of the incrementally forborne gross receivables within the reporting year measured at the end of the reporting year (CZK m)	1	41	25	16	2

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 (see note 41), sector (see note 42.3.5), region (see note 41), activity, or commodity. The Group manages the risk of concentration within individual risks, primarily the credit risk (see note 42.3.5), market risk predominantly represented by interest rate risk (see note 42.5) 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 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. Its activities in the area of interest rate risk management 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 2015, only the portfolio denominated in Czech Koruna exceeded 5% share of the Group's assets/liabilities. In 2016, the threshold was also exceeded for the portfolio denominated in Euro on the liabilities side.

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. During 2016 and 2015 the Group did not need to use any interest rate derivatives due to natural offsets between assets and liabilities.

The below tables show sensitivity of the Group to changes in interest rates.

CZK

% change in annual net interest income	31 December 2016	31 December 2015
Impact of the interest rate movement +200 basis points	1.31%	(0.96)%
Impact of the interest rate movement -200 basis points	(0.11)%	0.05%

change in economic value of equity as a % of capital	31 December 2016	31 December 2015
Impact of the interest rate movement +200 basis points	(4.46)%	(4.38)%
Impact of the interest rate movement -200 basis points	0.83%	0.88%

EUR

% change in annual net interest income	31 December 2016	31 December 2015
Impact of the interest rate movement +200 basis points	(0.89)%	-
Impact of the interest rate movement -200 basis points	(0.17)%	-

change in economic value of equity as a % of capital	31 December 2016	31 December 2015
Impact of the interest rate movement +200 basis points	(0.71)%	-
Impact of the interest rate movement -200 basis points	(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.

31 December 2016

CZK m	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Unspecified*	Total
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**
Deposits from 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**

31 December 2015							
CZK m	**Within 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Unspecified***	**Total**
Cash and balances with the central bank	15,289	0	0	0	0	186	15,475
Financial assets at fair value through profit or loss	0	0	0	0	0	7	7
Financial assets available for sale	50	0	3,040	6,130	2,400	1,635	13,255
Loans and receivables to banks	2	0	0	0	0	137	139
Loans and receivables to customers	28,083	4,008	14,255	44,660	8,109	9,322	108,437
Other assets	0	0	0	0	0	2,724	2,724
Total assets	**43,424**	**4,008**	**17,295**	**50,790**	**10,509**	**14,011**	**140,037**
Deposits from banks	173	5	18	41	12	40	289
Due to customers	48,002	5,671	13,551	27,887	9,841	3,746	108,698
Financial liabilities through profit or loss	0	0	0	0	0	8	8
Other liabilities (without equity)	567	0	0	0	0	2,636	3,203
Total liabilities	**48,742**	**5,676**	**13,569**	**27,928**	**9,853**	**6,430**	**112,198**
Net interest rate exposure	**(5,318)**	**(1,668)**	**3,726**	**22,862**	**656**	**7,581**	**27,839**

* Loans and receivables to customers presented under "Unspecified" category as at 31 December 2015 at CZK 9,322 million represent mainly impaired loans, exposures in foreign currencies (including Loans and receivables to customers in EUR, which amounted to CZK 5,856 million) and exposures other than principal. As at 31 December 2016, the EUR portfolio was allocated to the respective time buckets, i.e. not to "Unspecified", as EUR exceeded the 5% share on the Group's liabilities, thus becoming a significant currency. Apart from that the Loans and receivables to customers presented under "Unspecified" category as at 31 December 2016 at CZK 2,782 million represents the same types of exposures as at 31 December 2015.

42.6 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 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 foreign exchange risk on 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 consolidated basis only net currency position in EUR (on a monthly basis).

The foreign exchange risk at MONETA Leasing at an individual level is managed primarily by 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 '000	31 December 2016	Average of daily values in 2016	31 December 2015	Average of daily values in 2015
FX VaR	15	13	13	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 and by Commission Delegated Regulation (EU) 2015/61 of 10 October 2014, 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 already maintains an LCR well in excess of the requirement of 100% that needs to be achieved by 2018.

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 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; and
- Calculation of Interbank borrowing to Total Assets Ratio.

The quarterly measurement of liquidity risk includes:

- 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;
- Loan to Deposit 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, as well as the Group's equity. The bond and money markets are used to further diversify sources of liquidity and to deposit excess cash. The Bank also has a credit line from GE Capital Switzerland AG (see note 40), which, together with diversification of other sources of financing, gives the Group flexibility regarding liquidity. 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] and based on that is planning to set up a bond issuance programme which will provide the Bank with additional source of liquidity (see note 45). 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 2016 was 161% (31 December 2015: 140%).

As other companies of the Group are financed exclusively by the Bank, the Group's liquidity management is executed exclusively 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 „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.

a) The below table summarises the remaining maturity of carrying amounts of assets, liabilities and equity according to their contractual maturity.

31 December 2016

CZK m	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Unspecified*	Total
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**
Deposits from 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**

31 December 2015							
CZK m	**Within 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Unspecified***	**Total**
Cash and balances with central bank	15,475	0	0	0	0	0	15,475
Financial assets at fair value through profit or loss	5	1	1	0	0	0	7
Financial assets available for sale	124	12	2,793	6,629	3,666	31	13,255
Loans and receivables to banks	139	0	0	0	0	0	139
Loans and receivables to customers	8,164	4,449	11,182	51,201	27,837	5,604	108,437
Investments in associates	0	0	0	0	0	2	2
Current tax assets	0	0	0	0	0	172	172
Deferred tax assets	0	0	0	0	0	944	944
Other assets	163	8	50	15	0	1,370	1,606
Total Assets	**24,070**	**4,470**	**14,026**	**57,845**	**31,503**	**8,123**	**140,037**
Deposits from banks	289	0	0	0	0	0	289
Due to customers	103,873	2,901	1,699	157	15	53	108,698
Financial liabilities at fair value through profit or loss	4	4	0	0	0	0	8
Provisions	0	0	527	4	0	12	543
Deferred tax liabilities	0	0	0	220	0	0	220
Other liabilities	1,979	0	106	0	0	355	2,440
Equity	0	0	0	0	0	27,839	27,839
Total liabilities and equity	**106,145**	**2,905**	**2,332**	**381**	**15**	**28,259**	**140,037**
Net liquidity position of assets and liabilities and equity**	**(82,075)**	**1,565**	**11,694**	**57,464**	**31,488**	**(20,136)**	**0**
Issued guarantees and credit limits on guarantees	**1,450**	**0**	**0**	**0**	**0**	**0**	**1,450**
Loan commitments***	**1,596**	**0**	**0**	**0**	**0**	**0**	**1,596**

* Loans and receivables to customers presented under "Unspecified" category as at 31 December 2016 CZK 4,357 million (31 December 2015 CZK 5,604 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 (88,248) million as at 31 December 2016 (as at 31 December 2015 at CZK (82,075) million) is primarily due to 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.

31 December 2016							
CZK m	**Within 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Unspecified**	**Total**
Deposits from 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 non-derivative financial 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**

31 December 2015							
CZK m	**Within 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Unspecified**	**Total**
Deposits from banks	289	0	0	0	0	0	289
Due to customers	103,873	2,904	1,706	159	16	53	108,711
Provisions	0	0	527	4	0	12	543
Other non-derivative financial liabilities	1,979	0	106	220	0	355	2,660
Total non-derivative financial liabilities	**106,141**	**2,904**	**2,339**	**383**	**16**	**420**	**112,203**
Issued guarantees and credit limits on guarantees	**1,450**	**0**	**0**	**0**	**0**	**0**	**1,450**
Loan commitments*	**1,596**	**0**	**0**	**0**	**0**	**0**	**1,596**

* 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 derivative financial liabilities reported as derivatives for trading:

31 December 2016						
CZK m	**Within 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**More than 5 years**	**Total**
Currency derivatives						
Currency swaps	1	1	0	0	0	2
Currency forwards	0	1	4	0	0	5
Total trading derivatives	**1**	**2**	**4**	**0**	**0**	**7**

31 December 2015						
CZK m	**Within 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**More than 5 years**	**Total**
Currency derivatives						
Currency swaps	4	3	0	0	0	7
Currency forwards	0	1	0	0	0	1
Total trading derivatives	**4**	**4**	**0**	**0**	**0**	**8**

d) The below table shows the remaining expected maturity of assets and liabilities as follows:

31 December 2016

CZK m	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Unspecified	Total
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**
Deposits from 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**

31 December 2015

CZK m	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Unspecified	Total
Cash and balances with the central bank	15,475	0	0	0	0	0	15,475
Financial assets at fair value through profit or loss	5	1	1	0	0	0	7
Financial assets available for sale	124	12	2,793	6,629	3,666	31	13,255
Loans and receivables to banks	139	0	0	0	0	0	139
Loans and receivables to customers	7,449	5,164	11,182	51,201	27,837	5,604	108,437
Investments in associates	0	0	0	0	0	2	2
Current tax assets	0	0	0	0	0	172	172
Deferred tax assets	0	0	0	0	0	944	944
Other assets	163	8	50	15	0	1,370	1,606
Total Assets	**23,355**	**5,185**	**14,026**	**57,845**	**31,503**	**8,123**	**140,037**
Deposits from banks	70	21	71	113	12	2	289
Due to customers*	21,540	9,164	24,872	43,076	9,841	205	108,698
Financial liabilities at fair value through profit or loss	4	4	0	0	0	0	8
Provisions	0	0	527	4	0	12	543
Tax liability	0	0	0	0	0	0	0
Deferred and current tax liabilities	0	0	1	220	0	0	221
Other liabilities	1,979	0	105	0	0	355	2,439
Equity	0	0	0	0	0	27,839	27,839
Total liabilities and equity	**23,593**	**9,189**	**25,576**	**43,413**	**9,853**	**28,413**	**140,037**
Net liquidity position	**(238)**	**(4,004)**	**(11,550)**	**14,432**	**21,650**	**(20,290)**	**0**

* 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 or failure to comply with a legal or regulatory requirement or 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 Loss Data Collection of actual operational risk losses, Risk & Control Self-Assessment (RCSA), 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 a business continuity plan 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 Loss Data Collection, RCSA, 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, rules, related self-regulatory organisation standards and codes of conducts applicable to its 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 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 all aspects of interactions with Regulators, including the management and follow-up of regulatory examination issues;
- 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 prevention, detection, reporting and strategy;
- Running the anti-fraud risk management programme by centralised anti-fraud team, covering all internal and external areas of fraud;
- Overseeing the data privacy and personal data protection agenda; and
- Project management office responsibilities, including overseeing, monitoring and delivering key strategic projects, process assurance and business architecture review.

In the area of regulatory compliance, the Compliance Division acts as a single point of contact for communication to and from all regulatory bodies.

42.8.2 Information Security

The main objective of Information Security is to protect and maintain information by maintaining confidentiality, integrity, availability, and credibility of information. The Group understands the significance of well designed and implemented Information Security and keeps it as one of the key priorities. Information Security is applied via a variety of security tools and processes ranging from antivirus to user awareness. The aim is to ensure maximum risk coverage and protection of the Group information, including client data. Information Technology Division is responsible for information security management.

42.8.3 Business Continuity

The main goal of the business continuity management is to ensure the lowest possible impact on the Group's business continuity in case of an extraordinary situation with regard to employee security and 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 the ERMC regularly reviews and assesses their adequacy.

During the past three years, the Group 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 laws, applicable 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 2016 consisted in updating retail contractual documentation for retail banking and preparatory work on implementing the new Consumer Credit Act significant portion of which meant inclusion of product terms directly into the retail banking contractual documentation and drafting of new documentation, as required by the new Consumer Credit Act. This was managed in due time and as of 1 December 2016 all contractual documentation has been updated in order to fully comply.

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 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.

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 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.

- ***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.

- **Deposits from banks**

The carrying value of deposits from 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 December 2016	31 December 2015	31 December 2016	31 December 2015
	Carrying value		Fair value	
FINANCIAL ASSETS				
Cash and balances with the central bank	20,235	15,475	20,235	15,475
Loans and receivables to banks	189	139	189	139
Loans and receivables to customers	111,860	108,437	115,379	111,856
FINANCIAL LIABILITIES				
Deposits from banks	2,657	289	2,657	289
Due to customers	116,252	108,698	116,252	108,698

Cash and balances with the central bank, Loans and receivables to banks and Deposits from banks are classified as level 2, 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 December 2016			31 December 2015		
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		26			7	
Financial assets available for sale	13,444	256	49	11,315	1,805	135
FINANCIAL LIABILITIES						
Financial liabilities at fair value through profit or loss		7			8	

There were no transfers between level 1 and 2 during the year 2016 or 2015.

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 January 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 December 2016
Available for sale					
Equity investments	135	(248)	162	0	49

CZK m	As at 1 January 2015	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 December 2015
Available for sale					
Equity investments	31	0	0	104	135

44. 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.

45. SUBSEQUENT EVENTS

In line with the funding strategy aiming to diversify long-term funding sources, the Group is setting up its Issuance Programme (Base Prospectus to be finalized in 2Q 2017). The Issuance Programme will enable the Group to issue covered bonds, senior unsecured bonds and subordinated bonds, based on Czech law, and will provide an additional source of liquidity and act as the tool for interest rate position steering. The issuance programme is in phase of final draft to be submitted to CNB and schedule for bond issuance not set yet, therefore the estimate of financial effect cannot be made at current point of time.

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.

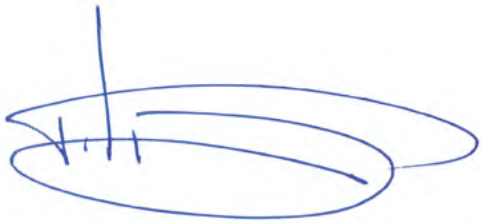
In January 2017, Mr. Richard Alan Laxer, Vice-Chairman of the Supervisory Board decided to step down from his office. He will stay in his function until the Annual General Meeting of the Bank which will take place at the end of April 2017.

In January 2017, Moneta Money Bank, a.s., 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].

On 10 February 2017 the Management Board announced the intention to propose to the shareholders of the Bank dividend payment of CZK 9.8 per share.

Signature of statutory representatives

In Prague, 20 March 2017



Tomáš Spurný
Chairman of the Management Board

Philip Holemans
Vice Chairman of the Management Board

[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.

Auditor's Report and Separate Financial Statements as at and for the year ended 31 December 2016

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Independent Auditor's Report to the Shareholders of MONETA Money Bank, a.s.

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 separate statement of financial position as at 31 December 2016, and the separate statement of profit or loss and other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to these separate financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to these separate financial statements.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, 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, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Loss allowances for loans and receivables to customers

Key audit matter

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 5,517 million as at 31 December 2016 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, which are further segmented into commercial and retail exposures.

How the audit matter was addressed

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.

Key audit matter

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 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), 41.3 (Risk management relating to credit risk) and 41.3.6 (Credit portfolio and its quality) to the separate financial statements.

How the audit matter was addressed

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 and challenged the key assumptions applied by the Bank'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 forecast 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
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 Bank'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), 33 (Provisions) and 37 (Contingent liabilities) to the separate financial statements.

How the audit matter was addressed
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
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 and operating effectively.

How the audit matter was addressed
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.

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.

As set out in Note 1 to these separate financial statements, the Company has not prepared its separate annual report, because the Company includes the respective information in the consolidated annual report. Consequently, this auditor's report does not include our statement on the other information.

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Separate Financial Statements

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

- In preparing the separate financial statements, the statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.
- The Supervisory Board and Audit Committee are responsible for the oversight of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements

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

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

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

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

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

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

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 2016, based on which this independent auditor's report has been prepared.

Prague
20 March 2017

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.

Name of the Bank:	MONETA Money Bank, a.s.
Registered office:	Vyskočilova 1422/1a, Praha 4 – Michle
Identifi cation no:	25672720
Business:	Bank
Code of the Bank:	0600
Date of preparation:	20 March 2017

SEPARATE STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

CZK m	Note	31 December 2016	31 December 2015
Assets			
Cash and balances with the central bank	18	20,235	15,475
Financial assets at fair value through profit or loss	24	26	7
Financial assets available for sale	23	13,749	13,255
Loans and receivables to banks	21	163	117
Loans and receivables to customers	22	107,353	99,350
Intangible assets	25	736	428
Property and equipment	26	520	511
Investments in subsidiaries and associates	27	5,840	9,767
Current tax assets	28	248	150
Deferred tax assets	29	765	944
Other assets	30	637	470
Total Assets		**150,272**	**140,474**
Liabilities			
Deposits from banks	31	2,657	289
Deposits from customers	32	116,349	111,515
Financial liabilities at fair value through profit or loss	24	7	8
Provisions	33	401	527
Other liabilities	34	2,244	2,167
Total liabilities		**121,658**	**114,506**
Equity			
Share capital	35	511	511
Share premium	35	5,028	5,028
Legal and statutory reserve	35	102	102
Available for sale reserve	35	363	482
Share based payment reserve		(2)	(2)
Retained earnings		22,612	19,847
Total equity		28,614	25,968
Total liabilities and equity		**150,272**	**140,474**

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2016

CZK m	Note	2016	2015 Restated*
Interest and similar income		7,611	8,453
Interest expense and similar charges		(191)	(215)
Net interest income	6	**7,420**	**8,238**
Fee and commission income		2,101	2,446
Fee and commission expense		(295)	(284)
Net fee and commission income	7	**1,806**	**2,162**
Dividend income	8	3,588	9
Net income from financial operations	9	600	337
Other operating income	10	195	147
Total operating income		**13,609**	**10,893**
Personnel expenses	11	(2,071)	(2,027)
Administrative expenses	12	(1,904)	(1,866)
Depreciation and amortisation	13	(284)	(526)
Other operating expenses	14	(453)	(694)
Total operating expenses		**(4,712)**	**(5,113)**
Profit for the year before tax and net impairment of loans wand receivables and AFS		**8,897**	**5,780**
Net impairment of loans and receivables	15	(768)	(622)
Profit for the year before tax		**8,129**	**5,158**
Taxes on income	16	(860)	(1,086)
Profit for the year after tax		**7,269**	**4,072**
Items that are or might be reclassified to profit or loss			
Change in fair value of AFS investments recognised in OCI		132	165
Change in fair value of AFS investments recognised in P&L		(279)	(13)
Deferred tax		28	(29)
Other comprehensive income, net of tax		**(119)**	**123**
Total comprehensive income		**7,150**	**4,195**
Earnings per share			
Profit for the year after tax attributable to the equity holders		7,269	4,072
Weighted average of ordinary shares (millions of shares)**		511	510
Basic/Diluted earnings per share (in CZK)	17	**14.23**	**7.98**

* Following the market practice the regulatory charges of CZK 177 million for Deposit insurance fund and Resolution and recovery fund were reclassified from the line „Other operating expenses" to the line „Administrative expenses".
** In April 2016, the nominal value of one share was changed from CZK 1,000,000 to CZK 1 see note 35. The comparatives of weighted average number of shares are calculated in line with guidance in IAS 33 (Earnings per Share) in order to ensure a comparison on year-to-year basis.

SEPARATE STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

CZK m	Share capital	Share premium	Legal and statutory reserve	Available for sale reserve	Share based payment reserve	Retained earnings	Total
Opening balance 1 January 2015	**510**	**4,702**	**102**	**359**	**(2)**	**35,475**	**41,146**
Transactions with owners of the company							
Dividends	0	0	0	0	0	(19,700)	(19,700)
Capitalization of liability into equity	1	326	0	0	0	0	327
Total comprehensive income							
Profit for the year after tax	0	0	0	0	0	4,072	4,072
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	165	0	0	165
Change in fair value of AFS investments recognised in P&L	0	0	0	(13)	0	0	(13)
Deferred tax	0	0	0	(29)	0	0	(29)
Balance 31 December 2015	**511**	**5,028**	**102**	**482**	**(2)**	**19,847**	**25,968**
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**

SEPARATE STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

CZK m	Note	2016	2015
Cash flows from operating activities			
Profit for the year after tax		7,269	4,072
Adjustments for:			
Depreciation and amortisation	13	284	526
Net impairment of loans and receivables	15	768	622
Net gain on sale of available for sale financial assets	9	(279)	(13)
Interest income from available for sale financial assets	6	(87)	(88)
Net loss on sale or impairment of tangible and intangible assets		60	10
Dividend income	8	(3,588)	(9)
Taxes on income	16	860	1,086
		5,287	6,206
Changes in:			
Financial assets at fair value through profit or loss	24	(19)	5
Loans and receivables to customers	15,22	(8,771)	(1,475)
Other assets	30	(167)	24
Deposits from banks	31	2,368	42
Deposits from customers	32	4,834	11,860
Financial liabilities at fair value through profit or loss	24	(1)	(8)
Other liabilities and provisions	33,34	(49)	(41)
		3,482	16,613
Taxes on income paid		(751)	(785)
Net cash from/(used in) operating activities		2,731	15,825
Cash flows from investing activities			
Acquisition of financial assets available for sale		(3,489)	(16,398)
Proceeds from financial assets available for sale		3,218	23,795
Acquisition of property and equipment and intangible assets	25,26	(661)	(230)
Proceeds from the sale of property and equipment and Intangible assets	25,26	0	18
Dividends received	8	3,586	9
Proceeds from decrease in investments	27	3,927	4
Net cash from/(used in) investing activities		6,581	7,198
Cash flows from financing activities			
Share-based payments reserve			
Dividend paid		(4,506)	(19,700)
Net cash from/(used in) financing activities		(4,506)	(19,700)
Net change in cash and cash equivalents		4,806	3,326
Cash and cash equivalents at the beginning of the period	19	15,592	12,266
Cash and cash equivalents at the end of the period	19	20,398	15,592
Interest received*		6,857	7,699
Interest paid*		(239)	(259)

* Interest received and Interest paid are included within cash flows from operating activities

Notes to Separate Financial Statements of MONETA Money Bank, a.s., As at and for the Year Ended 31 December 2016 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 51% of the common shares of the Bank (the "Offering") to institutional investors and the Bank applied 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. The conditional trading in the shares commenced on 6 May 2016 and official trading in the 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.

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.

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.

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 2017. 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 our 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.

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 2016 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 29
- Impairment of financial assets – notes 15 and 41
- Provisions – note 33
- Fair value – note 42
- Classification of leases – note 5.9

4. NEW STANDARDS AND INTERPRETATIONS

4.1 Standards and amendments issued by the IASB and endorsed by the EU but effective after 31 December 2016

(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, de-recognition 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).

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 contractual cash flow characteristics.

All financial instruments are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs.

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.

Hedge Accounting

IFRS 9 will contain 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.

The Bank does not currently apply hedge accounting.

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, with no requirement to restate comparative periods. Hedge accounting is generally applied prospectively from that date.

The Bank currently analyses 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 assesses its business model applied for managing financial assets. Analysis performed so far focused on material classes of financial assets indicates that financial assets currently classified as loans and receivables are meeting the SPPI test and their business model shall be regarded as hold to collect contractual CFs. Available-for-sale debt instruments are indicated also as meeting the SPPI test and their business model shall be regarded as both hold to collect contractual CFs and selling. The Bank also focused on the impact of rules stipulated by the standard with respect to purchased or originated credit-impaired financial assets ("POCI") mainly on effective interest rate calculation that represent new topic as compared to IAS 39 for originated financial assets.

According to the analyses provided so far, the Bank does not expect any significant changes in measurement category of financial assets.

The Bank also performed gap analyses relating to impairment methodology changes triggered by IFRS 9. Main expected 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.
- Implementation of POCI lifetime allowances models.

Using an expected loss model for allowances the impairment charge will probably lead to significant one time increase in the total level of impairment allowances as of 1 January 2018 with corresponding charge into the equity.

(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 is currently assessing the 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. Analysis provided so far does not indicate significant impact on the Bank's financial statements.

4.2 Standards and amendments issued by the IASB but effective after 31 December 2016 and not endorsed by the EU

Certain new accounting standards and interpretations have been published by the IASB that are not mandatory for 31 December 2016 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) IFRS 16 Leases

In January 2016, IFRS 16 was issued subject to endorsement by EU. This standard shall be effective for annual periods beginning on or 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 recognized 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 recognized 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 head office premises,, branches and personal cars that would be recognized in Property and equipment under the IFRS 16.

The Bank is assessing the impact of IFRS 16 on lines "Property, plant and equipment" and "Intangible assets" in its Statement of financial position and the line "Depreciation and amortization" in the Statement of profit or loss and other comprehensive income.

(b) Amendments to IAS 12 Income taxes

In January 2016, the IASB issued "Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses". The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. The amendments specifically, confirm that:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity should assess a deferred tax asset in combination with other deferred tax assets. In the case that tax law restricts the utilization of tax losses, the entity should assess deferred tax asset in combination with other deferred tax assets of the same type.

The amendments are effective since 1 January 2017, subject to endorsement by the EU. These amendments will not have material influence on the Bank's financial statements.

(c) Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued "Amendments to IAS 7: Disclosure Initiative". The amendments are intended to improve information provided to users of financial statements about an entity's financing activities including both changes arising from cash flows and non-cash changes. The information may be disclosed in tabular format as a reconciliation from opening and closing balances, but a specific format is not mandated.

They are effective on 1 January 2017, subject to endorsement by EU. Since the amendments have been issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.

(d) 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. These amendments will not have material influence on the Bank's financial statements.

(e) Other amendments to standards with minor or without impact on the Bank

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- Annual Improvements to IFRS Standards 2014-2016 Cycle
- Amendments to IAS 40 Investment property
- Amendments to IFRS 4 Insurance Contracts

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 recognized in the profit or loss in Net income from financial operations.

5.2 Interest

Interest income or expense from all interest-bearing financial instruments except financial instruments measured at fair value through profit or loss is recognized 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 amortized 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 amortized cost calculated on an effective interest rate basis
- Interest on available-for-sale investment securities calculated on an effective interest basis

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 recognized 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 recognized 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 recognized on receipt of cash or performance of the service obligation whichever is later.

5.4 Dividends

Dividend income is recognized 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 recognizes financial assets measured at amortized cost on the date on which they are originated. All other financial instruments are recognized 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 recognized 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 held-to-maturity or designated at fair value through profit or loss.

(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 amortized 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.

Available-for-sale financial assets include equity and debt securities. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

Interest income is recognized in the profit or loss using the effective interest method. Dividend income is recognized in the profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on AFS debt securities investments are recognized in profit or loss.

Fair value changes other than impairment losses are recognized 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 recognized 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.

5.5.2.2 Financial Liabilities

The Bank classifies its non-derivative financial liabilities, other than financial guarantees and loan commitments, at amortized 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.

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 recognized in other comprehensive income is recognized in profit or loss.

A financial liability is derecognised when the obligation under the liability as specified in the contract is discharged, cancelled or expires.

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 Amortized Cost Measurement

The amortized 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 recognized and the maturity amount, minus any reduction for impairment.

5.5.7 Derivatives

Derivatives are initially recognised, and are subsequently remeasured, at fair value. Fair values of derivatives are obtained by using valuation techniques. 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. Derivatives include currency derivatives (swaps and forwards). Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Derivatives as used by the Bank are not designated as hedging instruments and in the statement of financial position they are presented 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".

Derivatives are classified as held for trading. As a matter of policy, the Bank uses derivatives for risk management purposes and does not use derivatives for speculative purposes.

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 41.3.1.), 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 recognized, 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 recognized 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 41.3.1), 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 41.3) 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 derecognized 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 recognized. 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 recognized in other comprehensive income is removed from equity and recognized 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 recognized, 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 recognized 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 42.

5.8 Provisions

A provision is recognized 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 33.

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.

(a) Bank as a Lessee

Payments made under operating leases are recognized in profit or loss on a straight line basis over the term of the lease. Any lease incentives received are recognized 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 recognized in the statement of financial position of the Bank.

Assets subject to a finance lease are recognized 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.

(b) 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
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 5.12). 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.

During the course of 2016 the Bank assessed whether the estimate of economic useful lives of certain tangible assets (mainly ATMs and computer hardware) still reflected expected period when the tangibles will be used. As a result, the estimates of economic useful lives of certain assets were extended with the following effect on depreciation: in 2016 a decrease of CZK 17 million, in 2017 a decrease of CZK 5 million and in 2018 an increase of CZK 11 million compared to results without the change in the estimate.

Gains and losses on disposals are determined by deducting the carrying value from the consideration received. Any gain/loss on sale is recognized 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 recognized 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 amortized 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.

During the course of 2016 the Bank assessed whether the estimate of the economic useful life of major software assets still reflected expected period when the software will be used. As a result, the estimate of economic useful life of certain software was extended with the following effect on amortization: in 2016 a decrease of CZK 98 million, in 2017 a decrease of CZK 51 million and in 2018 a decrease of CZK 21 million compared to results without the change in the estimate.

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 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 recognized if the carrying amount of an asset exceeds its recoverable amount.

Impairment losses are recognized 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 recognized.

5.13 Employee Benefits

Employee benefits include short term bonus payments, flexible benefits (Cafeteria), bonus for loyalty, retention bonuses and bonuses tied to equity and stock option plan.

Compensation paid to the members of senior management

Plan for members of the senior management (including members of the Management Board), which came into effect 1 January 2015. 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, with the remainder of the value being received in the form of virtual shares. The value of the virtual shares granted is determined by the risk-adjusted return on capital.

Short Term Bonuses Payment

Manager and Retention Bonuses are used as a motivation for the Bank´s management. Measurement is based on meeting performance indicators. The payments are payable in the next quarter after the end of the period. Bonus payments are accrued over time and represent the best estimate of the amount that will be paid.

Sales incentives represent a performance benefit to retail employees at branches and commercial bankers. The size of the sales incentives depends on fulfilment performance targets, which are evaluated quarterly and the payment is partially made in the subsequent quarter and in the first quarter after the end of the year. The Bank recognizes 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 recognized 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 recognized 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, covering different types of employees.

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 36).

Bonuses – Share-based payment

Share options and restricted units over the shares of General Electric Company, the previous ultimate parent entity were granted to certain employees and executives of the Bank. The fair value of options and units granted was recognised as "Personnel expenses" with a corresponding increase in "Share based payment reserves" within equity.

Following the "Offering" (see chapter 1) the programme was terminated and all stock options/RSUs were divested, which means that all unvested stock options were vested and became immediately exercisable with the disposition. The exercisable period is 5 years or the original expiration date of the award, whichever occurs first.

5.14 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 Banks mandatory minimum reserve held by the CNB is also included within "Cash and balances with the central bank".

5.15 Income Tax and Deferred Tax

Income tax expense comprises current and deferred tax. It is recognized in the profit or loss except to the extent that it relates to items recognized 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.

5.16 Segment Reporting

Our 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 senior management team.

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.
- 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. This change of reporting was made as part of the separation of the Bank from GE.

Information about the reported segments is described in note 40.

5.17 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 37.

6. NET INTEREST INCOME

CZK m	2016	2015
Interest income from financial assets measured at amortised cost	7,524	8,365
Loans to customers	7,513	8,359
out of which interest income from impaired loans	273	342
out of which penalty interest	84	91
Loans to banks	1	0
Cash and deposit with the central bank	10	6
Interest income from available-for-sale financial assets	87	88
Interest income and similar income	**7,611**	**8,453**
Interest expense from financial liabilities measured at amortised cost	(191)	(215)
Deposit from customers	(191)	(215)
Interest expense and similar expense	**(191)**	**(215)**
Net interest income	**7,420**	**8,238**

7. NET FEE AND COMMISSION INCOME

CZK m	2016	2015
Lending servicing fees	253	311
Deposit servicing fees	587	702
Interchange fees	112	248
Insurance	315	304
Penalty fees (incl. early termination fees)	308	370
Transactional and other fees	526	511
Fee and commission income	**2,101**	**2,446**
Fee and commission expense	**(295)**	**(284)**
Net fee and commission income	**1,806**	**2,162**

8. DIVIDEND INCOME

CZK m	2016	2015
Dividends from investments in subsidiaries and associates	3,566	0
Dividends from equity instruments	22	9
Dividend income	**3,588**	**9**

Dividends from investments in subsidiaries in amount the of 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 27.

9. NET INCOME FROM FINANCIAL OPERATIONS

CZK m	2016	2015
Net gain on available-for-sale financial assets	**279**	**13**
Net income from financial assets and liabilities at FVTPL	**17**	**224**
Expense on currency derivative instruments	(36)	(120)
Income from currency derivative instruments	53	344
Exchange rate differences	**304**	**100**
Net income from financial operations	**600**	**337**

The increase in net gain on available for sale financial assets is driven by the gain on the sale of redeemable ordinary share in Visa Europe and by the gain on the sale of shares in the Prague Stock Exchange.

10. OTHER OPERATING INCOME

CZK m	2016	2015
Service revenues*	90	47
Rent income	6	9
Other collection income	73	71
Other income	26	20
Total other operating income	**195**	**147**

* 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 39.

11. PERSONNEL EXPENSES

	2016	2015
The average number of employees during the period*	2,838	2,811
out of which: Management Board	4	4
out of which: Supervisory Board**	5	3
out of which: other members of senior management	8	7

CZK m	2016	2015
Salaries and bonuses* **	**(1,513)**	**(1,414)**
Salaries and bonuses actuals	(1,333)	(1,241)
Salaries and bonuses accruals	(180)	(173)
Social security and health insurance	(479)	(470)
Other employee related expenses****	(79)	(143)
Total personnel expenses	**(2,071)**	**(2,027)**

* 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 3 members out of 5 members received compensation as the members of the Supervisory Board.
*** Includes the bonuses for the first and second retention programmes mentioned in the Bank´s prospectus in connection with the Offering (pg. 207, part 21.4 and 21.5) and Virtual Share Programme as described in the note 36 which are 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 39).
**** Decrease in other employee related expenses relates to change of contracts from expatriates to local employees.

12. ADMINISTRATIVE EXPENSES

CZK m	2016	2015
IT and software expense	(322)	(231)
Regulatory charges*	(68)	(177)
Rent expense	(308)	(442)
Rent-related services	(127)	(132)
Advisory services	(143)	(29)
Auditor's fees	(10)	(8)
out of that: audit	(7)	(8)
out of that: other services	(3)	0
Marketing	(334)	(188)
Travel cost	(29)	(24)
Collection expense**	25	(44)
Other expenses	(588)	(591)
out of that: services provided by subsidiaries	(32)	(55)
out of that: services provided by previous majority shareholder	(202)	(234)
Total administrative expenses	**(1,904)**	**(1,866)**

* The line "Regulatory charges" includes the 2016 annual contribution to the resolution and recovery fund and the deposit insurance fund. Following the market practice, the total amount charged to expenses in 2015 financial statements of CZK 177 million was reclassified from the line "Other operating expenses" to the line "Administrative expenses".
** 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 legal costs associated with claims of solicitors 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 33 and profit or loss line "Administrative expenses".

In 2016, the Bank incurred CZK 282 million of administrative expenses 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).

13. DEPRECIATION AND AMORTISATION

CZK m	2016	2015
Depreciation of property and equipment	(154)	(231)
Amortisation of intangible assets	(130)	(295)
Total depreciation and amortisation	**(284)**	**(526)**

In 2016, the Bank incurred CZK 10 million on depreciation and amortization related to IT separation from GE.

In 2016, in line with the Bank's policy, the Bank reassessed the economic useful life of property and equipment and intangible assets. Impairment losses are shown in the note 14.

14. OTHER OPERATING EXPENSES

CZK m	2016	2015
Trademark GE	(47)	(165)
Trademark GE - withholding tax	(5)	(18)
Damages	(16)	(10)
Unrecoverable VAT	(270)	(248)
Other collection costs	(48)	(106)
Other expenses	(67)	(147)
out of that: impairment of assets	(61)	(22)
Total other operating expenses*	**(453)**	**(694)**

* The line "Other operating expenses" included amount of regulatory charges in the 2015 financial statements as described in note 12. Following the market practice, the total amount charged to expense in 2015 of CZK 177 million was reclassified from the line "Other operating expenses" to the line "Administrative expenses".

Other collection costs include commissions paid to third parties for collection services on impaired portfolios.

In 2015 the line "Other expenses" primarily includes additions to provisions for legal claims as presented in note 33.

15. NET IMPAIRMENT OF LOANS AND RECEIVABLES

CZK m	2016	2015
Additions and release of loan loss allowances	(948)	(647)
Additions and release of provisions to unused commitments*	5	0
Use of loan loss allowances**	5,199	1,621
Income from previously written-off receivables	173	8
Write offs of uncollectable receivables	(5,199)	(1,621)
Change in allowances to operating receivables	2	17
Net impairment of loans and receivables* **	**(768)**	**(622)**

* In 2015 the change in provisions for unused commitments of CZK 14 million was reported in line "Other operating expenses".
** Significant increase in the lines "Use of loan loss allowances" and "Write offs of uncollectible receivables" in 2016 is driven by the execution of write offs of legacy non-performing loans ("NPLs") that have been fully covered by loan loss allowances and NPLs sales.
*** The increase in the Net impairment of loans and receivables from CZK (622) million in 2015 to CZK (768) million in 2016 is due to a portfolio growth in 2016, write-offs of aged NPLs and maintenance of adequate level of NPL coverage by allowances.

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 recognized and in which 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 amount 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 41).

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 259 million as at 31 December 2016 and by +/- CZK 333 million as at 31 December 2015.

16. TAXES ON INCOME

Tax expense from the Bank's profit before tax can be analysed as follows:

CZK m	2016	2015
Current income tax for the year	(608)	(799)
Income tax related to prior years	(45)	3
Change in deferred tax recognised in profit or loss	(207)	(290)
Taxes on income	**(860)**	**(1,086)**

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	2016	2015
Theoretical income tax accounted for into expenses, calculated with the rate of 19%	(1,545)	(979)
Income tax related to the prior years	(22)	3
Impact of the tax non-deductible expenses*	(2)	(115)
Impact of the tax non-taxable income**	709	5
Taxes on income	**(860)**	**(1,086)**
Effective income tax rate**	11%	21%

* Positive movement in 2016 is mainly driven by improved tax deductibility of receivables being written-off and sold.
** Lower effective income tax rate for 2016 and higher impact of the non-taxable income are primarily caused by the dividend income from the Bank's subsidiaries in 2016.

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	2016	2015
Profit for the year after tax attributable to the equity holders	7,269	4,072
Weighted average of ordinary shares (million of shares)	511	510
Basic earnings per share	**14.23**	**7.98**

During 2015 one additional share was issued as a consequence of capital infusion (see note 35).

In April 2016, existing shares were split due to the IPO in ratio 1:1,000,000 (see note 35). The comparatives of weighted average number of shares are calculated in line with guidance in IAS 33 (Earnings per Share) in order to ensure a comparison on year-to-year basis.

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 2016	31 Dec 2015
Cash and cash in transit	3,843	3,778
Balances with the central bank other than mandatory minimum reserves	14,100	9,700
Mandatory minimum reserve requirement with the central bank	2,292	1,997
Total cash and balances with central bank	**20,235**	**15,475**

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 2016	31 Dec 2015
Cash and deposits with the central bank	20,235	15,475
Loans and receivables to banks	163	117
Total cash and cash equivalents	**20,398**	**15,592**

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
Repurchase agreements	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 "Deposits from banks" (note 31). Transferred financial assets available for sale consist of treasury bonds (note 23).

As at 31 December 2015, there were no repurchase transactions.

21. LOANS AND RECEIVABLES TO BANKS

Loans and receivables to banks include:

CZK m	31 Dec 2016	31 Dec 2015
Current accounts at banks	128	107
Term deposits in banks payable within 3 months	35	10
Included in cash equivalents	163	117
Total loans and receivables to banks	**163**	**117**

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 2016	31 Dec 2015
Financial organisations*	13,619	10,637
Non-financial organisations	34,646	31,186
Government sector	53	36
Non-profit organisations	43	51
Entrepreneurs	7,509	7,475
Resident individuals	56,670	59,563
Non-residents individuals	330	346
Gross loans and receivables to customers	**112,870**	**109,294**
Loss allowances for loans and advances to customers**	(5,517)	(9,944)
Net loans and receivables to customers	**107,353**	**99,350**
Gross loans and receivables to customers without impairment	106,152	97,417
Loss allowances for loans and advances to customers without impairment	(708)	(705)
Net loans and receivables to customers without impairment	105,444	96,712

* 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 13,111 million as at 31 December 2016 (as at 31 December 2015 CZK 10,091 million).
** Significant decrease in the line "Loss allowances for loans and advances to customers" in 2016 is driven by 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 2016	31 Dec 2015
Consumer authorised overdrafts and credit cards	4,551	5,407
Consumer loans	32,281	30,526
Mortgages	15,571	15,387
Commercial loans*	54,933	47,603
Other loans	17	427
Retail	17	427
Net loans and receivables to customers	**107,353**	**99,350**

* 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 13,111 million as at 31 December 2016 (as at 31 December 2015: CZK 10,091 million).

c) Loss allowances for loans and receivables to customers

CZK m	2016			2015		
	Individual allowances	Portfolio allowances	Total allowances	Individual allowances	Portfolio allowances	Total allowances
1 January	**991**	**8,953**	**9,944**	**900**	**10,265**	**11,165**
Additions and release of allowances	102	846	948	184	463	647
Effect of written off receivables	(706)	(4,493)	(5,199)	(71)	(1,550)	(1,621)
Unwinding of discount of loss allowances	(10)	(166)	(176)	(22)	(225)	(247)
Net movement of allowances	**(614)**	**(3,813)**	**(4,427)**	**91**	**(1,312)**	**(1,221)**
31 December	**377**	**5,140**	**5,517**	**991**	**8,953**	**9,944**

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 January 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 December 2016	**6**	**555**	**2**	**408**	**4,529**	**17**	**5,517**

CZK m	Financial organisations	Non-financial organisations	Non-profit organisations	Entrepreneurs	Resident individuals	Non-residents individuals	Total
1 January 2015	**5**	**998**	**7**	**811**	**9,329**	**15**	**11,165**
Net change of allowances	(2)	184	0	34	178	6	400
Effect of written off receivables	0	(150)	(4)	(101)	(1,361)	(5)	(1,621)
31 December 2015	**3**	**1,032**	**3**	**744**	**8,146**	**16**	**9,944**

23. FINANCIAL ASSETS AVAILABLE FOR SALE

Assets available for sale acquired by the Bank represent equity investments, Czech government bonds, treasury bills and bonds with fixed or variable coupon issued mainly by financial institutions.

CZK m	31 Dec 2016	31 Dec 2015
Treasury bills	0	1,557
Treasury bonds	13,444	11,315
Corporate bonds	256	248
Equity investments	49	135
Total available-for-sale financial assets	**13,749**	**13,255**
By listing:		
Listed	13,444	12,874
Unlisted	305	381

In 2016 and 2015 no impairment of available-for-sale assets has been recognized. Equity investments include investments in SWIFT and VISA Inc. Repurchase transactions are disclosed in the note 20. Amount of transferred financial assets available for sale from repurchase transactions equals to CZK 1,863 million as at 31 December 2016 (CZK 0 million as at 31 December 2015), transferred financial assets available for sale consists of treasury bonds.

24. FINANCIAL ASSETS / LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The portfolio of financial assets at fair value through profit or loss includes positive fair value of Over the Counter ("OTC") derivatives classified as held for trading. The Bank enters into such derivatives to hedge its risks and not for speculative purposes. However, it does not apply hedge accounting under IAS 39.

The portfolio of financial liabilities at fair value through profit or loss only includes negative fair value of OTC derivatives held for trading.

CZK m	Nominal value		Fair value	
	Assets	Liabilities	Assets	Liabilities
31 December 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**

CZK m	Nominal value		Fair value	
	Assets	Liabilities	Assets	Liabilities
31 December 2015				
CURRENCY DERIVATIVES				
Currency swaps	3,283	3,284	6	7
Currency forwards	310	310	1	1
Total derivatives for trading	**3,593**	**3,594**	**7**	**8**

25. INTANGIBLE ASSETS

CZK m	Software purchased	Software – internally developed	Intangibles not in use	Total
Carrying amount as at 31 December 2014	**104**	**477**	**63**	**644**
Additions to assets	21	95	80	196
Transfers of assets	0	0	(116)	(116)
Amortisation for period	(58)	(237)	0	(295)
Impairment of assets	0	(1)	0	(1)
Carrying amount as at 31 December 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 December 2016	**109**	**389**	**238**	**736**

* Increase in the line "Additions to assets" in 2016 is caused primarily by higher investments arising from IT separation from former shareholder (GE Capital International Holding Limited), capitalization of internal staff personnel expenses directly related to development of intangible assets that has been expensed prior 2016.

CZK m	Software purchased	Software – internally developed	Intangibles not in use	Total
Cost as at 31 December 2014	644	3,497	63	4,204
Accumulated Amortisation 2014	(540)	(3,020)	0	(3,560)
Carrying amount as at 31 December 2014	**104**	**477**	**63**	**644**
Cost as at 31 December 2015	649	3,595	27	4,271
Accumulated Amortisation 2015	(582)	(3,261)	0	(3,843)
Carrying amount as at 31 December 2015	**67**	**334**	**27**	**428**
Cost as at 31 December 2016	722	3,730	238	4,690
Accumulated Amortisation 2016	(613)	(3,341)	0	(3,954)
Carrying amount as at 31 December 2016	**109**	**389**	**238**	**736**

For preparation of financial statements for 2016, the Bank changed classification of Intangible assets due to significant increase in investments into IT systems. Software purchased from third parties is disclosed separately from software that had been internally developed. "Other intangible assets" previously disclosed separately have been allocated into "Software purchased", resp. "Software – internally developed".

Annual costs related to research and development (that did not meet capitalization criteria) amounted to CZK 33 million in 2016 (2015: CZK 3 million).

26. 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 December 2014	**270**	**314**	**24**	**11**	**619**
Additions to assets	34	74	1	150	259
Disposals/transfers of assets	(2)	(2)	0	(109)	(113)
Depreciation for period	(97)	(129)	(5)	0	(231)
Impairment of assets	(18)	(4)	(1)	0	(23)
Carrying amount as at 31 December 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 December 2016	**115**	**311**	**15**	**79**	**520**

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 December 2014	911	1,602	77	11	2,601
Acumulated Depreciation 2014	(641)	(1,288)	(53)	0	(1,982)
Carrying amount as at 31 December 2014	**270**	**314**	**24**	**11**	**619**
Cost as at 31 December 2015	875	1,560	73	52	2,560
Acumulated Depreciation 2015	(688)	(1,307)	(54)	0	(2,049)
Carrying amount as at 31 December 2015	**187**	**253**	**19**	**52**	**511**
Cost as at 31 December 2016	888	1,485	68	79	2,520
Acumulated Depreciation 2016	(773)	(1,174)	(53)	0	(2,000)
Carrying amount as at 31 December 2016	**115**	**311**	**15**	**79**	**520**

Net book value of assets leased under finance lease is CZK 9.1 million as at 31 December 2016 (2015: CZK 15 million).

27. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

31 December 2016 CZK m							
Name	**Registered office**	**Business activity**	**Equity as at 31 Dec 2016**	**Share of voting rights**	**Share in equity**	**Cost**	**Book value**
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 the 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.

31 December 2015 CZK m							
Name	Registered office	Business activity	Equity as at 31 Dec 2015	Share of voting rights	Share in equity	Cost	Book value
Inkasní Expresní Servis s.r.o.	Vyskočilova 1422/1a, 140 28 Prague 4	Debt recovery services	36	100%	100%	32	32
AgroConsult Bohemia s.r.o. in liquidation*	Vyskočilova 1422/1a, 140 00 Prague 4	Technical advisory in agriculture and woodcraft industry	3	100%	100%	4	0
GE Money Auto, s.r.o.**	Vyskočilova 1422/1a, 140 00 Prague 4	Auto financing (Loans and Leases)	8,092	100%	100%	6,787	6,787
GE Money Leasing Services, s.r.o.**	Holandská 1006/10, 639 00 Brno, Štýřice	Lease and rental of movables	10	100%	100%	10	10
GE Money Leasing, s.r.o.**	Holandská 1006/10, 639 00 Brno, Štýřice	Financing of loans and leases	3,010	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	1	20%	20%	0	0
Total investments in subsidiaries and associates as of 31 December 2015						**9,771**	**9,767**

* The company was deregistered from the commercial register on 25 January 2016.
** The companies were renamed as at 1 May 2016: 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.

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, a.s., is CZK 240,000 as at 31 December 2016.

Changes in investments in subsidiaries and associates in 2015

CZK m	Book value 1 Jan 2015	Decrease	Book value 31 Dec 2015
Inkasní Expresní Servis s.r.o.	32	0	32
AgroConsult Bohemia s.r.o.			
in liquidation	4	4	0
GE Money Auto, s.r.o.	6,787	0	6,787
GE Money Leasing Services, s.r.o.	10	0	10
GE Money Leasing, s.r.o.	2,938	0	2,938
CBCB - Czech Banking Credit Bureau, a.s.*	0	0	0
Total	**9,771**	**4**	**9,767**

* The book value of CBCB - Czech Banking Credit Bureau, a.s., is CZK 240,000 as at 31 December 2015.

28. CURRENT TAX ASSETS

CZK m	31 Dec 2016	31 Dec 2015
Income tax receivable	248	150
Total current tax asset	**248**	**150**

Amount of the income tax receivable which is expected to be claimed by the Bank in no logner than 12 months is as of 31 December 2016 CZK 248 million (31 December 2015: CZK 150 million).

29. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax is determined based on all temporary and timing differences between the tax bases of assets and liabilities and their carrying amounts 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 2016	31 Dec 2015
Deferred tax liabilities	**(151)**	**(150)**
Difference between remaining book value and tax remaining book value of long-lived assets	(66)	(37)
Revaluation of available-for-sale financial assets	(85)	(113)
Deferred tax assets	**916**	**1,094**
Loans allowances	747	950
Difference between remaining book value and tax remaining book value of long-lived assets	57	56
Other temporary variances	112	88
Net deferred tax asset/(liability)	**765**	**944**

The following table shows the movement of the net deferred tax assets:

CZK m	2016	2015
Net deferred tax assets at the beginning of period	**944**	**1 263**
Change of the net deferred tax - total profit and loss impact	**(207)**	**(290)**
Loss allowances for loans and receivables to customers	(203)	(368)
Difference between remaining book value and tax remaining book value of long-lived assets	(28)	43
Change of the net deferred tax - other temporary variances	24	35
Change of the net deferred tax - equity impact	**28**	**(29)**
Revaluation of available-for-sale financial assets	28	(29)
Net deferred tax receivable at the end of period	**765**	**944**

30. OTHER ASSETS

CZK m	31 Dec 2016	31 Dec 2015
Accounts receivables*	119	19
Advances and gurantees for rent related services	140	128
Receivables from finance authorities	46	68
Other receivables net of allowances	52	37
out of that allowances	(82)	(84)
Prepayments	70	46
Other accruals	210	172
out of that accruals to former shareholder**	21	0
out of that accruals to subsidiaries	67	59
Total other assets	**637**	**470**

* Includes receivable to former shareholder - (GE Capital International Holding Limited) arising from reimbursement of retention bonuses of CZK 52 million (2015: CZK 0 million) as described in the note 5.13.

**Includes accruals to former shareholder (GE Capital International Holding Limited) arising from Virtual Share Programme as described in the note 36.

31. DEPOSITS FROM BANKS

Breakdown of deposits from customers is as follows:

CZK m	31 Dec 2016	31 Dec 2015
Deposits on demand	233	289
Term deposits	945	0
Deposits in repurchase agreements	1,479	0
Total deposits from banks	**2,657**	**289**
Type of rate:		
Fixed interest rate	2,424	0
Floating interest rate	233	289

32. DEPOSITS FROM CUSTOMERS

Breakdown of deposits from customers by sector:

CZK m	31 Dec 2016	31 Dec 2015
Financial organisations	3,342	4,170
Non-financial organisations	22,250	23,982
Insurance organisations	587	660
Government sector	3,966	6,243
Non-profit organisations	2,314	2,111
Entrepreneurs	10,533	9,402
Resident individuals	72,336	63,992
Non-residents	1,021	955
Total deposits from customers	**116,349**	**111,515**
Rate type:		
Fixed interest rate	4,205	5,933
Floating interest rate	111,547	105,422
Non-interest bearing	597	160
Total deposits from customers	**116,349**	**111,515**

Breakdown of deposits from customers according to the type is as follows:

CZK m	31 Dec 2016	31 Dec 2015
Deposits on demand	111,547	105,422
Savings accounts with notice period	249	294
Term deposits	3,956	5,639
Other liabilities towards customers	597	160
Total deposits from customers	**116,349**	**111,515**

33. PROVISIONS

CZK m	2016	2015
Provisions for undrawn loan commitments		
1 January	**49**	**62**
Additions to provisions	0	0
Use of provisions	0	0
Release of unused provisions	(5)	(13)
31 December	**44**	**49**
Provisions for legal claims		
1 January	**290**	**191**
Additions to provisions	0	109
Use of provisions	(20)	(10)
Release of unused provisions	(4)	0
31 December	**266**	**290**
Other provisions		
1 January	**188**	**121**
Additions to provisions	9	155
Use of provisions	(8)	0
Release of unused provisions	(98)	(88)
31 December	**91**	**188**
Total provisions	**401**	**527**

Provisions for undrawn loan commitments are created for irrevocable loan commitments (see note 37.1).

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 2016 of CZK 220 million (2015: CZK 230 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.

Breakdown of other provisions

CZK m	31 Dec 2016	31 Dec 2015
Provisions for assets retirement obligation	40	39
Provisions for restructuring	0	41
Provisions for employee bonuses and awards	30	26
Provisions for collection services*	18	81
Other provisions	3	1
Total other provisions	**91**	**188**

* 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".

34. OTHER LIABILITIES

CZK m	31 Dec 2016	31 Dec 2015
Trade payables	413	512
out of which payables to solictiors	198	211
Payables to employees	103	91
Payables for social and health insurance	53	47
Payables to the state	21	19
Payables for deposit insurance	0	40
Accruals for uninvoiced services/goods	560	440
Accruals for employees bonuses	274	225
Clearing account of payment settlement	733	755
Deferred income and accrued expenses	63	24
out of that rental services and cards services	37	0
Other liabilities	24	14
Total other liabilities	**2,244**	**2,167**

In December 2016 the Bank realized the debt sale of an aged written-off loan portfolio and released related liability to solicitor in amount of CZK 12 million reported in the line "Trade payables" and profit or loss line "Other operating expenses".

35. EQUITY

35.1. 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 2016:

Shareholder	Number of shares	Ownership in %
Tomáš Spurný, Chairman of the Management Board	74,426	0.015%
Christopher Michael Chambers, Chairman of the Supervisory Board	63,600	0.012%

No other related person or other related party with a relationship to the Bank held any shares of the Bank as at 31 December 2016 or 31 December 2015.

35.2. Legal and statutory reserve and available for sale reserve

Legal and statutory reserve

In accordance with the Bank's Articles of Association the Bank created a non-distributable reserve fund from profit or from shareholders' contributions. The reserve fund is allocated 5% of profit after tax until it reaches the level of 20% of the share capital.

The reserve fund stood at CZK 102 million as at 31 December 2016 (2015: CZK 102 million) and is presented as Legal and statutory reserve in the statement of financial position.

Further information on equity is provided in the statement of changes in equity.

Available for sale reserve

CZK m	Bonds	Shares	Deferred Tax	Total
1 January 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 December 2016	447	1	(85)	363

CZK m	Bonds	Shares	Deferred Tax	Total
1 January 2015	**428**	**15**	**(84)**	**359**
(Gain) and losses in the period recognises in the income statement	(13)	0	0	(13)
Gain and (losses) in the period recognises in AFS reserve	62	103	(29)	136
31 December 2015	**477**	**118**	**(113)**	**482**

36. 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 5.13):

in CZK	Virtual Share Programme
Weighted average fair value as 31 December 2016	**82.80**
Information how fair value was determined	
Valuation model	Black-Scholes
Share price	82.80
Expected volatility	21.43%
Risk-free interest rate	0.45%
Weighted average remaining life of options outstanding (in years)	1.33

The following table reconciles the number of virtual shares outstanding as at 31 December 2016:

	Virtual Share Programme	
	Units in thousands	Weighted average share price in CZK
Outstanding at 1 January 2016	**0**	**0**
Granted	650	68.00
Exercised	3	77.87
Forfeited	57	76.57
Outstanding at 31 December 2016	**590**	**82.80**
Exercisable at 31 December 2016	**0**	**0**

The table below reconciles outstanding liability resulting from cash-settled share-based payment under the Virtual Share Programme recognized within the line "Other liabilities":

CZK m	Virtual Share Programme
Outstanding liability to employees at 1 January 2016	**0**
Total expense recognized in 2016	1
of which Personnel expenses recognized in 2016	18
of which Personnel expenses compensation from GECIHL	(17)
Outstanding liability to employees at 31 December 2016	**18**

Oustanding receivable from GECIHL for Virtual Share Programme as of 31 December 2016 is CZK 17 million (31 December 2015: CZK 0 million). For further detail about Virtual Share Programme see note 5.13.

37. CONTINGENT LIABILITIES

37.1 Loan Commitments and Issued Guarantees

CZK m	31 Dec 2016	31 Dec 2015
Irrevocable loan commitment	15,369	15,025
Issued guarantees	1,029	1,044
Credit limits on issued guarantees*	483	406
Issued letter of credit	2	17
Total loan commitments and issued guarantees	**16,883**	**16,492**

* This line represents committed limits on guarantees that can be withdrawn by customers.

37.2 Legal Disputes

Taking into account overall financial situation, the Bank considers as significant all litigations involving principal amounts exceeding CZK 10 million and any bankruptcy proceeding in which the Bank is a creditor with a claim exceeding CZK 50 million. As of 31 December 2016, there was one such significant litigation where the Bank enforced its claim in the amount of CZK 11 million and no such bankruptcy proceedings. Only other significant litigation was initiated in 2016 against the Bank by Arca Services, a.s. 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"). Please see below for further information on this legal risk.

37.2.1 Litigation risks in respect of the 1998 acquisition of a part of banking business of Agrobanka

The Bank is subject to the risks set out below in connection with the acquisition from Agrobanka of a part of Agrobanka's banking business in June 1998 (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 October 2016, Arca Services, a.s., a minority shareholder of Agrobanka not bound by the 2010 Settlement ("Arca Services"), 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 believes that the Acquisition is legal, valid and enforceable and that Arca 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 will vigorously contest any claim made against it, any of its subsidiaries or any of its or their respective assets. In addition, similar claims were filed in past and such claims were dismissed by Czech higher instance courts. Nevertheless, the deregistration of Agrobanka from the Czech Commercial Register will be delayed until the court proceedings initiated by Arca Services are terminated.

In addition, 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.

If such a challenge, filed by Arca Services or other Agrobanka shareholders, is successful and a competent court declares that the Acquisition was not legal, valid and enforceable, there would be considerable uncertainty as to what remedial action a court could decide to take and what effect such action 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 19 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 the event of a successful challenge of the Acquisition, a court may, therefore, award a payment by the Bank of a financial equivalent of such assets and / or liabilities to Agrobanka instead. In such case, it is uncertain how a court would determine the appropriate amount of such financial equivalent. Any court award against the Bank could have material and adverse consequences for the Bank and its business, results of operations and financial condition and the value of its shares.

In addition, Agrobanka has historically been at risk of insolvency, raising the possibility that an 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 19 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. So far as the Bank is aware, Agrobanka is not insolvent as at the date hereof. 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. Moreover, the Bank believes that any bankruptcy trustee of Agrobanka would be bound by the 2010 Settlement and, as a result, contractually prohibited from challenging the legality, validity and enforceability of the Acquisition. However, the risk of Agrobanka's insolvency and of a bankruptcy trustee, notwithstanding the 2010 Settlement, treating the Acquisition as being not legal, valid and enforceable and assuming control over any assets deemed to belong to Agrobanka, challenging the Acquisition or making a claim against the Bank to pay a financial equivalent of the assets deemed to belong to Agrobanka remains. Agrobanka's insolvency may primarily arise from: (i) unforeseen tax liabilities of Agrobanka being determined by Czech tax authorities; and (ii) the liquidation balance of Agrobanka approved by the general meeting of Agrobanka in September 2014 being found by a competent court to be insufficient if a claim for insufficiency of the liquidation balance were brought by Agrobanka shareholders not bound by the 2010 Settlement on the basis that the Acquisition was not legal, valid and enforceable.

Although Agrobanka is in the final phase of its liquidation, its shares were cancelled and the process of the payment of the liquidation balance to Agrobanka shareholders will commence in the first half of the year 2017, Agrobanka's liquidation is also subject to ongoing legal challenges, which also indirectly exposes the Bank to the risks described above. In December 2014, an individual shareholder of Agrobanka not bound by the 2010 Settlement, directly and through a company controlled by him, challenged in court actions against Agrobanka the validity of resolutions adopted in September 2014 at Agrobanka's general meeting approving the liquidation balance, on the basis that the liquidation amount was insufficient. In April 2015, these court actions were dismissed by the Municipal Court in Prague, which also stated in its reasoning that the Acquisition was valid. On 22 June 2016, the High Court in Prague as an appellate court affirmed the decision of the Municipal Court in Prague. On 2 November 2016, the plaintiff filed an extraordinary appeal against the decision of the High Court in Prague. Until the ongoing proceedings initiated by such shareholders (or any future court proceedings which may be initiated against Agrobanka) are finally dismissed, it is not possible to deregister Agrobanka from the Czech Commercial Register. In addition, in case of proceedings regarding the sufficiency of the liquidation balance, a court may review the legality, validity and enforceability of the Acquisition as a preliminary question prior to making a decision on the merits.

The Bank would also encounter all of the above described risks if the liquidation of Agrobanka were renewed after deregistration of Agrobanka from the Czech Commercial Register. The liquidation of Agrobanka may be renewed upon the request of any shareholder, creditor or debtor of Agrobanka if any unknown assets of Agrobanka are discovered after deregistration of Agrobanka. However, the Bank believes that the risks associated with renewal of the liquidation of Agrobanka after its deregistration will lessen over time.

In September 2016, Arca 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 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.

Furthermore, negative developments in relation to Agrobanka, including the commencement of insolvency proceedings against Agrobanka or the threat of or speculation regarding Agrobanka's insolvency, or court proceedings and negative ruling relating to the validity, legality and enforceability of the Acquisition 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.

Information concerning the provisions created for litigations in which the Bank is a defendant is stated in the Notes to the Separate Financial Statements, note 33 "Provisions".

38. LEASING

Operating lease – the Bank as a Lessee

The Bank leases mainly office or branch property and personal cars. Property leases are both for indefinite and definite period (usually 5 years). Personal cars are leased at maximum for 5 years.

Following table summarizes non-cancellable operating lease commitments not provided for in the financial statements:

Non-cancellable operating lease commitments		
CZK m	**31 Dec 2016**	**31 Dec 2015**
No later than one year	302	287
Later than one year but not later than five years	481	528
Later than five years	9	7
Total minimum lease payments	**792**	**822**

Expense resulting from non-cancellable operating leases recognized in the statement of total comprehensive income:

CZK m	2016	2015
Lease payments expensed within the period	331	401
Less received sub-lease payments	(6)	(9)
Total expense for period	**325**	**392**

Sub-lease payments represent rent charge to companies affiliated to General Electric Company.

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 2016**	**31 Dec 2015**
No later than one year	7	9
Later than one year but not later than five years	1	8
Total minimum lease payments	**8**	**17**
Less Finance charges	0	(1)
Total outstanding liability	**8**	**16**

39. 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. As of 31 December 2015 the immediate parent of the Bank was 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 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 are mainly bank services, including loans, interest bearing deposits, overdrafts, current accounts and other services (see the table below). 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 2016 and as at 31 December 2015.

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
Financial assets at fair value through profit or loss	0	0	0	0	0	0
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
Deposits from customers	184	0	19	0	0	203
Financial liabilities at fair value through profit or loss	0	0	0	0	0	0
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
Fee and commission expense	0	0	0	0	0	0
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 senior management team.
** Due to the announcement made by GE in September 2016 to sale 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.

The following transactions were undertaken between related parties in 2015:

CZK m	Subsidiaries	Associates	Key members of the management*	Former majority shareholder	Other related parties	Total
Loans and receivables to customers	10,091	0	11	0	0	10,102
Financial assets at fair value through profit or loss	0	0	0	0	6	6
Intangible assets	1	0	0	0	0	1
Property and equipment	41	0	0	0	0	41
Other assets	2	0	0	0	0	2
Deposits from customers	2,906	0	7	0	574	3,487
Financial liabilities at fair value through profit or loss	0	0	0	0	7	7
Other liabilities	0	0	0	0	1	1
Interest expense and similar charges	(3)	0	0	0	(1)	(4)
Interest and similar income	209	0	0	0	0	209
Fee and commission expense	0	0	0	0	(1)	(1)
Operating expenses	(36)	(15)	(126)	(54)	(505)	(736)
Dividend income	0	2	0	0	0	2
Other operating income	51	0	0	0	44	95

* Includes members of Supervisory Board, Management Board and senior management team.

Loans and receivables to customers of CZK 13,111 million represent an intercompany loans to Bank's subsidiaries (MONETA Leasing s.r.o., MONETA Auto s.r.o.) provided in 2016 (2015: CZK 10 091 million).

The line "Operating expenses" from other related parties at CZK 212 million for 2016 (2015: CZK 505 million) includes the services provided by the former Group based on the Master Service Agreement with GE Capital EMEA Services to the amount of CZK 75 million (2015: CZK 234 million) and Transition Service Agreement of CZK 127 million (2015: CZK 0 million).

The line "Operating expenses" from the former majority shareholder includes the compensation of CZK 121 million (2015: CZK 0 million) for the Retention Programmes mentioned in the Bank´s prospectus in connection with the Offering (pg. 207, part 21.4 and 21.5).

The line "Operating expenses" from key members of the management includes wages, compensation and benefits that were paid or accrued during the year ended 31 December 2016 to members of the Management Board, Supervisory Board and other members of senior management. The Bank had a credit line of CZK 3,000 million with the Selling Shareholder Group, which was undrawn as at 31 December 2015. Prior to the First Day of Official Trading on the Prime Market of Prague Stock Exchange, this credit line was replaced by a new revolving credit facility agreement, with GE Capital Switzerland AG (a member of the Selling Shareholder Group) providing the Bank with a revolving credit facility in the amount of CZK 4,743 million.

39.1. Remuneration to members of supervisory board, management board and senior management team

The following remuneration were paid or accrued to the key members of the management during the year:

CZK m	2016	2015
Short-term employee benefits, there of:	**98**	**106**
Members of the Management Board	50	77
Members of the Supervisory Board	7	0
Other members of senior management	41	29
Other long-term employee benefits, there of:	**75**	**12**
Members of the Management Board	54	4
Other members of senior management	21	8
Pay-outs from stock option plans	**8**	**8**
Members of the Management Board	2	5
Other members of senior management	6	3
Total remuneration	**181**	**126**

This table shows wages, compensation, benefits and payments relating to retention programmes that were paid or accrued during the year ended 31 December 2016 to members of the Management Board, Supervisory Board and other members of senior management. It also includes long-term benefits paid in 2016 that were granted in previous years.

40. 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 senior management team, 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 and public sector institutions. Services are provided through the branch network 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 includes primarily the treasury function. Focus of the segment is on foreign exchange transactions, 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
31 December 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	(71)	(704)	0	(775)
Net impairment of other receivables	0	7	0	7
Risk adjusted operating income	**1,785**	**6,762**	**4,294**	**12,841**
Total operating expenses				**(4,712)**
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 from customers	**54,933**	**52,420**	**0**	**107,353**
Total liabilities of the segment	**46,735**	**74,916**	**7**	**121,658**

CZK m	Commercial	Retail	Other/Treasury	Total
31 December 2015				
Interest and similar income	1,631	6,728	94	8,453
Interest expense and similar charges	(52)	(163)	0	(215)
Net fee and commission income	450	1,715	(3)	2,162
Dividend income	0	0	9	9
Net income from financial operations	0	0	337	337
Other operating income	14	133	0	147
Total operating income	**2,043**	**8,413**	**437**	**10,893**
Net impairment of loans and receivables	(245)	(394)	0	(639)
Net impairment of other receivables	0	17	0	17
Risk adjusted operating income	**1,798**	**8,036**	**437**	**10,271**
Total operating expenses				**(5,113)**
Profit for the year before tax				**5,158**
Taxes on income				(1,086)
Profit for the year after tax				**4,072**
Total assets of the segment	**55,348**	**60,167**	**24,959**	**140,474**
Net value of loans and receivables from customers	**47,603**	**51,747**	**0**	**99,350**
Total liabilities of the segment	**47,944**	**66,554**	**8**	**114,506**

41. 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 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 of clients' creditworthiness on its business.

41.1 Risk Management Organisational Structure

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

- The Enterprise Risk Management Committee (ERMC) for risk management framework, internal control system, 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; 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 of 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 risk management's internal regulations, processes and limits in the area of their responsibility.

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

- 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, the Commercial Banking Division and the Finance 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 early work-out process for commercial individually managed loans and its members are employees of the Risk Division and the Legal Division.
- The New Product Introduction Council (NPIC) coordinates development and implementation of new or material changes of current products. Its members are employees of involved 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 line 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;
- Administers the data infrastructure and analytical systems supporting risk management;
- Ensures the model risk management;
- Maintains and develops credit, collections, provisioning, management of operational risks and capital allocation models;
- Monitors indicators of fraudulent operations at 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 for commercial credit risk (products' conditions, underwriting, monitoring, reporting, quality assurance and controls);
- The Consumer Risk department for consumer credit risk (products' conditions, underwriting, monitoring, reporting, quality assurance and controls);
- The Collateral Management department for collateral management (methodology, valuation);
- The Risk Infrastructure department for risk IT infrastructure (data, analytical tools);
- The Planning, Reserving & Models department for credit and provisioning model development;
- The Collections & Recovery department for collections (including commercial early work-out process); and
- The Enterprise Risk Management (ERM) department for market, liquidity, model and operational risk methodology, measuring, monitoring and reporting, credit risk measurement, regulatory and internal capital requirement methodology and calculation.

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 line of business and to minimise all other risks. 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.

41.2 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.

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 was equal to 10.5% of risk weighted assets in 2016, of which 8% was the principal requirement and 2.5% was the capital conservation buffer applied by the Czech National Bank. However, pursuant to the assessment of the Bank's report on the internal capital adequacy assessment process, 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. This expectation implicitly means that the Bank has to hold at individual basis more capital than required by regulation on an individual basis.

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 1.

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 equaled the net income of the Group for 2015.

The Bank met all regulatory requirements regarding capital adequacy in 2015 and 2016, even after the payment of the dividends in 2015 and 2016.

The Bank identified three areas in which it reduced the Bank's total risk exposure density by utilising existing regulatory options:

- mortgages on immovable residential property,
- SME supporting factor and
- optimization of exposure class segmentation.

In relation to mortgages, the Bank achieved a large reduction in risk weighting (from 75% to 35% for a large part of the portfolio) by using collateral offsets. The Bank accomplished putting in place the SME supporting factor. In case of optimization of exposure class segmentation the Bank reclassified a portion of the commercial segmentation and achieved a reduction in portfolio risk weighting from 100% to 75%. All measures were implemented in 2016.

Regulatory capital and its components:

CZK m	31 December 2016	31 December 2015
Common equity Tier1 capital CET1		
Subscribed share capital	511	511
Share premium	5,028	5,028
Statutory reserve and Retained earnings excl. profit for the year	15,445	15,877
Available for sale reserve	363	0
Items deductible from Tier1 capital	(684)	(404)
Regulatory Capital	**20,663**	**21,012**
Total Risk Exposure (Total Risk Weighted Assets)	**113,834**	**130,029**
Regulatory capital adequacy requirement	10.5%	10.5%
Capital requirement	11,953	13,653
Capital adequacy ratio	18.2%	16.2%

41.2.1 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 for the Bank material and for which the Bank decided to hold capital to cover them:

- 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 99.95% confidence interval corresponding to a AA credit rating.

Other risks not covered by the ECAP model, that are material for the Bank in the following planning period, are identified through senior management team workshops organised on an annual basis. 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.

41.2.2 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 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 on yearly basis reported to the Czech National Bank as a part of the ICAAP report.

In 2016, 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 development.

41.2.3 Recovery Plan

Given the regulatory requirements from Act No. 374/2015 Coll., on Recovery and Resolution in the Financial Market, as amended, the Bank also prepares a recovery plan. The recovery plan includes three stress scenarios given by the regulation (idiosyncratic event, system-wide event and combination of these 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.

41.3 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.

41.3.1 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 due to 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 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 counter-parties on the financial market include the exposures to financial institutions and governments. These exposures primarily arise as part of the liquidity management and market risks management. The credit risk of these exposures is managed through limits to countries and counter-parties 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. First type ratios (financial) are derived from financial statements and reflect the financial strength of a borrower. Second type ratios (non-financial) are used to assess the borrower based on qualitative information, which reflect 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 who 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: 0.01% 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 two authorised persons – one of the Commercial Banking Division and one of 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 thereof 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 41.3.2).

Reports on the quality of the commercial portfolio are discussed by the CRCO each month. And, if necessary, or 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 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 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 the 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 15.6%
e) CR5: 15.6% 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. The Bank has a comprehensive collection process which includes an automated collection system. The Bank is optimizing its overall recovery capacity and performance by using external capacities (collection agencies) as well as debt sales of non-performing receivables.

Counter-parties in the Financial Market

a) External Rating

The main tool for measuring the credit risk of countries and counter-parties (financial institutions and governments) with respect to transactions in financial markets is the rating of international rating agencies: Standard & Poor's, Moody's, and Fitch. The Bank sets individual limits for individual countries and counter-parties, 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 authorities 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 counter-parties 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 CFO and breaches over CZK 100 million to the ALCO members.

41.3.2 Categorisation of Receivables

The Bank 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 and they are not in work-out process. 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.

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 the categorisation on a daily basis:

- The fulfilment of the 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.

41.3.3 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.

41.3.4 Allowances Calculation

Allowances are determined in accordance with IFRS.

In order 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) and loss given default (LGD); further for retail exposures the cure rate is determined. The PD and LGD for commercial individually managed exposures are calculated directly from statistical models. For other receivables (i.e. portfolio managed exposures) models based on the probability of a transfer to default are used to determine the PD, and discounted anticipated cash flows from collection where the 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.

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.

41.3.5 Credit Concentration Risk

As part of managing credit risk, the Bank regularly monitors and actively manages the credit concentration risk (see note 41.4) through the limits to countries, counter-parties, collateral providers, and economic sectors. Regional concentration is not relevant as most income is generated within the territory of the Czech Republic (see note 40).

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 December 2016	31 December 2015
Top 10 exposures*	5,245	4,134

* 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

31 December 2016		
Sector	**CZK m***	**%**
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%**

31 December 2015		
Sector	**CZK m***	**%**
1 Agriculture	16,635	43%
2 Mining	9	0%
3 Food industry	1,649	4%
4 Textile industry	353	1%
5 Wood processing industry	459	1%
6 Chemical industry	857	2%
7 Metal processing industry	1,439	4%
8 Electric and optical equipment	46	0%
9 Manufacturing of equipment, including transportation	1,165	3%
10 Construction industry and construction modifications	2,074	5%
11 Wholesale	3,452	9%
12 Retail sale	2,030	5%
13 Transport and telecommunication	523	1%
14 Finance	455	1%
15 Services	6,624	17%
16 Public sector	61	0%
17 Health industry	615	2%
18 Power sector	750	2%
Total	**39,196**	**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

31 December 2016				
CZK m	**Statement of financial position**	**Off-balance sheet**	**Total credit risk exposure**	**Available collateral***
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**
Currency swaps	20	0	20	0
Currency forwards	6	0	6	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
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
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**

31 December 2015				
CZK m	**Statement of financial position**	**Off-balance sheet**	**Total credit risk exposure**	**Available collateral***
Cash and balances with the central bank	**15,475**	**0**	**15,475**	**0**
Financial assets at fair value through profit or loss	**7**	**0**	**7**	**0**
Currency swaps	6	0	6	0
Currency forwards	1	0	1	0
Financial assets available for sale	**13,255**	**0**	**13,255**	**0**
Treasury bills	1,557	0	1,557	0
Treasury and corporate bonds	11,563	0	11,563	0
Equity investments	135	0	135	0
Loans and receivables to banks	**117**	**0**	**117**	**0**
Current accounts at banks	107	0	107	0
Term deposits at banks payable within 3 months	10	0	10	0
Loans and receivables to customers	**99,350**	**15,025**	**114,375**	**35,660**
Consumer authorized overdrafts and credit cards	5,407	6,231	11,638	0
Consumer loans	30,526	149	30,675	0
Mortgages	15,387	477	15,864	15,227
Commercial loans	47,603	8,168	55,771	20,433
Other loans	427	0	427	0
Commercial	0	0	0	0
Retail	427	0	427	0
Issued guarantees and credit limits on guarantees	**0**	**1,450**	**1,450**	**153**
Issued letter of credit	**0**	**17**	**17**	**0**
Other assets	**12,270**	**0**	**12,270**	**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".

41.3.6 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 December 2016			31 December 2015		
	Receivables to banks	Loans and receivables to clients	Total	Receivables to banks	Loans and receivables to clients	Total
Not-impaired before due date	163	103,587	103,750	117	93,985	94,102
Not-impaired past due date	0	2,565	2,565	0	3,432	3,432
Total not-impaired	163	106,152	106,315	117	97,417	97,534
Total impaired	0	6,718	6,718	0	11,877	11,877
Gross loans and receivables	**163**	**112,870**	**113,033**	**117**	**109,294**	**109,411**
Allowances	0	(5,517)	(5,517)	0	(9,944)	(9,944)
Net loans and receivables	**163**	**107,353**	**107,516**	**117**	**99,350**	**99,467**
Individual allowances	0	(377)	(377)	0	(991)	(991)
Portfolio allowances	0	(5,140)	(5,140)	0	(8,953)	(8,953)
Total allowances	**0**	**(5,517)**	**(5,517)**	**0**	**(9,944)**	**(9,944)**

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 December 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<=15.6%)	242	1,335	128	0	803	0	2,508
	5 (PD>15.6%)	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**
31 December 2015								
	1 (PD<=1.3%)	2,742	10,122	13,883	63	27,906	0	54,716
	2 (1.3%<PD<=3.2%)	1,166	12,750	299	49	7,112	0	21,376
	3 (3.2%<PD<=7.7%)	679	4,414	205	20	565	0	5,883
	4 (7.7%<PD<=15.6%)	367	1,339	184	11	1,602	0	3,503
	5 (PD>15.6%)	388	1,057	355	15	0	0	1,815
	unrated	4	7	11	9	10,092	1	10,124
Total loans and receivables		**5,346**	**29,689**	**14,937**	**167**	**47,277**	**1**	**97,417**

* 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 2016 and 31 December 2015, the Bank reported the following gross loans and receivables to customers with their due dates that are not individually impaired:

31 December 2016							
CZK m	Retail				Commercial		
	Authorized overdrafts and credit cards	Consumer loans	Mortgages	Other loans	Commercial loans	Other loans	Total
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**

31 December 2015							
CZK m	Retail				Commercial		
	Authorized overdrafts and credit cards	Consumer loans	Mortgages	Other loans	Commercial loans	Other loans	Total
Not past due	5,055	27,893	14,584	156	46,297	0	93,985
1 - 30 days past due	232	1,451	269	6	929	0	2,887
31 - 60 days past due	41	233	61	2	42	0	379
61+ days past due	18	112	23	3	9	1	166
Total	**5,346**	**29,689**	**14,937**	**167**	**47,277**	**1**	**97,417**

d) Loans and receivables to customers that are individually impaired

As of 31 December 2016 and 31 December 2015, 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 December 2016	31 December 2015
Gross individually impaired loans and receivables, to which an individual loss allowance is created	699	1,417
Individual allowances	(377)	(991)
Net individually impaired loans and receivables to which an individual loss allowance is created	322	426

41.3.7 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 with 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 41.3.2). 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 instalment, interest rate and maturity is opened as non-delinquent (current).

As impairment is driven by categorisation, in compliance with categorisation rules (see note 41.3.2), forborne receivables become non-impaired if their categorisation improves to watch or standard.

a) All gross loans and receivables with forbearance

31 December 2016				
CZK m	Mortgage loans	Consumer loans	Commercial loans	Total
Forborne receivables	88	462	111	661
Total	88	462	111	661

31 December 2015				
CZK m	Mortgage loans	Consumer loans	Commercial loans	Total
Forborne receivables	123	777	244	1,144
Total	123	777	244	1,144

b) Impaired loans out of all gross loans and receivables with forbearance

31 December 2016				
CZK m	Mortgage loans	Consumer loans	Commercial loans	Total
Forborne receivables	34	179	94	307
Total	34	179	94	307

31 December 2015				
CZK m	Mortgage loans	Consumer loans	Commercial loans	Total
Forborne receivables	40	377	218	635
Total	40	377	218	635

c) Loans and receivables to customers forborne within the reporting year

2016			
	Mortgage loans	Consumer loans	Commercial loans
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

2015			
	Mortgage loans	Consumer loans	Commercial loans
Number of incrementally forborne receivables within the reporting year	1	253	4
Balance of the incrementally forborne gross receivables within the reporting year measured at the end of the reporting year (CZK m)	1	41	25

41.4 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 (see note 40), sector (see note 41.3.5), region (see note 40), activity, or commodity. The Bank manages the risk of concentration within individual risks, primarily the credit risk (see note 41.3.5), market risk predominantly represented by interest rate risk (see note 41.5) and liquidity risk (see note 41.7). Activity and commodity concentrations are not relevant.

41.5 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. Its activities in the area of interest rate risk management 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 2015, only the portfolio denominated in Czech Koruna exceeded 5% share of the Bank's assets/liabilities. In 2016, the threshold was also exceeded for the portfolio denominated in Euro on the liabilities side.

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. During 2016 and 2015 the Bank did not need to use any interest rate derivatives due to natural offsets between assets and liabilities.

The below tables show sensitivity of the Bank to changes in interest rates.

CZK		
% change in annual net interest income	**31 December 2016**	**31 December 2015**
Impact of the interest rate movement +200 basis points	1.42%	(1.28)%
Impact of the interest rate movement -200 basis points	(0.10)%	0.11%

change in economic value of equity as a % of capital	**31 December 2016**	**31 December 2015**
Impact of the interest rate movement +200 basis points	(3.93)%	(3.13)%
Impact of the interest rate movement -200 basis points	0.72%	0.56%

EUR		
% change in annual net interest income	**31 December 2016**	**31 December 2015**
Impact of the interest rate movement +200 basis points	(0.98)%	-
Impact of the interest rate movement -200 basis points	(0.18)%	-

change in economic value of equity as a % of capital	**31 December 2016**	**31 December 2015**
Impact of the interest rate movement +200 basis points	(0.77)%	-
Impact of the interest rate movement -200 basis points	(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.

31 December 2016							
CZK m	**Within 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Unspecified***	**Total**
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**
Deposits from banks	2,261	278	27	56	15	20	2,657
Deposits from 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**

31 December 2015							
CZK m	**Within 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Unspecified***	**Total**
Cash and balances with the central bank	15,289	0	0	0	0	186	15,475
Financial assets at fair value through profit or loss	0	0	0	0	0	7	7
Financial assets available for sale	50	0	3,040	6,130	2,400	1,635	13,255
Loans and receivables to banks	2	0	0	0	0	115	117
Loans and receivables to customers	32,640	2,453	10,828	36,880	7,948	8,601	99,350
Other assets	0	0	0	0	0	12,270	12,270
Total assets	**47,981**	**2,453**	**13,868**	**43,010**	**10,348**	**22,814**	**140,474**
Deposits from banks	173	5	18	41	12	40	289
Deposits from customers	50,856	5,671	13,551	27,887	9,841	3,709	111,515
Financial liabilities through profit or loss	0	0	0	0	0	8	8
Other liabilities (without equity)	567	0	0	0	0	2,127	2,694
Total liabilities	**51,596**	**5,676**	**13,569**	**27,928**	**9,853**	**5,884**	**114,506**
Net interest rate exposure	**(3,615)**	**(3,223)**	**299**	**15,082**	**495**	**16,930**	**25,968**

* Loans and receivables to customers presented under "Unspecified" category as at 31 December 2015 at CZK 8,601 million represent mainly impaired loans, exposures in foreign currencies (including Loans and receivables to customers in EUR, which amounted to CZK 5,851 million) and exposures other than principal. As at 31 December 2016, the EUR portfolio was allocated to the respective time buckets, i.e. not to "Unspecified", as EUR exceeded the 5% share on the Bank's liabilities, thus becoming a significant currency. Apart from that the Loans and receivables to customers presented under "Unspecified" category as at 31 December 2016 at CZK 2,269 million represents the same types of exposures as at 31 December 2015.

41.6 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 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 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 ,000	31 December 2016	Average of daily values in 2016	31 December 2015	Average of daily values in 2015
FX VaR	15	13	13	19

b) The exposure of the Bank to foreign exchange risk

31 December 2016					
CZK m	**CZK**	**EUR**	**USD**	**Other currencies**	**Total CZK**
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**
Deposits from banks	184	2,452	21	0	2,657
Deposits from 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**

31 December 2015					
CZK m	**CZK**	**EUR**	**USD**	**Other currencies**	**Total CZK**
Cash and balances with the central bank	15,287	120	39	29	15,475
Financial assets at fair value through profit or loss	7	0	0	0	7
Financial assets available for sale	12,901	106	248	0	13,255
Loans and receivables to banks	0	95	19	3	117
Loans and receivables to customers	93,499	5,851	0	0	99,350
Other assets	12,262	8	0	0	12,270
Total assets	**133,956**	**6,180**	**306**	**32**	**140,474**
Deposits from banks	251	25	13	0	289
Deposits from customers	107,871	3,011	572	61	111,515
Financial liabilities at fair value through profit or loss	8	0	0	0	8
Other liabilities (including equity)	28,554	108	0	0	28,662
Total liabilities	**136,684**	**3,144**	**585**	**61**	**140,474**
Net exchange rate balance sheet position	**(2,728)**	**3,036**	**(279)**	**(29)**	**0**
Receivables from spot and derivatives	3,137	128	318	29	3,612
Liabilities from spot and derivatives	412	3,162	38	0	3,612
Net exchange rate off-balance sheet position	**2,725**	**(3,034)**	**280**	**29**	**0**
Net exchange rate position	**(3)**	**2**	**1**	**0**	**0**

41.7 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 and by Commission Delegated Regulation (EU) 2015/61 of 10 October 2014, 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 already maintains an LCR well in excess of the requirement of 100% that needs to be achieved by 2018.

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 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; and
- Calculation of Interbank borrowing to Total Assets Ratio.

The quarterly measurement of liquidity risk includes:

- 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. The bond and money markets are used to further diversify sources of liquidity and to deposit excess cash. The Bank also has a credit line from GE Capital Switzerland AG (see note 39), which, together with diversification of other sources of financing, gives the Bank flexibility regarding liquidity. 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] and based on that is planning to set up a bond issuance programme which will provide the Bank with additional source of liquidity (see note 44).

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 2016 was 161% (31 December 2015: 140%).

[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.

a) The below table summarises the remaining maturity of carrying amounts of assets, liabilities and equity according to their contractual maturity.

31 December 2016							
CZK m	**Within 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Unspecified***	**Total**
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**
Deposits from banks	2,387	270	0	0	0	0	2,657
Deposits from 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**

31 December 2015							
CZK m	**Within 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Unspecified***	**Total**
Cash and balances with the central bank	15,475	0	0	0	0	0	15,475
Financial assets at fair value through profit or loss	5	1	1	0	0	0	7
Financial assets available for sale	124	12	2,793	6,629	3,666	31	13,255
Loans and receivables to banks	117	0	0	0	0	0	117
Loans and receivables to customers	7,450	3,361	12,947	43,936	27,669	3,987	99,350
Investments in subsidiaries and associates	0	0	0	0	0	9,767	9,767
Current tax assets	0	0	0	0	0	150	150
Deferred tax assets	0	0	0	0	0	944	944
Other assets	82	0	0	0	0	1,327	1,409
Total Assets	**23,253**	**3,374**	**15,741**	**50,565**	**31,335**	**16,206**	**140,474**
Deposits from banks	289	0	0	0	0	0	289
Deposits from customers	106,690	2,901	1,699	157	15	53	111,515
Financial liabilities at fair value through profit or loss	4	4	0	0	0	0	8
Provisions	0	0	527	0	0	0	527
Other liabilities	1,818	0	0	0	0	349	2,167
Equity	0	0	0	0	0	25,968	25,968
Total liabilities and equity	**108,801**	**2,905**	**2,226**	**157**	**15**	**26,370**	**140,474**
Net liquidity position of assets and liabilities and equity**	**(85,548)**	**469**	**13,515**	**50,408**	**31,320**	**(10,164)**	**0**
Issued guarantees and credit limits on guarantees	**1,450**	**0**	**0**	**0**	**0**	**0**	**1,450**
Loan commitments***	**2,213**	**0**	**0**	**0**	**0**	**0**	**2,213**

* Loans and receivables to customers presented under "Unspecified" category as at 31 December 2016 at CZK 2,970 million (31 December 2015: CZK 3,987 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 2016 at CZK (87,573) million (31 December 2015: CZK (85,548) 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 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.

31 December 2016							
CZK m	**Within 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Unspecified**	**Total**
Deposits from banks	2,387	270	0	0	0	0	2,657
Deposits from customers	114,447	1,194	204	171	103	201	116,350
Provisions	0	0	401	0	0	0	401
Other non-derivative financial 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**

31 December 2015							
CZK m	**Within 1 month**	**1 – 3 months**	**3 – 12 months**	**1 – 5 years**	**More than 5 years**	**Unspecified**	**Total**
Deposits from banks	289	0	0	0	0	0	289
Deposits from customers	106,690	2,904	1,706	159	16	53	111,528
Provisions	0	0	527	0	0	0	527
Other non-derivative financial liabilities	1,818	0	0	0	0	349	2,167
Total non-derivative financial liabilities	**108,797**	**2,904**	**2,233**	**159**	**16**	**402**	**114,511**
Issued guarantees and credit limits on guarantees	**1,450**	**0**	**0**	**0**	**0**	**0**	**1,450**
Loan commitments*	**2,213**	**0**	**0**	**0**	**0**	**0**	**2,213**

* 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 derivative financial liabilities reported as derivatives for trading:

31 December 2016						
CZK m	**Within 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**More than 5 years**	**Total**
Currency derivatives						
Currency swaps	1	1	0	0	0	2
Currency forwards	0	1	4	0	0	5
Total trading derivatives	**1**	**2**	**4**	**0**	**0**	**7**

31 December 2015						
CZK m	**Within 1 month**	**1 - 3 months**	**3 - 12 months**	**1 - 5 years**	**More than 5 years**	**Total**
Currency derivatives						
Currency swaps	4	3	0	0	0	7
Currency forwards	0	1	0	0	0	1
Total trading derivatives	**4**	**4**	**0**	**0**	**0**	**8**

d) The below table shows the remaining expected maturity of assets and liabilities as follows:

31 December 2016

CZK m	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Unspecified	Total
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**
Deposits from banks	2,224	284	48	85	16	0	2,657
Deposits from 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**

31 December 2015

CZK m	Within 1 month	1 – 3 months	3 – 12 months	1 – 5 years	More than 5 years	Unspecified	Total
Cash and balances with the central bank	15,475	0	0	0	0	0	15,475
Financial assets at fair value through profit or loss	5	1	1	0	0	0	7
Financial assets available for sale	124	12	2,793	6,629	3,666	31	13,255
Receivables to banks	117	0	0	0	0	0	117
Loans and receivables to clients	7,450	3,361	12,947	43,936	27,669	3,987	99,350
Equity investments in subsidiaries and associates	0	0	0	0	0	9,767	9,767
Income tax receivable	0	0	0	0	0	150	150
Deferred tax assets	0	0	0	0	0	944	944
Other assets	82	0	0	0	0	1,327	1,409
Total assets	**23,253**	**3,374**	**15,741**	**50,565**	**31,335**	**16,206**	**140,474**
Deposits from banks	70	21	71	113	12	2	289
Deposits from customers*	24,446	9,164	24,872	43,076	9,841	116	111,515
Financial liabilities at fair value through profit or loss	4	4	0	0	0	0	8
Provisions	0	0	527	0	0	0	527
Other liabilities	1,818	0	0	0	0	349	2,167
Equity	0	0	0	0	0	25,968	25,968
Total liabilities	**26,338**	**9,189**	**25,470**	**43,189**	**9,853**	**26,435**	**140,474**
Net liquidity position	**(3,085)**	**(5,815)**	**(9,729)**	**7,376**	**21,482**	**(10,229)**	**0**

* 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.

41.8 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 or failure to comply with a legal or regulatory requirement or 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 Loss Data Collection of actual operational risk losses, Risk & Control Self-Assessment (RCSA), 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 a business continuity plan 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 Loss Data Collection, RCSA, 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.

41.8.1 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, rules, related self-regulatory organisation standards and codes of conducts applicable to its 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 all aspects of interactions with Regulators, including the management and follow-up of regulatory examination issues;
- 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 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 prevention, detection, reporting and strategy;
- Running the anti-fraud risk management programme via the centralised anti-fraud team, covers all internal and external areas of fraud;
- Overseeing the data privacy and personal data protection agenda; and
- Project management office responsibilities, including overseeing, monitoring and delivering key strategic projects, process assurance and business architecture review.

In the area of regulatory compliance, the Compliance Division acts as a single point of contact for communication to and from all regulatory bodies.

41.8.2 Information Security

The main objective of Information Security is to protect and maintain information assets by maintaining confidentiality, integrity, availability, and credibility of information. The Bank understands the significance of well designed and implemented Information Security and keeps it as one of the key priorities. Information Security is applied via a variety of security tools and processes ranging from antivirus to user awareness. The aim is to ensure maximum risk coverage and protection of the Bank information, including client data. Information Technology Division is responsible for information security management.

41.8.3 Business Continuity

The main goal of the business continuity management is to ensure the lowest possible impact on the Bank's business continuity in case of an extraordinary situation with regard to employee security and 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 the ERMC regularly reviews and assesses their adequacy.

During the past three years, the Bank has experienced no material interruption in its business operations.

41.8.4 Legal Risk

Dealing with legal risk and managing it means minimizing uncertainty associated with enforcement and interpretation of laws, applicable 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 2016 consisted in updating retail contractual documentation for retail banking and preparatory work on implementing the new Consumer Credit Act significant portion of which meant inclusion of product terms directly into the retail banking contractual documentation and drafting of new documentation, as required by the new Consumer Credit Act. This was managed in due time and as of 1 December 2016 all contractual documentation has been updated in order to fully comply.

41.9 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.

42. 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.

- ***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.

- **Deposits from banks**

The carrying value of deposits from banks in principle approximates their fair values due to the short maturity of those deposits.

- **Deposits from 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 December 2016	31 December 2015	31 December 2016	31 December 2015
CZK m	**Carrying value**		**Fair value**	
FINANCIAL ASSETS				
Cash and balances with the central bank	20,235	15,475	20,235	15,475
Loans and receivables to banks	163	117	163	117
Loans and receivables to customers	107,353	99,350	110,987	102,934
FINANCIAL LIABILITIES				
Deposits from banks	2,657	289	2,657	289
Deposits from customers	116,349	111,515	116,349	111,515

Cash and balances with the central bank, Loans and receivables to banks and Deposits from banks are classified as level 2, 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 December 2016			31 December 2015		
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		26			7	
Financial assets available for sale	13,444	256	49	11,315	1,805	135
FINANCIAL LIABILITIES						
Financial liabilities at fair value through profit or loss		7			8	

There were no transfers between level 1 and 2 during the year 2016 or 2015.

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 January 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 December 2016
Available for sale					
Equity investments	135	(248)	162	0	49

CZK m	As at 1 January 2015	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 December 2015
Available for sale					
Equity investments	31	0	0	104	135

43. 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.

44. SUBSEQUENT EVENTS

In line with the funding strategy aiming to diversify long-term funding sources, the Bank is setting up its Issuance Programme (Base Prospectus to be finalized in 2Q 2017). The Issuance Programme will enable the Bank to issue covered bonds, senior unsecured bonds and subordinated bonds, based on Czech law, and will provide an additional source of liquidity and act as the tool for interest rate position steering.

The issuance programme is in phase of final draft to be submitted to CNB and schedule for bond issuance not set yet, therefore the estimate of financial effect cannot be made at current point of time.

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.

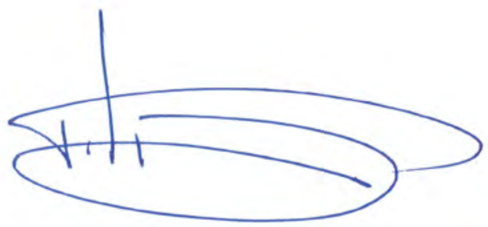
In January 2017, Mr. Richard Alan Laxer, Vice-Chairman of the Supervisory Board decided to step down from his office. He will stay in his function until the Annual General Meeting of the Bank which will take place at the end of April 2017.

In January 2017, Moneta Money Bank, a.s., 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].

On 10 February 2017 the Management Board announced the intention to propose to the shareholders of the Bank dividend payment of CZK 9.8 per share.

Signature of statutory representatives

In Prague, 20 March 2017



Tomáš Spurný
Chairman of the Management Board

Philip Holemans
Vice Chairman of the Management Board

[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.

MONETA IS LUKÁŠ

Travelling has changed Lukáš's whole life and work. He spent three weeks in Nepal on two different occasions – and suddenly has a completely different perspective on life. With management's support, he is able to combine such a long holiday with his business objectives – after fulfilling all his work obligations, naturally. But that's not a problem for Lukáš. "Since I started having stories to tell, it's been easier to break the ice" and he appreciates the side effect of his travels when he speaks to his clients. Next time, he's planning to visit Hawaii with a camera. Just wait to see those business meetings afterwards!

You can count on Lukáš.

REPORT ON RELATIONS

between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity for 2016 (referred to as "Report on relations")

The Management Board of MONETA Money Bank, a.s., with its registered office at Vyskočilova 1422/1a, Prague 4, registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 5403, ID number: 25672720, (further as the "Bank") prepared this report on relations between the controlling entity and the controlled entity and between the controlled entity and entities controlled by the same controlling entity (the "report on relations") since the Bank was controlled by GE Capital International Holdings Limited ("GECIHL") and the entities controlling GECIHL until 4 October 2016, as further elaborated below.

This report on relations was prepared in accordance with Section 82 of Act No. 90/2012 Coll., the Business Corporations Act (the "BCA") for the accounting period from 1 January 2016 to 31 December 2016.

1. DESCRIPTION OF CHANGES IN THE OWNERSHIP STRUCTURE OF THE BANK

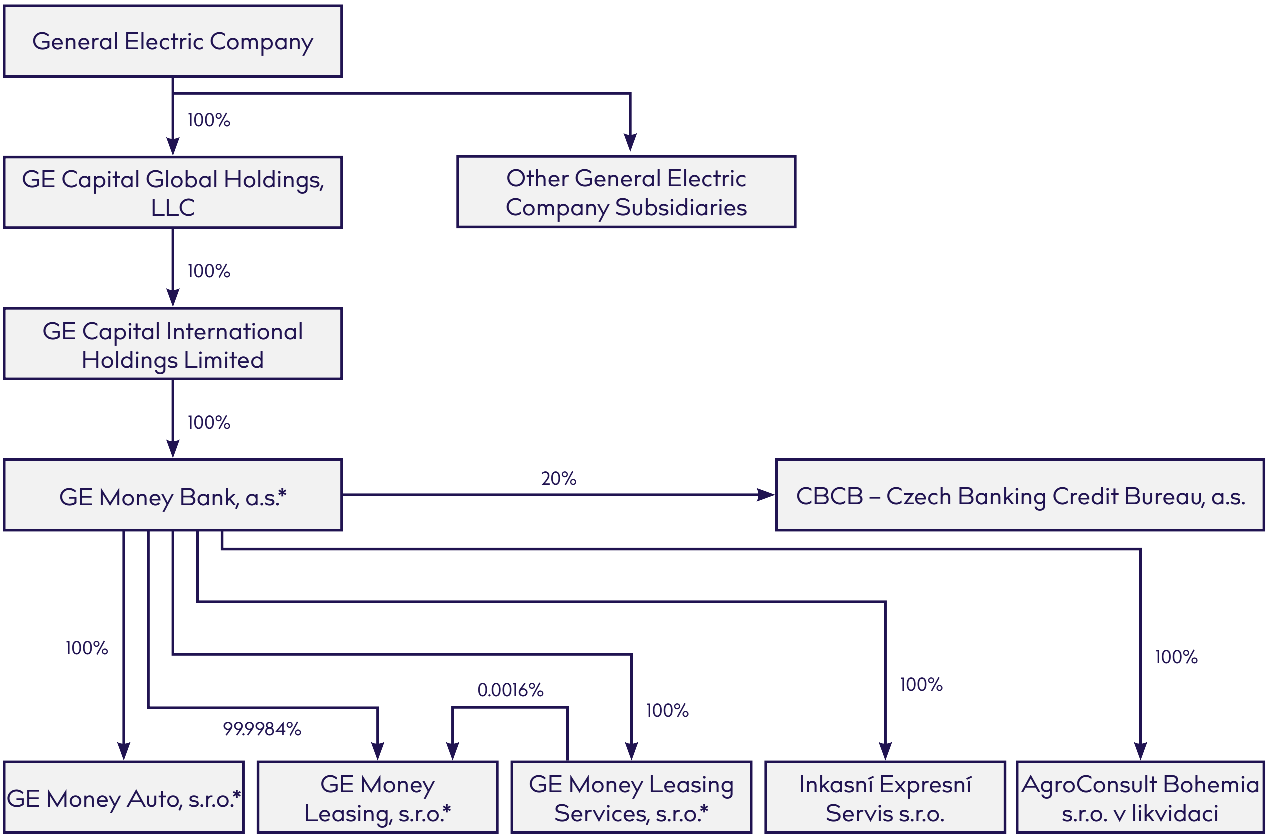
Throughout 2016, the corporate restructuring of the General Electric group ("GE group") continued and it resulted in the following changes in the ownership structure of the Bank:

- From 1 January 2016 till 10 May 2016, GECIHL was the sole shareholder of the Bank. The ultimate parent controlling GECIHL was General Electric Company ("GE"), as shown in part 2 below.
- At the beginning of May 2016, GECIHL offered 51% of the ordinary shares of the Bank (the "Offering") to institutional investors via the admission of all ordinary shares to trading on the Prime Market of Prague Stock Exchange. Conditional trading in the shares commenced on 6 May 2016 and official trading on 10 May 2016. The Offering was completed and settled on 10 May 2016. As a result, as of 10 May 2016, GECIHL owned 49% of the shares of the Bank.
- 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. The underwriters exercised the overallotment option with respect to 6.5% of the shares of the Bank. As a result, as of 25 May 2016, GECIHL owned 42.5% of the shares of the Bank.
- On 29 September 2016, GE announced a sale of 125.0m shares in the Bank equal to approximately 24.5% of the Bank's share capital. The sale was completed and settled on 4 October 2016. As a result, as of 4 October 2016, GECIHL and the entities controlling GECIHL ceased to control the Bank and GECIHL had a remaining ownership interest in the Bank of approximately 18%.
- On 15 November 2016, GE announced a sale of remaining 92.2m shares in the Bank. On 21 November 2016, the sale was completed and settled and GECIHL ceased to be a shareholder of the Bank.
- As part of the overall separation from the GE group, 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:

Prior name of the company till 30 April 2016	**New name of the company 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.

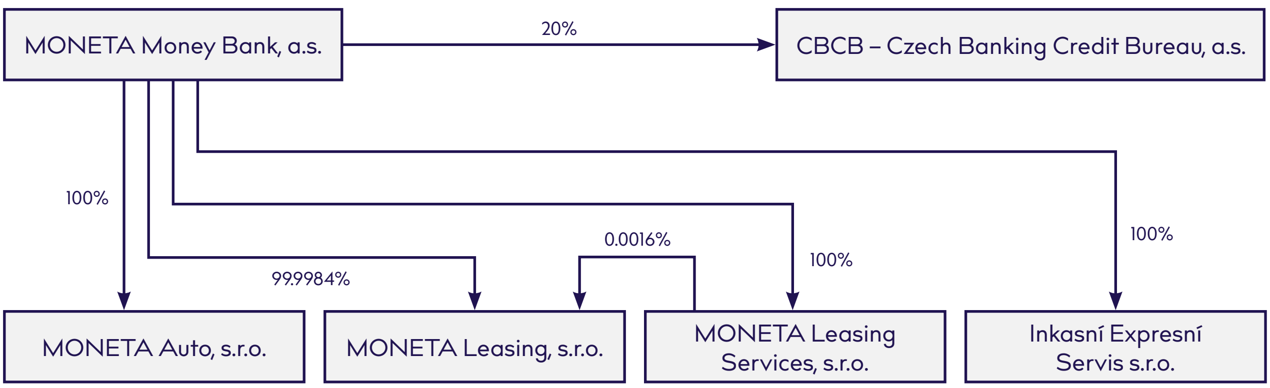
2. STRUCTURE OF RELATIONS (SEC. 82(2)(A) OF THE BCA)

AS AT 1 JANUARY 2016



* the company was renamed as at 1 May 2016

AS AT 31 DECEMBER 2016



3. ROLE OF THE BANK AND GE IN STRUCTURE OF RELATIONS (SEC. 82(2)(B) OF THE BCA)

The group consists of the Bank and its controlled entities (further together as the "Group"). Bank is the parent company of the Group and, till 4 October 2016 it was a controlled entity under influence of GE group. As a part both of the GE and the Group, the Bank provides universal banking services on the territory of the Czech Republic and is a universal bank offering a wide range of services in the area of retail, corporate and investment banking. Bank's controlled entities offer additional specialized services, including leasing, motor vehicles financing and debt collection. Bank provides certain subsidiaries with certain IT services, services and advisory in HR, compliance advisory services, operation risk and insurance. The services of Bank's subsidiaries are provided using Bank's sales network.

The Group, as a part of GE used some of its IT systems, processes and intellectual property of GE. Currently the Group separates itself from these systems.

During 2016 the Bank provided to its subsidiaries based on the settled agreements services such as deposits maintenance and lending services incl. overdrafts. The loans were provided to the controlled entities MONETA Auto, s.r.o. and MONETA Leasing, s.r.o. and the outstanding balances as of 31 December 2016 was CZK 13,111 million. The total interest income from these loans was CZK 147 million for 2016. The balance of unused uncommitted credit limits to these loans was CZK 617 million as of 31 December 2016. The balance of deposits of subsidiaries holding in the Bank was CZK 184 million as of 31 December 2016.

4. MANNER AND MEANS OF CONTROL (SEC. 82(2)(C) OF THE BCA)

GECIHL exercised its influence as a sole shareholder till 10 May 2016 by decisions of the sole shareholder of the Bank in lieu of its General Meeting, including decisions concerning election and removal of members of the Supervisory Board of the Bank.

5. OVERVIEW OF THE IMPORTANT ACTS ADOPTED IN THE REPORTING PERIOD AT THE INITIATIVE OR IN THE INTEREST OF THE CONTROLLING ENTITY OR ENTITIES CONTROLLED BY THE CONTROLLING ENTITY IN RESPECT OF ASSETS EXCEEDING 10% OF THE CONTROLLED ENTITY'S EQUITY BASED ON THE LATEST FINANCIAL STATEMENTS (SEC. 82(2)(D) OF THE BCA)

On 12 April 2016 the sole shareholder GECIHL decided that the Bank's dividend in the total amount of CZK 4,506 million consisting of the part of the Bank's retained earnings of previous years was distributed to the sole shareholder in cash by wire transfer. The dividend was distributed on 13 April 2016.

In 2016, the Bank undertook no further action at the instigation or in the interest of the controlling entity or entities controlled by the controlling entity concerning assets exceeding 10% of the controlled entity's equity determined in its latest financial statements.

6. LIST OF MUTUAL CONTRACTS AND LEGAL ACTS (SEC. 82(2)(E) OF THE BCA)

(a) List of contracts between the Bank and entities from the GE Group entered into before the separation of the Bank from the GE group:

Contracting party	Contracting party - address	Contract name or description	Valid from
GE Capital Corporation	Summer Street 1600, Stamford, USA	Implementation Flexcube Connect Workflow Management SW	1.1.2006
GE Capital Corporation	201 High Ridge RD, Stamford, USA	Global Contracts Between GE and Actimize Anti-Money Laundering System	18.1.2006
GE Capital Corporation	201 High Ridge RD, Stamford, USA	Master Services Agreement	23.6.2009
GE Capital Corporation	260 Long Ridge Road, Stamford, USA	Contract on Treasury Services	1.9.1998
GE Capital Corporation GE International Incorporated	260 Long Ridge Road, Stamford, USA 777 Long Ridge Road, Stamford, USA	Use of GE networks	10.4.2001
GE Capital EMEA Services Ltd.	The Ark 201 Talgarth Road, London, W6 8BJ, UK	Master Services Agreement	1.1.2012
GE Capital Europe Limited	Tempus House, 2200 Century House, Thorpe Park, Leeds LS15 8ZB, UK	Providing of Financial Services and Maintenance for Oracle	4.8.2010
GE Capital Global Financial Restructuring	201 High Ridge Road, Stamford CT 06927, USA	Contract on the Use of SW (licensing fee)	11.4.2003
GE Capital Registry, Inc.	260 Long Ridge Road, Stamford, USA	Use of trademarks	26.6.2000
GE Consumer Finance	Summer Street 1600, Stamford, USA	Connectivity Management Services	23.12.2003
GE Corporate Computer Service Limited	Europe Station Road, Kingswood, Bristol, UK	Fees for the mediation of the V+ services	1.1.2001
General Electric Company	3135 Easton Turnpike, Fairfield, Connecticut 06431, USA	E-mail services	1.8.2003
General Electric Company	3135 Easton Turnpike, Fairfield, Connecticut, USA	Contract on the providing Information Technology	20.11.2008
General Electric International, org. složka	Bucharova 2641/14, Prague 5, Czech Republic	Master Services Agreement - payroll processing	1.7.2013
General Electric Service	Summer Street 1600, Stamford, USA and Telindus, B.V., Savannahweg 19, Utrecht, Netherlands	Global Contract Between GE and Telindus - Cisco Products	25.5.1998
Global Consumer Finance	Summer Street 1600, Stamford, USA	Contract on the providing of support services	1.1.2003
Global Consumer Finance	Summer Street 1600, Stamford, USA	Contract on the providing of Support services - IT Services	1.1.2003

Consistent with the separation of the Bank from the GE group, the contracts listed in this part 6.a) were replaced and/or supplemented, as the case may be, for a transitional period by the contracts listed in part 6.b) below.

(b) List of contracts between the Bank and entities from the GE group entered into in connection with the separation of the Bank from the GE group:

Contracting party	Contracting party - address	Contract name or contract description	Valid from
GE Capital International Holdings Limited	The Ark 201 Talgarth Road, London, W68 BJ, UK	Side Letter - Agreement on compensation of Virtual Share programme and Retention Scheme	10.5.2016
GE Capital Registry, Inc.	260 Long Ridge Road, Stamford, USA	Transitional Trademark License Agreement	9.5.2016
GE Capital US Holdings, Inc.	901 Main Avenue, Norwalk, Connecticut, 06851, USA	Transitional Services Agreement	9.5.2016
GE Capital US Holdings, Inc. and General Electric Company	901 Main Avenue, Norwalk, Connecticut, 06851, USA	Intellectual Property Cross License Agreement	9.5.2016
GE Capital International Holdings Limited; GE Capital UK Holdings LLC; GE Czech Money Holding Company	The Ark, 201 Talgarth Road, London, W68 BJ, UK; 1209 Orange Street, Wilmington, New Castle County, Delaware 19801, USA; 1209 Orange Street, Wilmington, New Castle County, Delaware 19801, USA	Cooperation Agreement	21.4.2016
GE Capital International Holdings Limited	The Ark, 201 Talgarth Road, London, W68 BJ, UK	Relationship Agreement	21.4.2016
GE Capital Switzerland AG	Bändliweg 20, Postfach, 8048 Switzerland	Revolving Credit Facility Agreement	10.5.2016
GE Capital International Holdings Limited	The Ark, 201 Talgarth Road, London, W68 BJ, UK	Underwriting Agreement	5.5.2016

(c) List of contracts between the Bank as the controlling entity and its subsidiaries as the controlled entities:

Contracting party	Contracting party - address	Contract name or description	Valid from
MONETA Auto, s.r.o.*	Vyskočilova 1422/1a, Prague 4, 140 28	Contract on the providing of Services: operation and supervision over IBS90 and SWIFT	7.9.2006
MONETA Auto, s.r.o.*	Vyskočilova 1422/1a, Prague 4, 140 28	Contract on providing services (controlling, pricing, risk, HR, Security, Governance, Financial Planning, Sourcing, Tax)	22.6.2012
MONETA Auto, s.r.o.*	Vyskočilova 1422/1a, Prague 4, 140 28	Contract on providing services (controlling, pricing, risk, HR, Security, Governance, Financial Planning, Sourcing, Tax) - amendment	8.10.2014
MONETA Auto, s.r.o.*	Vyskočilova 1422/1a, Prague 4, 140 28	Contract on the cooperation within VAT Group	1.1.2015
MONETA Auto, s.r.o.*	Vyskočilova 1422/1a, Prague 4, 140 28	Contract on the providing of IT Services	2.1.2008
MONETA Auto, s.r.o.*	Vyskočilova 1422/1a, Prague 4, 140 28	Contract on the providing of services - application use of e-servicing	30.6.2009
MONETA Auto, s.r.o.*	Vyskočilova 1422/1a, Prague 4, 140 28	Lease agreement business premises Jaroměř, Ve Sladovnách 37	30.4.2004
MONETA Auto, s.r.o.	Vyskočilova 1422/1a, Prague 4, 140 28	Lease agreement business premises AXIS Ostrava	11.10.2016
MONETA Auto, s.r.o.	Vyskočilova 1422/1a, Prague 4, 140 28	Lease agreement business premises BBC Praha	11.10.2016
Inkasní Expresní Servis s.r.o.	Vyskočilova 1422/1a, Prague 4, 140 28	Contract on providing services (controlling, pricing, risk, HR, Security, Governance, Financial Planning, Sourcing, Tax)	26.9.2014
Inkasní Expresní Servis s.r.o.	Vyskočilova 1422/1a, Prague 4, 140 28	Contract on the cooperation within VAT Group	1.1.2015
Inkasní Expresní Servis s.r.o.	Vyskočilova 1422/1a, Prague 4, 140 28	Contract on the providing of IT services	2.1.2008
Inkasní Expresní Servis s.r.o.	Vyskočilova 1422/1a, Prague 4, 140 28	Lease agreement business premises AXIS Ostrava	11.10.2016
Inkasní Expresní Servis s.r.o.	Vyskočilova 1422/1a, Prague 4, 140 28	Mandate contract claiming of debtors receivables	17.5.2007
MONETA Leasing, s.r.o.*	Holandská 1006/10, Brno, 639 00	Lease agreement business premises Hradec Králové, Wolkerova	27.4.2015
MONETA Leasing, s.r.o.*	Holandská 1006/10, Brno, 639 00	Contract on providing services (controlling, pricing, risk, HR, Security, Governance, Financial Planning, Sourcing, Tax)	2.1.2015
MONETA Leasing, s.r.o.*	Holandská 1006/10, Brno, 639 00	Contract on the cooperation within VAT Group	1.1.2015
MONETA Leasing, s.r.o.*	Holandská 1006/10, Brno, 639 00	Lease agreement business premises - SPIELBERK OFFICE CENTRE, Holandská 1006/10, Brno, 639 00	12.12.2016
MONETA Leasing, s.r.o.*	Holandská 1006/10, Brno, 639 00	Lease agreement business premises České Budějovice	16.6.2015
MONETA Leasing, s.r.o.*	Holandská 1006/10, Brno, 639 00	Lease agreement business premises Liberec	16.6.2015
MONETA Leasing, s.r.o.*	Holandská 1006/10, Brno, 639 00	Lease agreement business premises Plzeň	16.6.2015
MONETA Leasing, s.r.o.*	Holandská 1006/10, Brno, 639 00	Lease agreement business premises Zlín	16.6.2015
MONETA Leasing, s.r.o.	Holandská 1006/10, Brno, 639 00	Lease agreement business premises AXIS Ostrava	12.12.2016
MONETA Leasing, s.r.o.	Holandská 1006/10, Brno, 639 00	Lease agreement business premises BBC Praha	12.12.2016

* Contracts were concluded under the prior name of the company.

7. EVALUATION (SEC. 82(2)(F) AND (SEC. 82(4) OF THE BCA)

In 2016, the Bank did not incur any loss, did not derive any special advantages and/or disadvantages and did not encounter any special risks, as a result of the mutual relations described herein.

Management Board of MONETA Money Bank, a.s.
Prague, 25 February 2017

ADDITIONAL DISCLOSURES

Governing law

As an issuer of publicly traded securities, during 2016 the Bank was governed in its activities particularly, but not limited to, by the following laws:

- EU Regulation No. 575/2013 on prudential requirements for credit institutions and investment firms and connected implementing regulations of the European Commission;
- Act No. 21/1992 Coll., the Act on Banks;
- Act No. 256/2004 Coll., on Capital Market Undertakings;
- 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. 284/2009 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;
- 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.

Significant ongoing investments

GE Separation

As part of IPO planning, the Bank prepared 18 months transition plan with ambition to complete the transition within 12 months. GE services replacement with local solutions is on track to be complete over 12 months from the IPO in May 2016.

The scope of transition from GE services was split into three main transitional areas:
1. IT separation (a. systems, b. licenses, c. infrastructure & IT security), including new services
2. Rebranding.

IT separation including new services

IT separation (ad.1a) covers all main GE systems which were shared across GE entities. That includes HR master data solution, compliance tools (anti money laundering, transaction monitoring), finance procurement & general ledger solution, capital adequacy ration calculation, common cooperation platform. The transition is on track to complete over 12 months from the IPO announcement in April 2016. GE services provided for card management systems are split into two parts. The first are critical services provided by GE, which are on track to be delivered within 12 months from the IPO announcement in April 2016, with two ancillary services to be absorbed by the end of Q2 2017. The second is to target long-term solutions, covering upgrades & consolidation of card management systems, by 2019.

All planned major license agreements (ad.1b) have been locally negotiated and signed by MONETA.

All IT Infrastructure & IT Security (ad.1c) services are on track to be absorbed within 12 months from IPO date.

MONETA set-up stand alone functions for spot & derivatives transactions, as GE decided not to provide treasury support post divestiture.

Moneta spent in 2016 CZK 223 million on the IT serparation and New services set-up. These expenses were financed from own sources of MONETA.

Rebranding

The Bank's name was changed to MONETA Money Bank a.s. in May 2016. The Bank's web presence was rebranded in July 2016. As of November 2016, the branch network & ATMs were fully rebranded to the MONETA brand. The MONETA TV campaign was introduced in the second quarter of 2016 to support brand awarness.
Moneta spent in 2016 CZK 191 million on the Rebranding. These expenses were finance from own sources of MONETA.

Digitalization[1]

In 2016, MONETA Money Bank's digital investment reached level of CZK 104 million. These expenses were financed from own sources of MONETA. Digitalization of the current account onboarding process, via the new mobile banking application, was a major area of focus. Furthermore, in 2016 newly branded website along with a more contemporary design and modern mobile portals were introduced.

Branches and ATMs

The main investments in the Bank's branch Network in 2016 focused on:
- rebranding branches,
- local adjustments for Cash operations and Small Business,
- new branches and reconstructions.

As the main focus in 2016 was the rebranding of the branches, which represented operating expenses rather than investments, the total amount of Branch and ATM investments in 2016 was insignificant. These expenses were financed from own sources of MONETA. At the same time the Bank is developing a new branch design which is expected to be adopted in 2017.

Trademarks, licences and sublicenses

In 2016, 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 105 trademarks. A registration process is currently underway for a further three trademarks. In some cases, the Bank is also a licensee and sub-licensee, typically from providers of IT services.

Expenses on research and development

In 2016, the Bank had costs of CZK 33 million for research and development (2015: CZK 3 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.

[1] For more information, related to Digitalization refer to chapter Report on business activities

Description of real estate owned and leased by the Bank

Description of property owned by the Bank is described in Notes to Consolidated Financial Statements (Note 27. Property and Equipment).

The Group leases the four headquarters premises set out in the table below:

Lessee	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 230 branches (as at 31 December 2016) 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.

Rights attached to shares in Bank

The Issued Shares 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. The pre-emptive right to subscribe to a pro rata portion of the Shares 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. The 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. The right to participate in the Bank's profit and liquidation balance to the extent approved at a general meeting;
4. The right to attend and vote at a general meeting;
5. The 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. The 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. The right to request a copy of the general meeting minutes from the Management Board.

Significant agreements

In 2016 the Bank entered into the following significant agreements, which were outside the ordinary course of business:

Transitional Services Agreement
The Bank entered into a Transitional Services Agreement with GE Capital US Holdings Inc. ("GE CUSHI") on 9 May 2016. Under this agreement, GE CUSHI and the Bank agreed to provide each other with certain transitional services. Notably, GE CUSHI provides the Bank with agreed-upon information technology, support and access rights and other operational services that are necessary for the Bank to run as a standalone business for a transitional period during which the Bank will be establishing its own information technology systems.

Transitional Trademark Licence Agreement
The Bank entered into a Transitional Trademark Licence Agreement with General Electric Capital Registry, Inc. on 9 May 2016. Under the Transitional Trademark Licence Agreement, the Bank was granted a non-exclusive, non-transferable, royalty-free licence to use the trademarks "GE" (mark and logo) in the Czech Republic for six months after the date when the Selling Shareholder ceased to be sole shareholder of the Company.

Intellectual Property and Cross-Licence Agreement
The Bank entered into an Intellectual Property and Cross-Licence Agreement with GE and GE CUSHI on 9 May 2016. Under the Intellectual Property and Cross-Licence Agreement, GE CUSHI granted to the Bank a non-exclusive, non-transferable, perpetual right and licence to use certain GE. Furthermore, GE CUSHI granted to the Bank a nonexclusive, irrevocable, non-transferable, royalty-free, right and licence to use certain GE intellectual property.

Revolving Credit Facility Agreement
The Bank entered into CZK 4.7 billion revolving credit facility agreement with GE Capital Switzerland AG on 9 May 2016.

Agrobanka cooperation agreement
The Bank entered into a Agrobanka Cooperation Agreement with GE on 21 April 2016. Under Agrobanka Cooperation Agreement the Bank and GE agreed to cooperate and coordinate their actions and strategies in connection with performance of the 2010 settlement relating to Agrobanka and its objectives (see also Section Significant legal disputes beginning on page 87.)

Relationship Agreement
The Bank entered into the Relationship Agreement with GE on 21 April 2016. The principal purpose of the Relationship agreement was to govern relationships between GE and the Bank following the completion of the IPO and ensure that the Bank was capable to carry on its business independently following the completion of the IPO. Upon sale of all its shares in the Bank by GE on 21 November 2016, the Relationship Agreement terminated.

Underwriting Agreement
The Bank, GE and J.P. Morgan Securities plc, Goldman Sachs International, Citigroup Global Markets Limited and WOOD & Company Financial Services, a.s. as managers of the IPO entered into the Underwriting Agreement on 5 May 2016. Pursuant to the Underwriting Agreement J.P. Morgan Securities plc, Goldman Sachs International, Citigroup Global Markets Limited and WOOD & Company Financial Services, a.s. distributed shares in the Bank on behalf of GE among the initial investors.

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 Measures as defined in the European Securities and Markets Authority Guidelines on Alternative Performance Measures. These financial data and measures are cost of funds/cost of funding, net interest margin, net non-interest income, net interest earning assets, return on average assets, reported return on tangible equity, yield on net customer loans, cost to income ratio, tangible equity, adjusted return on tangible equity, adjusted tangible equity, adjustment for cost of funds, excess capital, adjusted profit after tax, cost of risk, risk adjusted yield on net customer loans, risk adjusted operating income, loan to deposit ratio, regulatory capital, CET1, CET1 ratio/CET1 capital ratio, target CET1 ratio, Tier 1 Capital, Tier1 capital ratio, total capital ratio, LCR, liquid assets, total NPL coverage, NPL, core NPL coverage, NPL ratio, legacy NPL, risk weighted assets, RWA density, new volume, online new volume, turn of consumer loan book. All alternative performance measures included in this document are calculated for specified periods.

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 in valuating 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 2016 and 31 December 2015 (see section Glossary for definitions of the alternative performance measures included in the table, for which no formula or definition is provided in the table or in the text below):

CZK million (unless otherwise indicated)	**31 Dec 2016**	**31 Dec 2015**
Reported Profit for the year after tax (A)	4,054	4,506
Excess Capital (B=H-(GxJ))	5,478	2,725
Cost of funds% (C)	0.17%	0.21%
Tax Rate (D)	19%	19%
Adjustment for cost of funds (E = -B x C x (1-D))	(7)	(5)
Adjusted Profit for the year after tax (F= A+E)	4,047	4,501
RWA (G)	109,301	126,565
Regulatory Capital (H)	22,420	22,343
Reported CET1 Capital Ratio (I = H / G)	20.5%	17.7%
Target CET1 ratio % (J)	15.5%	15.5%
Excess Capital (B = H - (G x J))	5,478	2,725
Equity (K)	27,268	27,839
Intangible Assets and Goodwill (L)	848	533
Tangible Equity (M = K - L)	26,420	27,306
Excess Capital (B = H - (G x J))	5,478	2,725
Adjusted Tangible Equity (N = M - B)	20,942	24,581
Reported Return on Tangible Equity (A / M)	15.3%	16.5%
Adjusted Return on Tangible Equity (F / N)	19.3%	18.3%

The reported return on tangible equity (A/M) is based on actual financial figures for the respective period as calculated in the above table. Adjusted return on tangible equity (F/N) is based on a management target CET1 Ratio, currently 15.5% (an anticipated 14.5% required regulatory capital – including a 0.5% countercyclical buffer – and a 1%. management buffer). In addition to a capital rebase to 15.5%. CET1, profit after tax for the year was adjusted (F) for substitution of capital with funding via deposits, assuming cost of funding of the period (0.17% in the year ended 31 December 2016 and 0.21% in the year ended 31 December 2015) and 19.0% corporate tax rate. Profit after tax for the year was not adjusted for potential liquidity constraints.

Adjusted tangible equity (N) reflects the tangible equity (M) calculated as per Consolidated Financial Statements of the Group adjusted for the excess capital (i. e. capital exceeding the management target CET1 ratio, currently 15.5%).

Definition of other alternative performance measures is provided in section Glossary.

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. 2016 MONETA Group	31.12.2016 Bank	31.12.2015 MONETA Group	31.12.2015 Bank
Capital	**22,420**	**20,663**	**22,343**	**21,012**
Tier 1 (T1) Capital	**22,420**	**20,663**	**22,343**	**21,012**
Common Equity Tier 1 Capital	**22,420**	**20,663**	**22,343**	**21,012**
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	17,212	15,343	17,147	15,775
Retained earnings from previous periods	17,212	15,343	17,147	15,775
Other reserve funds*	102	102	167	102
Available for sale reserve*	363	363	0	0
Items deductible from Tier 1 Capital	(796)	(684)	(510)	(404)
- CET 1 capital adjustments due to the application of prudential filters	(14)	(14)	(13)	(13)
(-) Value adjustments due to the requirements for prudent valuation	(14)	(14)	(13)	(13)
(-) Goodwill*	(104)	0	(104)	0
(-) Goodwill included in the valuation of significant investments*	(104)	0	(104)	0
(-) Other intangible assets	(678)	(670)	(393)	(391)
(-) Other intangible assets - gross amount*	(744)	(736)	(429)	(428)
Deferred tax liabilities associated to other intangible assets	66	66	36	37

*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.

Risk exposure

CZK m	31.12.2016 MONETA Group 8%*	31.12.2016 MONETA Group 14%**	31.12.2016 Bank 8%*	31.12.2016 Bank 10.5%**	31.12.2015 MONETA Group 8%*	31.12.2015 MONETA Group 14%**	31.12.2015 Bank 8%*	31.12.2015 Bank 10.5%**
Total risk exposure amount	8,744	15,302	9,107	11,953	10,125	17,719	10,402	13,653
Risk weighted exposure amount for credit, counterparty credit and dilution risks and free deliveries	7,520	13,160	8,062	10,582	8,768	15,344	9,274	12,172
Standardised approach (SA)	7,520	13,160	8,062	10,582	8,768	15,344	9,274	12,172
SA exposure classes excluding securitisation positions	7,520	13,160	8,062	10,582	8,768	15,344	9,274	12,172
Exposures to regional governments or local authorities	1	1	1	1	1	2	1	1
Exposures to institutions	14	24	14	18	12	21	12	15
Exposures to corporates	2,545	4,454	3,391	4,451	4,299	7,523	4,018	5,274
Retail exposures	3,835	6,712	3,149	4,133	3,593	6,287	3,304	4,337
Exposures to public sector entities	6	10	4	5	0	0	0	0
Exposures in default	391	684	333	437	508	888	421	552
Items associated with particular high risk	0	0	0	0	21	37	1,188	1,560
Equity exposures	7	12	470	617	0	0	0	0
Other items	323	566	302	397	334	586	330	433
Exposures secured by mortgages on immovable property	398	697	398	523	0	0	0	0
Total risk exposure amount for operational risk (OpR)	1,223	2,141	1,043	1,369	1,357	2,375	1,128	1,481
OpR Standardised / Alternative Standardised approaches	1,223	2,141	1,043	1,369	1,357	2,375	1,128	1,481
Total risk exposure for credit valuation adjustment risk	1	1	1	1	0	0	0	0
Credit valuation adjustment Standardised approach	1	1	1	1	0	0	0	0

* 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	31.12.2016 MONETA Group 8%*	31.12.2016 MONETA Group 14%**	31.12.2016 Bank 8%*	31.12.2016 Bank 10.5%**	31.12.2015 MONETA Group 8%*	31.12.2015 MONETA Group 14%**	31.12.2015 Bank 8%*	31.12.2015 Bank 10.5%**
CET1 Capital Ratio	20.5%	20.5%	18.2%	18.2%	17.7%	17.7%	16.2%	16.2%
Surplus (+)/deficit (-) of CET1 Capital (CZK m)	17,503	17,503	15,542	15,542	16,648	16,648	15,161	15,161
Tier 1 Capital Ratio	20.5%	20.5%	18.2%	18.2%	17.7%	17.7%	16.2%	16.2%
Surplus (+)/deficit (-) of Tier 1 Capital (CZK m)	15,863	15,863	13,834	13,834	14,750	14,750	13,211	13,211
Total Capital Ratio	20.5%	20.5%	18.2%	18.2%	17.7%	17.7%	16.2%	16.2%
Surplus (+)/deficit (-) of Total Capital (CZK m)	13,677	7,119	11,557	8,711	12,218	4,624	10,610	7,359

* 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	31.12.2016 MONETA Group	31.12.2016 Bank	31.12.2015 MONETA Group Restated***	31.12.2015 Bank Restated***
ROAE*	18.1%	34.9%	15.1%	14.2%
ROAA	2.8%	5.0%	3.2%	2.9%
Total administrative expenses per employee ('000)	1,376	1,401	1,360	1,385
Total assets per employee ('000)	47,970	52,950	45,217	49,973
Net profit per employee ('000)	1,302	2,561	1,455	1,449
Number of employees**	3,114	2,838	3,097	2,811

* Calculated as an average of regulatory capital as of 31 Dec 2016 and 31 Dec 2015 (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).
*** Due to the reclassification of of the regulatory charges in 2015 financial statements from the line „Other operating expenses" to the line „Administrative expenses" the total administrative expenses (incl. personnel expenses) per employee are restated (see note 12 and 14 in the Notes to the Consolidated Financial Statements and the Notes to Separate Financial statements).

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 Bank in preparing forward-looking statements (including the 2017 financial guidance) contained in this report, including, but not limited to:

Macro & Market:

- No significant change to recent trends in the market assumed, pressure on rates expected to persist in 2017 (impacting mainly unsecured consumer lending)
- GDP growth, unemployment rate and wages in line with 2016
- PRIBOR assumed to remain relatively flat in 2017

Profitability, Efficiency, Asset quality and Capital:

- Pressure on margins expected to persist into 2017 and intensifying pressure on the top line partially offset through asset growth in strategic segments (Unsecured consumer lending, mortgage, SME and opportunistic RE)
- No significant change of the trend in fees and commissions assumed
- Further reduction of cost base in line with accelerated separation assumed
- Further improvement of asset quality through NPL ratio reduction while maintaining adequate coverage with CoR increasing towards 110bps
- Maintaining strong capital position to enable future growth

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
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 for the period
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
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
Consumer Credit Act or Czech consumer credit law	Act No. 145/2010 Coll., on Consumer Credit
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
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
EC	European Commission
ECAP	Model for calculation of internal capital requirement
Enabling employees	Employees in roles other than front-end or control
ERMC	The Enterprise Risk Management Committee
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
Excess capital	Capital exceeding the management target CET1 Ratio, currently 15.5% (consists of an anticipated 14.5% required Regulatory capital – including a 0.5% countercyclical buffer – and a 1% management buffer), see chapter Alternative Performance Measures and Reconciliation
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 of Collections & Recovery department
FX interventions	Foreign exchange interventions performed by Czech National Bank
GDP	Gross domestic product
GE	General Electric group
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 the central bank, financial assets at fair value through profit or loss, financial assets available for sale and loans & 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 or Net 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
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	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 for the period
new Consumer Credit Act	Act No. 257/2016 Coll., on Consumer Credit
New (business) volume or New production	Aggregate of loan principal disbursed in the period for non-revolving 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 hours 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).
NPL Coverage or Total NPL Coverage	Ratio (expressed as a percentage) of Loss allowances for loans and advances to customers (per note 22a to the Consolidated Financial Statements) to NPL
NPL Ratio or Non-performing Loan Ratio	Ratio (expressed as a percentage) of NPL to Gross loans and receivables to customers
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 originated sales	Represents new volume originated following (1) online application on moneta.cz and internet banking and (2) leads from online channel (customer provides contact details)
OPEX	Total operating expenses
PD	Probability of default
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
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
Reported RoTE or RoTE	Profit after tax divided by tangible equity

Return on Average Assets or RoAA	Calculated as profit after tax for the year divided by Average balance of total assets
Regulatory Capital	CET1 (calculated pursuant to CRR)
Risk Adjusted Operating Income or Risk Adjusted OI	Calculated as total operating income less net impairment of loans and receivables
Risk Adjusted Yield or Risk Adjusted Yield (% Avg Net Customer Loans)	Interest 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
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%(consists 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
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
TSA	Transitional Services Agreement concluded with GE companies
Turn of the consumer loan book	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 income from loans to customers divided by Average balance of net loans and receivables to customers

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